

2018



CONSOLIDATED
NON-FINANCIAL
STATEMENT

As per Legs. Decree no.
254/2016



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CHAIRMAN'S LETTER

Chairman's letter

“

Nearly one hundred years after it was founded, the FILA Group continues to pursue, with increasing determination, its vision of supporting creative expression by all individuals, manufacturing and distributing an increasingly broad range of products and distinctive brands. All the acquisitions of new companies that have joined our Group – including the important Pacon Group acquisition undertaken in 2018 – have had this in common.

In pursuing our vision, we have considered our top priorities to be product safety, ensuring compliance with the most exacting standards, often on a voluntary basis, the quality of the raw materials used in the production process and our people's working conditions. We have thus also supported a wide range of initiatives from play to education, from art to culture.

In practice, our committed, results-oriented way of doing business has shown that our approach to corporate social responsibility issues is an integral part of our history and of our character.

This document provides a transparent, detailed account of the various aspects of the practices, policies, activities and risks that we faced in 2018 in the environmental realm, in relations with our employees, in the supply chain, in the communities where we operate and with which we do business, with an eye towards respect for human rights and the fight against corruption.

”

Gianni Mion
Chairman of the Board of Directors of FILA S.p.A.



INTRODUCTORY NOTE

1. Introductory note

1.1 REPORTING MODEL

The 2018 Consolidated Non-Financial Statement (hereinafter also the “Statement”) of the FILA Group (hereinafter also the “Group”) is a report addressed to the stakeholders regarding the new developments, projects and results achieved in 2018 with regard to economic, social and environmental performance, the Group’s approach to sustainability and policies, together with data and information helpful in representing the Group’s activities.

Fabbrica Italiana Lapis e Affini (hereinafter also “FILA”) S.p.A., as a public interest company (pursuant to Article 16, paragraph 1, of Legislative decree No. 39 of January 27, 2010, with ceilings on the number of its employees, its balance sheet and its net revenues under article 2 paragraph 1, is subject to Legislative decree No. 254 of December 30, 2016 (hereinafter also the “Decree”), *“Implementation of Directive 2014/95/EU of the European Parliament and Council of October 22, 2014, amending Directive 2013/34/EU regarding the disclosure of non-financial information and information on diversity by certain companies and certain large groups”* as amended.

The consolidated non-financial statement, drawn up in accordance with Articles 3 and 4 of the Decree, provides information regarding environmental, social, personnel, human rights and anti-corruption topics, helping the reader to understand the FILA Group’s activities, its performance and results and the related impacts.

This Statement, approved by the Board of Directors on March 20, 2019, is prepared on an annual basis in accordance with the GRI Standards, published by the Global Reporting Initiative (hereinafter also “GRI”), according to the “core” option. The Group has identified the GRI Standards – currently the most widespread and commonly accepted non-financial reporting standards at the international level – as the “standards of reference” for discharging its obligations under the Decree. The GRI Content Index is appended in an annex.

The reporting principles concerning content set forth in the GRI Standards selected for the preparation of this Statement are stakeholder inclusiveness, sustainability context, materiality and completeness. The Reporting Principles for defining report quality are accuracy, balance, clarity, reliability and timeliness.

This Consolidated Non-Financial Statement as at December 31, 2018 is separate from the Directors’ Report, but is an integral part of the documentation underpinning the 2018 Financial Statements.

As required by the Decree, information is furnished in accordance with the comply or explain principle¹. Accordingly, if no policy exists for any material topic, the Statement must explain this gap.

1.2 REPORTING AND CONSOLIDATION PROCESS

This Statement was drafted with the assistance of the heads of various departments of the Group, plus the Chief Executive Officers and the Chief Financial Officers of the subsidiaries, in order to identify the material aspects, the principal risks, the method for their management, the projects implemented and the performance indicators used. A special working team made up of the Executive Director, the Executive Officer for Financial Reporting, the Group Reporting Manager, the Internal Audit Manager and the Corporate Affairs Department coordinated the work.

The reporting process started with an analysis of the Decree’s requirements and of the indicators deemed applicable and relevant according to the GRI Standards. Details are provided in paragraph 1.4 beneath, which deals with materiality analysis. Aside from this Introductory Note and the Chairman’s Letter, the FILA Group’s Consolidated Non-Financial Statement deals with the following matters:

- Business identity and the Group’s business model

¹ Art. 3, paragraph 3 of the Decree.



