

F.I.L.A. – FABBRICA ITALIANA LAPIS ED AFFINI S.P.A.



**ILLUSTRATIVE REPORT OF THE BOARD OF DIRECTORS ON MATTER 3 OF THE AGENDA OF THE
ORDINARY SHAREHOLDERS' MEETING OF F.I.L.A. - FABBRICA ITALIANA LAPIS ED AFFINI S.P.A.,
CALLED FOR APRIL 18, 2019 IN SINGLE CALL**

(prepared in accordance with Article 114-bis and 125-ter of Legislative Decree No. 58 of February 24, 1998 and subsequent amendments and supplements, and Article 84-ter of the Regulation adopted with Consob Motion No. 11971 of May 14, 1999 and subsequent amendments and supplements)

Report approved by the Board of Directors of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. at the meeting of March 15, 2019 and available on the website www.filagroup.it

Matter 3 on the agenda of the Ordinary Shareholders' Meeting of F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A., called for April 18, 2019 in single call:

"**2019-2021 Incentive Plan concerning F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. ordinary shares called the “2019-2021 Performance Shares Plan” reserved for employees and/or for executive directors of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. and/or other companies belonging to the Group, following the early termination of the 2017-2019 stock grant plan called the “2017-2019 Performance Shares Plan” approved on April 27, 2017; resolutions thereon.**"

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Dear Shareholders,

This Report has been prepared in accordance with Article 114-*bis* and 125-*ter*, paragraph 1 of Legislative Decree No. 58 of February 24, 1998 and subsequent amendments and supplements (the "**CFA**") and Article 84-*ter* of the Regulation adopted with Consob motion No. 11971 of May 14, 1999 and subsequent amendments and supplements (the "**Issuers' Regulation**").

This report was approved by the Board of Directors of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. ("**Fila**" or the "**company**") in the meeting of March 15, 2019 and is made available to the public, in accordance with applicable law and regulations, at the registered office, on the company website (www.filagroup.it) and also by the other means established by the applicable regulation.

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With reference to matter 3 of the agenda of the Shareholders' Meeting, the Board of Directors intends to submit for your approval, in accordance with Article 114-*bis* of the CFA, an incentive plan called the "2019-2021 Performance Shares Plan" (the "**2019-2021 Plan**") reserved for employees and/or executive directors of the company and/or other companies in the Group (the "**Subsidiaries**") and, the latter and the company considered as the "**Group**" as a whole, to be implemented through the free assignment of Fila ordinary shares (the "**Shares**") to beneficiaries, following the early termination at December 31, 2018 of the 2017-2019 stock grant plan called the "2017-2019 Performance Shares Plan" (the "**2017-2019 Plan**") reserved to certain executives and senior managers of the Group and approved on April 27, 2017), with consequent early assignment to the beneficiaries of the ordinary shares accruing at December 31, 2018 as per the 2017-2019 Plan.

In particular, the 2019-2021 Plan envisages the free assignment to beneficiaries of the right to receive Shares, which shall be assigned to them at the end of the three-year vesting period (i.e. December 31, 2021), on a single occasion, *inter alia*, subject and in relation to, the achievement of specific performance objectives. The Shares under the 2019-2021 Plan may derive from: (i) a special free divisible share capital increase, also to be executed in a number of tranches, in accordance with Article 2349 of the Civil Code, for a maximum amount of Euro 458,049.00, to be entirely recognised to the share capital, through the issue of a maximum 497,879 Shares, with the power to execute such assigned to the Board of Directors as per Article 2443 of the Civil Code (the "**Share Capital Increase**") and (ii) treasury shares from purchases made in accordance with Article 2357 and 2357-*ter* of the Civil Code.

To this end, the proposal relating to the Share Capital Increase and the proposal for authorisation to purchase and sell treasury shares will be submitted for the examination and approval of the company's Shareholders' Meeting, respectively, as the only matter on the agenda of the extraordinary part and matter 4 of the agenda of the ordinary part. These proposals are illustrated by specific reports drawn up, respectively, in accordance with Articles 72 and 73 of the Issuers' Regulation, and in compliance with its Annex 3A.

Finally, in accordance with Article 13, paragraph 3, letter (a) of the Regulation adopted by Consob with Motion No. 17221 of March 12, 2010 and in compliance with the related party transactions policy - this will not be applicable with reference to the approval and implementation of the 2019-2021 Plan as this is a remuneration plan based on financial instruments and which will be eventually approved, in accordance with Article 114-*bis* of the CFA, by the Shareholders' Meeting called to approve the 2018 financial statements. In addition, the 2019-2021 Plan forms part of the variable remuneration component of executive directors, senior executives and so-called "senior managers" of the Group, in accordance with the remuneration policy for 2019, which will be submitted for the approval of the Board of Directors of March 20, 2019, called to approve the 2018 financial statements and subject to the approval of the next Shareholders' Meeting to approve the financial statements.