- Material environmental topics
- Material employment topics
- Material social and local community topics
- Material topics concerning human rights
- Material topics concerning the combating of active and passive corruption.

This Statement includes the comparative figures at December 31, 2017 and – in view of the important corporate transaction that occurred in 2018, i.e. the acquisition of the Pacon Group mid-year – provides, where relevant, the 2018 figures on a like-for-like basis with the previous year (i.e., without considering the Pacon Group), in addition to the comprehensive 2018 consolidated figures. The social and environmental figures regarding the Pacon Group have been reported for all of 2018 in order to ensure uniformity of comparison with future years.

The Consolidated Non-Financial Statement does not include considerations of a quantitative nature relating to the supply chain, inasmuch as the Group does not have reporting projects of this nature: chapter 5.3 “Supplier relations” below contains a qualitative description of the supply chain. However, the Directors believe that these omissions will not significantly impair the picture that the report conveys of the Group's performance, its results, its current situation and the effects of its policies. During the period ended September 30, 2018, excluding the Pacon Group, the FILA Group's ten largest suppliers accounted for nearly 25% of its total annual procurement costs. During that same period, the Group's largest suppliers in North America and Europe accounted for approximately 17% and 16%, respectively, of its total annual procurement costs. The FILA Group procures its raw and semi-finished materials from a limited number of selected suppliers, monitored constantly in terms of production capacity, average delivery times, solvency and quality standards. More specifically, the Group generally concentrates its purchases of raw and semi-finished materials with a single primary supplier, while also identifying at least one or two alternative suppliers, with some exceptions such as calcium carbonate (used to produce chalk) and paraffin (used to produce wax crayons), which it currently procures from a single supplier. The main materials used to produce many of the FILA Group's products are paper, cellulose, wood, plastic, chalk, calcium carbonate, dyes, graphite, packaging and, in some cases, semi-finished and finished materials, such as glues. The Group has a central purchasing department that supervises and monitors the costs of its supply chain, primarily for international suppliers.

The reporting process is mainly structured on an information gathering system based on a template developed using Tagetik software, which the Group also uses for financial reporting. Specific guidelines and instructions, regularly updated and circulated to all Group companies as part of the reporting process, help make the gathering process more accurate, consistent and uniform. Any information that Tagetik does not handle comes directly from the FILA Group's stakeholders and was obtained through interviews and questionnaires whenever suitable.

The information is broken down, where significant, by geographical segment, as is customary in financial reporting. For further details of the entities included in the various geographical areas, see paragraph 2.3.1 “FILA Group business” below.

As mentioned above, this Statement has been prepared by a special working team at the parent company. Information on subsidiaries was usually supplied by their CEOs or their respective deputies, who must certify the accuracy of the reporting package in Tagetik.

1.3 MATERIALITY ANALYSIS

Non-financial reports describe the most important traits of a business in terms of its profile, its strategies and risks, the expectations of its stakeholders, the industry to which the Group belongs and so forth. Information for the report was prioritised by means of a materiality analysis that was informed by a Group risk assessment activity and by analyses of the items listed in the Decree.

Accordingly, the level of risk, in terms of the completeness and quality of information, was determined for each company included in the scope of consolidation at December 31, 2018 and for each indicator specified by the reporting methodology adopted, with the aim, *inter alia*, of assessing the risk associated with the various matters discussed in the report (such as environmental pollution, non-compliance with product safety requirements, disparity of treatment amongst personnel, etc.).

The methodology for gathering the data was defined depending on the nature of each company belonging to the Group and its core business (e.g. manufacturing, wholesale, holding company, etc.). The materiality of every matter set forth in the Decree was assessed by analysing each company's key parameters and its business (staff number, geographical region, processing steps performed, etc.). Indicators were then selected from such standards to best measure the matters items listed in the Decree.

In 2018 the Chief Executive Officers of the main Group companies were involved in verifying the contents of the material topics identified in the previous Statement, with the aim of confirming and/or expanding upon the topics initially identified by the working team, where appropriate. This process did not result in the inclusion of any additional topics beyond those identified in 2017.