More information on the terms and conditions of the Capital Increase and on the authorisation to purchase and sell treasury shares may be viewed in the above-mentioned illustrative reports, which will be made available to the public in accordance with the terms established by applicable law and regulations, as well as that briefly outlined below.

The disclosure document on the 2019-2021 Plan, drawn up as per Article 84-*bis* and in compliance with Annex 3A of the Issuers' Regulation, shall be made available to the public in accordance with applicable law and regulations and shall be available on the company website (www.filagroup.it), "Governance" section and on the "EMARKET STORAGE" authorised storage mechanism (www.emarketstorage.com), together with this report.

For further information on the 2017-2019 Plan, reference should be made to the disclosure document concerning the 2017-2019 Plan, prepared for the Shareholders' Meeting of the company of April 27, 2017 in accordance with Article 84-*bis* and as per Annex 3A of the Issuers' Regulation and available on the company website (www.filagroup.it) in the "Governance" section.

1. Reasons for the adoption of the 2019-2021 Plan and the early termination of the 2017-2019 Plan

The 2019-2021 Plan shall be one of the instruments used by the company and the Group to supplement the fixed remuneration component of key personnel with variable components based on the achievement of certain performance objectives and in accordance with best market practices.

The Board of Directors considers a share-based incentive plan, with three-year duration and specific performance objectives, as the most effective incentive instrument and one which responds to the interests of the company and of the Group. The adoption of the 2019-2021 Plan, in Fila's opinion, seeks to *(i)* align

the interest of management with those of shareholders, *(ii)* reward the achievement of the Industrial Plan targets of the Group and *(iii)* retain strategic personnel.

Finally, the early closure of the 2017-2019 Plan, reserved entirely to Group employees, and the simultaneous adoption, as a replacement, of the 2019-2021 Plan, for executive directors and employees of the company and/or of the Group, serves the objective - in line with the remuneration policy of the company for 2019 - to harmonise the remuneration structure for executive directors, senior executives and senior managers of the Group.

2. The members of the Board of Directors of the company, parent companies or subsidiaries who will benefit from the Plan

At the reporting date, the following members of the Board of Directors of the company and of other Group companies were identified as beneficiaries of the 2019-2021 Plan, subject to its approval:

- Massimo Candela, chief executive officer of Fila;
- Luca Pelosin, executive director of Fila.

3. Categories of employees or collaborators of the company and of the parent companies or subsidiaries who shall benefit from the Plan

At the date of this report and in addition to the above, the following were identified as beneficiaries of the 2019-2021 Plan, subject to its approval:

- 8 senior executives, i.e. Group executives with the power and responsibility, directly or indirectly, for planning, directing and controlling company and/or Group activities;
- 18 managers, i.e. employees of the company and subsidiary companies who occupy positions identified for the long-term business growth and sustainability of the Group.

leaving open the option for the Board of Directors of Fila to identify additional beneficiaries of the 2019-2021 Plan, by and no later than 18 months from the approval date of this Plan.

4. Plan implementation means and clauses

The 2019-2021 Plan covers a 3-year timeframe (January 1, 2019 - December 31, 2021) and provides for the free assignment to beneficiaries of the right to receive Shares, which shall be allocated to each beneficiary of the 2019-2021 Plan on a single occasion, subject to verification by the Board of Directors on conclusion of the three-year vesting period (i.e. December 31, 2021) of satisfaction of the following conditions:

- the continuance, on the Share assignment date, of the position of employment or management of the beneficiary with a Group company and the continued qualification, by the beneficiary, as a company executive director or a senior executive or senior manager of the Group;
- compliance with the financial covenants as per the loan contracts undertaken by the company; and

- the achievement of the minimum performance objectives.

Once satisfaction of the conditions for assignment of the Shares as indicated above has been verified, the Board of Directors establishes the number of Shares to be assigned to each beneficiary of the 2019-2020 Plan, on a single occasion, on the basis of the achievement of the following performance objectives: (i) quantitative objective (relative weighting 70%): 2019-2021 average three-year ROI¹; and (ii) qualitative objective (relative weighting 30%): individual or collective strategic objectives.