The following table provides a summary, for each of the material topics, of the relevant indicators from the GRI Standards, the paragraphs of the Statement or other company documents in which the matter is discussed, the areas of the Decree and impacts on internal processes and external stakeholders:

	MATERIAL TOPIC	ASPECTS OF GRI STANDARDS	PARAGRAPH OF STATEMENT / OTHER REFERENCE DOCUMENTS	AREA OF LEGISLATIVE DECREE 254/2016	IMPACTS ON INTERNAL PROCESSES	IMPACTS ON STAKEHOLDERS
1	Use of raw materials	<i>Materials used</i> (301-1)	-3.2 <i>Use of raw materials</i>	Environment	Production Purchases	Environment Collectively
2	Consumption of energy resources	<i>Energy consumption</i> (302-1)	-3.3 <i>Consumption of energy resources</i>	Environment	Production Purchases	Environment Collectively
3	Emissions into the atmosphere	<i>Emissions</i> (305-1; 305-2)	-3.4 <i>Atmospheric emissions</i>	Environment	Production	Environment Collectively
4	Water consumption	<i>Water</i> (303-1)	-3.5 <i>Water consumption</i>	Environment	Production	Environment Collectively
5	Equal opportunities	<i>Diversity and equal opportunity</i> (405-1)	-2.4.2 <i>Governance structure</i> -4.2 <i>Equal opportunities</i> - Corporate Governance and Ownership Structure Report	Diversity	Personnel <i>Governance</i>	Collaborators Trade Unions
6	Workplace health and safety	<i>Occupational Health and Safety</i> (403-2)	- 4.3 <i>Occupational health and safety</i>	Personnel	Personnel	Collaborators Suppliers
7	Product quality and safety	<i>Customer Health and Safety</i> (416-2)	-5.2 <i>Product quality and safety</i>	Social Local communities	<i>Marketing</i> Production Purchases	Customers Consumers Collectively
8	Relations with suppliers	<i>General disclosures</i> (102-9)	-5.3 <i>Relations with suppliers</i>	Supply chain	Purchases Production	Suppliers Collectively
9	Protecting diversity	<i>Non-discrimination</i> (406-1)	-5.4. <i>Protecting diversity</i>	Social Local communities	Commercial relations Trade Union Relations	Collectively
10	Respect for human rights	<i>Human rights assessment</i> (412-3)	-6.1 <i>Respect for human rights</i>	Human Rights Local communities	Personnel Purchases	Collectively
11	Freedom of association and collective bargaining	<i>Freedom of association and collective bargaining</i> (407-1)	-6.2 <i>Freedom of Association and collective bargaining</i>	Social Local communities	Personnel	Trade unions
12	Combating active and passive corruption	<i>Anti-corruption</i> (205-3)	-7.1 <i>Topics of relevance in combatting corruption</i> -7.2 <i>Measures to combat active and passive corruption</i>	Corruption	Personnel Purchases Sales and distribution	Collectively Entities, institutions and the public administration Suppliers Customers

In addition to the risks described in the Annual Financial Report, in the paragraph “*Information and Management of Financial Risks*”, to which the reader is referred for further information, the Group’s business is exposed to **non-financial risks**, primarily attributable to the areas of protection of the environment, employee health and safety, personnel management, the supply chain, human rights and corruption. These risks have been assessed in two ways. Aspects covered by certifications of the management systems adopted have been assessed as activities preliminary to the adoption of the management systems themselves. As for other aspects not covered by certified management systems, the risks have been identified through risk management processes, considering the activities typical of the Group’s business model, organizational structure and the characteristics of the marketplace. The policies and the activities adopted by the Group to manage the risks concerned are set out in the following chapters, along with a more in-depth discussion of each risk.

1.4 SCOPE OF REPORTING

The scope of non-financial reporting was chosen to match that of the Consolidated Financial Statements at December 31, 2018, in order to gather relevant, useful and comparable enough data to portray the Group's performance, its results, its current situation and the impact of its operations. Changes from the prior year are marked.

As mentioned above, in order to facilitate the reader in analysing the figures relating to the acquisition of the Pacon Group in June 2018, where possible the figures for 2018 are provided with and without the information relating to the acquisition.

Unless otherwise indicated, the information refers to the FILA Group. However, the scope of reporting for each indicator was adjusted in accordance with the materiality analysis of the relevant aspects required by the legislation in question. The table beneath summarizes the relevance of each category of indicators by reporting topic (environment, social, personnel, human rights and corruption) and by type of company (manufacturing, distribution, holding): further details are provided in the Annex “*Details of the Group companies included in the reporting scope by reporting topic*”. Finally, to determine materiality, an additional aspect was considered, namely the importance of subsidiaries in terms of their sales volume, workforce, etc.