(i) Average ROI for the three-year period 2019-2021 (70% relative weighting) – quantitative objective

The economic and financial performance indicator and associated targets are linked to the industrial plan and are based on the following scopes:

- consolidation of North America (which comprises a portion of the Group consolidation) for 4 Senior Executives and 2 Managers;
- Group consolidation for all other beneficiaries of the 2019-2021 Plan.

The Shares to be assigned to each beneficiary of the 2019-2021 Plan in the case of achieving the quantitative objective shall be calculated, by the Board of Directors, on the basis of the following criteria:

% of average ROI achieved for the three-year period 2019-2021	% Pay-out with respect to the Base Number of Shares (BNS)²
ROI < 90%	70% x 0 x BNS
90% ≤ ROI < 92.5%	70% x 20% x BNS
92.5% ≤ ROI < 95%	70% x 40% x BNS
95% ≤ ROI < 97.5%	70% x 60% x BNS
97.5% ≤ ROI < 99.5%	70% x 80% x BNS
99.5% ≤ ROI < 100.5%	70% x 100% BNS
100.5% ≤ ROI < 102.5%	70% x 120% x BNS
102.5% ≤ ROI < 105%	70% x 140% x BNS
105% ≤ ROI < 107.5%	70% x 160% x BNS
107.5% ≤ ROI < 110%	70% x 180% x BNS
ROI ≥ 110%	70% x 200% x BNS

The maximum number of Shares that may be assigned in relation to the quantitative objective shall in any case be equal to 140% of the BNS related to this objective.

In light of that outlined, with reference to the Shares to be assigned on achievement of the qualitative performance objective (average ROI over the 2019-2021 three-year period), it is stipulated that:

¹ The ROI indicates the ratio between consolidated EBITDA and net invested capital as per the Group industrial plan.

²The BNS, or base number of shares, indicates the number of Shares obtainable on achieving 100% of the performance objectives.

- where the performance is below 90.00% of the objective, no Shares relating to the quantitative objective shall be assigned;
- where the performance is between 90.00% and 92.50% - lower range included - of the objective, 20% of the Shares in relation to the quantitative objective shall be assigned;
- where the performance is between 92.50% and 95.00% - lower range included - of the objective, 40% of the Shares in relation to the quantitative objective shall be assigned;
- where the performance is between 95.00% and 97.50% - lower range included - of the objective, 60% of the Shares in relation to the quantitative objective shall be assigned;
- where the performance is between 97.50% and 99.50% - lower range included - of the objective, 80% of the Shares in relation to the quantitative objective shall be assigned;
- where the performance is between 99.50% and 100.50% - lower range included - of the objective, 100% of the Shares in relation to the quantitative objective shall be assigned;
- where the performance is between 100.50% and 102.50% - lower range included - of the objective, 120% of the Shares in relation to the quantitative objective shall be assigned;
- where the performance is between 102.50% and 105.00% - lower range included - of the objective, 140% of the Shares in relation to the quantitative objective shall be assigned;
- where the performance is between 105.00% and 107.50% - lower range included - of the objective, 160% of the Shares in relation to the quantitative objective shall be assigned;
- where the performance is between 107.50% and 110.00% - lower range included - of the objective, 180% of the Shares in relation to the quantitative objective shall be assigned;
- where the performance is equal to or above 110% of the objective, 200% of the Shares in relation to the quantitative objective shall be assigned;

The quantitative objective (average ROI for the three-year period 2019-2021) will be calculated by taking into account the standardisation criteria agreed upon with the auditors and in line with the definitions stipulated in the Company's loan agreements and a consolidation scope matching that indicated above.

The exchange rate to be utilised for the consolidation of the economic-financial indicators shall be linked to the establishment of the achievement of the quantitative performance Objectives, to be set out in the budget.

(ii) *Individual or general strategic objectives (30% relative weighting) - qualitative objective*

The achievement of the qualitative objective entails the disbursement of Shares according to the weighting and the number assigned for this objective. These objectives are defined for each beneficiary of the 2019-2021 Plan in their Allocation Letter of the right to receive Shares. For all Beneficiaries of the 2019-2021 Plan, this objective is measured through an on/off mechanism. Therefore, the maximum number of Shares assignable in relation to the qualitative objective shall in any case be equal to 30% of the BNS related to this objective.

The Shares to be assigned to each beneficiary of the 2019-2021 Plan, in the number established as above, shall be made available to each beneficiary of the 2019-2021 Plan, according to the terms and means established in the Plan and, in particular, not beyond 60 calendar days from approval of the financial statements at December 31, 2021. The Shares subject to assignment shall have full rights and, therefore, the attached rights devolve to each beneficiary of the 2019-2021 Plan from the point at which they become holders of the Shares.

With reference to the Shares under the 2019-2021 Plan, it is proposed that the total number of shares is established at 789,320 Shares deriving from: (i) the Share Capital Increase (for the assignment of Shares to beneficiaries of the 2019-2021 Plan who are employees of the company and/or the Group) and (ii) treasury shares from purchases made in accordance with Articles 2357 and 2357-ter of the Civil Code. The proposal relating to the Share Capital Increase and the proposal for authorisation to purchase and sell treasury shares will be submitted to the company's Shareholders' Meeting, as the only matter on the agenda of the extraordinary part and as Matter 4 of the agenda of the ordinary part.

In addition, the maximum dilutive effect of the 2019-2021 Plan shall be 0.9692% of the subscribed and paid-in share capital at today's date.

For both Performance Objectives, the Board of Directors has the authority to disburse a sum of money equal to the value of the number of Shares payable and at their normal value to the Beneficiary, determined as per Article 9 of Presidential Decree 917/1986. This authority is granted to the Board of Directors only in cases in which specific circumstances relating to the beneficiary and/or regulatory, tax or financial market performance reasons render, in the Company's reasonable opinion, the Share Assignment process more onerous for the company and/or the beneficiaries.

In addition, the Board of Directors shall have the faculty, having consulted the Remuneration Committee, to apply, according to the most appropriate means, changes or supplements to the 2019-2021 Plan that it considers useful or necessary for the best achievement of the Plan's aims, having regard to the interests of the company and the Plan beneficiaries.

The Board of Directors may, independently and without the need for further approval from the Shareholders' Meeting, and having consulted the Remuneration Committee, make all the changes and supplements to the 2019-2021 Plan that are considered necessary and/or beneficial to continue to apply the Plan's essential and economic content in the case of: (i) extraordinary transactions on the company's share capital; (ii) merger or spin-off transactions, acquisition or sale of shareholdings, companies or

business units; or *(iii)* legislative or regulatory changes or other events likely to affect the right to receive Shares, the Shares and/or the company.

The Board of Directors shall have the authority to grant the Beneficiaries all or part of the Shares in advance, with respect to the due date provided for in the 2019-2021 Plan, (also independently of the actual achievement of performance objectives), i.e. to provide for the 2019-2021 Plan's early termination in the case where, during the vesting period: *(i)* a change of control should occur³, or *(ii)* a public purchase offer or a public exchange offer concerning the Shares should be promoted, or *(iii)* the shares are delisted from the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A.

Finally, in the case of a significant review of the targets of the Group's industrial plan, the Board of Directors shall have the faculty to propose and approve any changes to the objectives of the 2019-2021 Plan, adjusting them to the above changes or bringing the 2019-2021 Plan to an early conclusion.

With reference to the 2017-2019 Plan, if the Shareholder's Meeting of the company approves the early termination of the above Plan at December 31, 2018, the Board of Directors shall assign the Shares to each beneficiary of the 2017-2019 Plan, with the prior definition of their number in consideration of the achievement of performance objectives provided for by the above Plan. To enable the early assignment of Shares under the 2017-2019 Plan, the Board of Directors shall also consequently issue new Shares in accordance with the power to execute such, as per Article 2443 of the Civil Code and increase share capital for the 2017-2019 Plan, pursuant to Article 2349 of the Civil Code, granted to the Board of Directors by the Shareholders' Meeting of the company on April 27, 2017.

The company shall communicate to the market the terms and conditions for the implementation of the 2017-2019 Plan's early termination within the time period and procedures provided by applicable legal and regulatory provisions.

5. Support to the Plan by the Special fund to incentivise worker involvement in enterprises, as per Article 4, paragraph 112 of Law No. 350 of December 24, 2003

The 2019-2021 Plan does not receive support from the Special fund to incentivise worker involvement in enterprises, as per Article 4, paragraph 112 of Law No. 350 of December 24, 2003.

6. Details of any restrictions on the availability of the shares, with particular reference to the periods within which the subsequent transfer to the company or to third parties is permitted or prohibited

³A change of control indicates the following circumstances: *(a)* the acquisition by one or more third party acquirers of control of the company in accordance with Article 93 of the CFA; *(b)* the acquisition by one or more third party acquirers of a number of shares or a holding in a subsidiary, or of companies directly or indirectly controlling the former, as long as differing from the company, overall in excess of 50% of the relative share capital, unless the company does not continue to hold control in accordance with Article 2359 of the Civil Code; *(c)* the definitive transfer in any form to one or more third party acquirers of the company or of the business employing one or more of the beneficiaries.