<i>Indicators</i>					
<i>Type of company</i>	ENVIRONMENT	SOCIAL	PERSONNEL	HUMAN RIGHTS	CORRUPTION
PRODUCTION	●	●	●	●	●
DISTRIBUTION	●	●	●	●	●
HOLDING			●		●



Indicators are fully material



Indicators are partially material

In the interest of providing an accurate account of the sustainability performance achieved, the use of directly measurable indicators has been privileged, while avoiding the use of estimates insofar as possible. Where necessary, estimates are based on the best available methods or sampling and their use is reported for each indicator.

1.5 INTERNAL CONTROL AND INDEPENDENT AUDIT

As required by the Decree, in this Consolidated Non-Financial Statement two forms of control exist: internal control, which is conducted by the company's statutory auditors, and independent audit, which is performed by an audit company.

As part of its duties required by law, the Board of Statutory Auditors enforces compliance with the Decree's provisions and reports compliance in its annual report to the annual shareholders' meeting.

The independent audit company, KPMG S.p.A., verifies that the Statement has been prepared and certifies that the information provided is compliant with the relevant provisions and the reporting standards adopted (the International Standard on Assurance Engagements 3000 Revised – Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board). The Independent Auditor's Report is included in an annex to this Statement.

1.6 CONTACTS

Requests for clarifications of any information contained in this Statement can be sent to info.dfn@fila.it.



COMPANY IDENTITY AND BUSINESS MODEL



2. Company identity and business model

2.1 VISION, MISSION, STRATEGY AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

2.1.1 VISION AND MISSION

With a product range including more than 25 well-known brands and thousands of products sold on all continents, the FILA Group is one of the leading global enterprises devoted to the research, design, manufacture and sale of tools for creative expression. The FILA Group designs, makes and packages tools and supports for drawing, colouring and painting, in addition to modelling clays, for use by children, youths and adults.

Vision

FILA firmly believes in the world of colour and individual creative expression. Accordingly, in order to become the international benchmark for its industry, it plans to consistently develop the range and originality of its products and brands by cultivating highly attentive and ongoing relations with its stakeholders, ranging from its suppliers to its employees and from its wholesalers to its final customers, since these are the fundamental for the Group's development.

Mission

In order to make its Vision reality, FILA focuses its attention to developing productive, distributive and commercial solutions, and resultant products and brands, which offer everyone the opportunity and the pleasure to express themselves creatively at any time of their lives with the assurance of quality, safety, ease of use, ready availability and targeted innovation.

2.1.2 STRATEGY

The FILA Group's industry is becoming increasingly concentrated and features significant brand loyalty. Our strategy therefore focuses on combining organic growth and targeted acquisitions.

Organic growth involves developing high-potential markets by monitoring the market, forming a close relationship with the end consumer and achieving sound, healthy and sustainable growth over the long term.

Market presence is consolidated by opening branches to gain control of the distribution process, strengthen the brand and reinforce distribution in terms of numbers and significance.

Its acquisitions policy focuses on:

- brands that are present and renowned at continental level
- manufacturing companies
- complementary products and segments (focus on colour)
- "value" targets.

The goal of the FILA Group's acquisition-based growth is to achieve significant distribution and production synergies to support improvement in terms of revenues and margins and enter new markets.

2.1.3 CORPORATE SOCIAL RESPONSIBILITY (CSR) POLICY

Corporate social responsibility (CSR) is the driving force behind a process of steady, cross-cutting improvement that strives to make earnings sustainable over the long term, improve the handling of business risks, enhance performance and strengthen its brand image and its intangible assets.

CSR issues are rooted in FILA S.p.A.'s history and culture. Paying attention to input quality, product and workplace safety and to supporting art and culture are patterns that have marked the history of FILA S.p.A. and underlie the Group's growth and development. The parent issued its **Corporate Social Responsibility Policy** in 2016, while preparing its Manual of Processes and Procedures.

The Group has adopted the Borsa Italiana Corporate Governance Code and its own CSR Policy. This policy was circulated in late 2017 and made available to all FILA Group personnel. It contains specific provisions for each related company affirming the commitment to:

- do business while assuring respect for its staff's human rights, adjust its remuneration scale so as to abide by applicable laws, and pay wages that at least suffice to cover basic needs
- refrain from using or encouraging forced or child labour
- refrain from practicing discrimination based on race, gender and religious or political belief
- ensure healthy workplaces that comply with health and safety laws, progressively approaching the strictest international standards
- develop and protect equal opportunities for all employees regardless of job description/title
- comply with best practices for assuring the quality and safety of its products by conforming to international standards and also to rules that have not yet been standardised
- comply with standards for environmental protection, waste disposal and minimising pollution
- persist in seeking and implementing methods of operation aimed at reducing the environmental impact of products throughout their life cycle
- not tolerate corrupt practices in any form or manner
- comply with tax obligations, guarantee transparency, information exchange and fair tax competition
- develop and transfer knowledge and assets for the benefit of its stakeholders and local communities.

2.1.4 GROUP STAKEHOLDERS

The Group's different stakeholders can be broken down into the following categories:

- **individuals:** employees, agents and contractors
- **market:** customers, consumers, suppliers, partners in joint projects, competitors and institutional investors
- **environment:** local communities, future generations
- **governance:** shareholders, corporate bodies
- **communities:** society, supervisory authorities, the financial community, government, teachers, consumer associations, the media.

The material topics that concern each category of stakeholders subject to reporting are listed in paragraph 1.3 "Materiality analysis" above, and are elaborated upon in the following chapters. They cover matters relating to the environment, society, employment, human rights and the combating corruption.

2.1.5 ENGAGING IN DIALOGUE WITH THE GROUP'S STAKEHOLDERS

The Group engages in dialogue with its stakeholders through channels unrelated to its non-financial reporting. They are:

- dialog with the Chief Executive Officers of the main subsidiaries to agree on material topics relevant to the Group
- dialogue with trade unions
- communication with consumers and customers
- regular meetings with investors
- a channel for submitting anonymous reports.

In order to identify and select stakeholders with whom dialogue should be undertaken, the Group considers the actual and prospective contribution they make to fulfilment of the company's mission, within the constraints imposed by the principles of transparency and cooperation. The manner of dialogue with the selected stakeholder types varies in terms of communication channel and by frequency. These parameters are determined pragmatically on the basis of mutual knowledge and of whichever subject crops up in the discussion.

In particular, dialogue with trade union officials is conducted in accordance with applicable local law and varies greatly from subsidiary to subsidiary, depending on the size and the business activities of each. The main topics dealt with are organisational matters, the Group's strategic vision and how it is adjusted to circumstances at each location, the setting of goals, choosing the right approach, occupational health and safety, its implications for structuring work processes and how achievement of those goals is assessed with a view to continuous improvement. In continuing refinement of the information reported, in 2019 it will begin to be assessed whether data-collection should also be extended to the international companies, where applicable.

The principal touch points with consumers – loosely speaking - and with customers can be grouped into the following macro categories:

- School, home & office: this is where the Group interfaces with its consumers both through the product offered and through communication activities and the involvement of these consumers
- Point of sale
- Marketing efforts addressed to the *trade* (trade fairs, road shows on customers' premises, conventions, etc.) and to final consumers (workshops, fairs, educational initiatives, etc.)
- Web marketing and social media marketing efforts (company blog, newsletter, information catalogues, product websites and corporate website, etc.)
- Media: relations with journalists and with the media department.

Periodic meetings with investors are part of the financial communication plan, prepared annually in order to meet as many investors as possible at the main international financial markets, with the aim of consolidating the Company's shareholder base and expanding it into various additional markets. The main agenda point at such meetings is presentation of the Group's quarterly results.

The meetings with investors that began in 2016 continued in 2018, with the Company attending road shows (including the capital increase), group meetings and one-to-one sessions with over 180 institutional investors in Italy, France, Germany and Switzerland, in addition to the Borsa Italiana STAR Conference in Milan in March and the Borsa Italiana Lifestyle Conference in Milan in September.

At the parent, the communication channels were opened to the Supervisory Board provided for by the Organisational, Management and Control Model pursuant to Legislative decree No. 231/2001 for submitting reports concerning its sphere of responsibility.

The parent FILA belongs to two Italian trade associations, Assoscrittura and Federvarie (Confindustria) and plays a leadership role in both.