The right to receive Shares shall be allocated on a personal basis to each beneficiary of the 2019-2021 Plan and may not be transferred between living persons, nor be subject to restrictions or constitute other acts of disposal in any form.

The 2019-2021 Plan establishes specific claw-back clauses.

In compliance with the "self-governance code", the 2019-2020 Plan stipulates an obligation for all beneficiaries to maintain the Shares which may be assigned (the "minimum holding"). In particular:

- for executive director beneficiaries of the company: a minimum holding obligation is established on 50% of the Shares which may be assigned, until the conclusion of the mandate;
- for all other beneficiaries: a minimum holding obligation is established on 50% of the Shares which shall be assigned on the following basis:
 - an initial 25% of the Shares assigned shall be subject to the minimum holding commitment until the conclusion of a period of 6 months from the effective assignment date of the shares; and
 - the second 25% of the Shares assigned shall be subject to the minimum holding commitment until the conclusion of a period of 12 months from the effective assignment date of the shares.

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Considering that stated above, the Board of Directors submits the following proposal for your approval:

"The Ordinary Shareholders' Meeting of F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A.

- *having examined the illustrative report of the Board of Directors and the proposals contained therein;*
- *having examined the disclosure document on the "2019-2021 Performance Shares Plan" which was provided in the manner established by applicable law,*

resolves

1. *in accordance with Article 114-bis of the CFA, to approve the early termination at December 31, 2018, of the 2017-2019 Stock Grant Plan called "2017-2019 Performance Shares Plan", approved on April 27, 2017 with consequent assignment to the Board of Directors and to the Chairman of the Board of Directors and to the pro-tempore Chief Executive Officer in office, separately, of all powers necessary and/or beneficial to completely and fully implement the early termination of the above Plan, including, merely for example purposes and not to be considered exhaustive, the power to (i) provide for the early termination, to each of the beneficiaries of the "2017-2019 Performance Shares Plan" of ordinary shares in accordance with this latter, with prior definition of the number of ordinary shares in consideration of the achievement of performance objectives provided for by the above Plan, as well as (ii) to undertake all acts, requirements, formalities and communications, also with the public and any Authorities which are necessary and/or beneficial;*

2. *to approve, in accordance with Article 114-bis of CFA, the adoption of the incentive plan called "2019-2021 Performance Shares Plan" having the same features (including the conditions and implementation requirements) indicated in the illustrative report of the Board of Directors and in the disclosure document on the above-mentioned plan;*
3. *to grant to the Board of Directors, with the faculty to sub-delegate to third parties, all the necessary and/or appropriate power to completely and fully implement the "2019-2021 Performance Shares Plan", including, merely for example purposes and not to be considered exhaustive, all powers to (i) identify the participants of the 2019-2021 Performance Shares Plan", and the maximum number of ordinary shares to be assigned to each; (ii) verify the achievement of the performance objectives, establishing consequently the number of ordinary shares to be effectively assigned to each beneficiary and to proceed with the relevant assignment; (iii) establish in detail the performance objectives to which the assignment of ordinary shares is subject; (iv) exercise all duties and functions assigned by the Board of Directors under the "2019-2021 Performance Shares Plan" regulation; (v) according to the most appropriate means, apply useful or necessary modifications or supplements in accordance with the regulation; (vi) undertake all acts, requirements, formalities and communications, also with the public and any Authorities, which are necessary and/or beneficial for the management and/or implementation of the Plan, with the faculty to delegate their powers, duties and responsibilities with regards to the execution and application of the Plan, including the fulfilment of the relative disclosure obligations, to the Chairperson of the Board of Directors and the pro-tempore Chief Executive Officer in office, separately, subject to the condition that any decision relating to and/or associated with the assignment of these latter to the Chief Executive Officer (in addition to any other related decision and/or concerning the management and/or implementation of the plan as pertaining to him/her) shall remain within the exclusive scope of the Board of Directors;*
4. *to grant to the Board of Directors and for it, to the Chairman of the Board of Directors and to the pro-tempore Chief Executive Officer in office, individually, the power to delegate to third parties and also by means of special attorneys-in-fact appointed for the purpose, the broadest powers necessary and/or beneficial, without any exclusion, to carry out that previously resolved."*

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Pero, March 19, 2019

The Chairman of the Board of Directors

(Gianni Mion)