2.2 HISTORY OF THE FILA GROUP

2.2.1 FROM FOUNDATION TO THE PRESENT DAY

The history of FILA begins with its foundation in Florence by the Antinori and Gherardesca families in **1920**. Throughout FILA's history spanning nearly a century, its ascent has been driven by a combination of deep insight, passion for creativity and the commitment to become a global leader devoted to creative expression, offering dozens of brands and thousands of items on the markets of every continent. FILA's emblem has always been the lily, which symbolises not only the city of Florence, but also the link between art and history.

In **1923** the **Giotto** brand was created, becoming a timeless icon of Italian design and colours. It was the first brand to champion colour and creative expression and is synonymous with immortal art. The immediately recognisable brand features a portrait of the Italian Renaissance painter Giotto and his teacher Cimabue.

In **1956** a group of employees led by Renato Candela took over the company and began to turn it into a sound manufacturing company at a national level. An enterprising and pioneering growth strategy based on technology, product and creative tool innovation led FILA to progressively win market leadership.

In **1964** Alberto Candela succeeded his father Renato. Under his guidance, the company embarked on a manufacturing path focused on new products, images and style. The **Giotto Fibra** brand introduced coloured markers, while the **Tiziano** line targeted professional and amateur painters.

In **1973** the **Tratto-Pen**, an early type of marker, was launched. It was rolled out at the Chibi Cart fair in Milan, soon became a market success and in 1979 was awarded the prestigious Golden Compass prize for its originality and its innovative and functional design, thanks to which it was later enshrined in New York City's Museum of Modern Art (MoMA).

In **1991** Massimo Candela, the son of Alberto, took over from his father and became the Chief Executive Officer. He was a man with clear ideas: future success demands breaking out of the narrow confines of Italy and Europe. Accordingly, the Group's ambition thereafter was to become international, relying on strong growth and a new policy of strategic acquisitions. Colour and innovation continued to be key concepts of the Group's industrial policy: anyone can use crayons and markers to express their ideas and their talent.

In **1994** the Group began to grow through acquisitions and internal expansion, a process that continues to this day.

The strategic acquisitions completed over the past 20 years have included: the Italian firm **Adica Pongo**, a leading children's modelling clay manufacturer, in 1994; the French company **Omyacolor S.A.**, a leading chalk and modelling clay producer, in 2000; the Spanish firm **Spanish Fila Hispania S.L.**, the Group's former exclusive distributor in Spain, in 1997; the U.S. **Dixon Ticonderoga Group**, a leading manufacturer and distributor of pencils in the Americas with subsidiaries based in Canada, Mexico, China and Europe, in 2005; the German **LYRA Group** in 2008, allowing the FILA Group to enter the German, Scandinavian and East Asian market; the business unit operated by **Lapiceria Mexicana**, in 2010, one of the Group's largest local competitors in the budget coloured and graphite pencils segment; the Brazilian firm **Licyn** in 2012; the acquisition of the **Maimeri** business unit, a manufacturer and distributor of paints and accessories for fine arts in 2014; the acquisition in 2015 of control of the Indian company **Writefine Products Private Limited**, now **DOMS**, marking the conclusion of the process that began in 2011 with the acquisition of a significant interest.

Since **2015**, FILA S.p.A. has been listed on the STAR segment of the Italian Stock Exchange. The Group's shareholder structure at the end of the year is shown in paragraph 2.2.2 "Group size" below.

In **2016** the FILA Group continued growing through various strategic acquisitions in the arts and crafts sector to become the market leader. First was the acquisition of control of the **Daler-Rowney Lukas Group**, a classic brand that since 1783 has produced and sold goods and accessories for the fine arts sector. It has a direct presence in the United Kingdom, the Dominican Republic, Germany and the USA. Next came the acquisition of **St. Cuthberts**, a renowned British paper mill founded in 1907 and based in south-west England, where it manufactures high-quality



drawing paper for artistic use. This was followed by the acquisition of the **Canson Group**, founded in 1557 by the Montgolfier family, with headquarters in Annonay, France, production facilities in France and conversion and distribution centers in Italy, France, the USA, China, Australia and Brazil. Canson products are available in over 120 countries and the brand is the most respected globally involved in the production and distribution of high added value paper for the fine arts, design, leisure and schools, but also for artists' editions and technical and digital drawing materials.

In 2018 work begun on establishing a central European distribution hub in Annonay (France), with the resulting reorganization of the logistics, distribution and corporate structure.

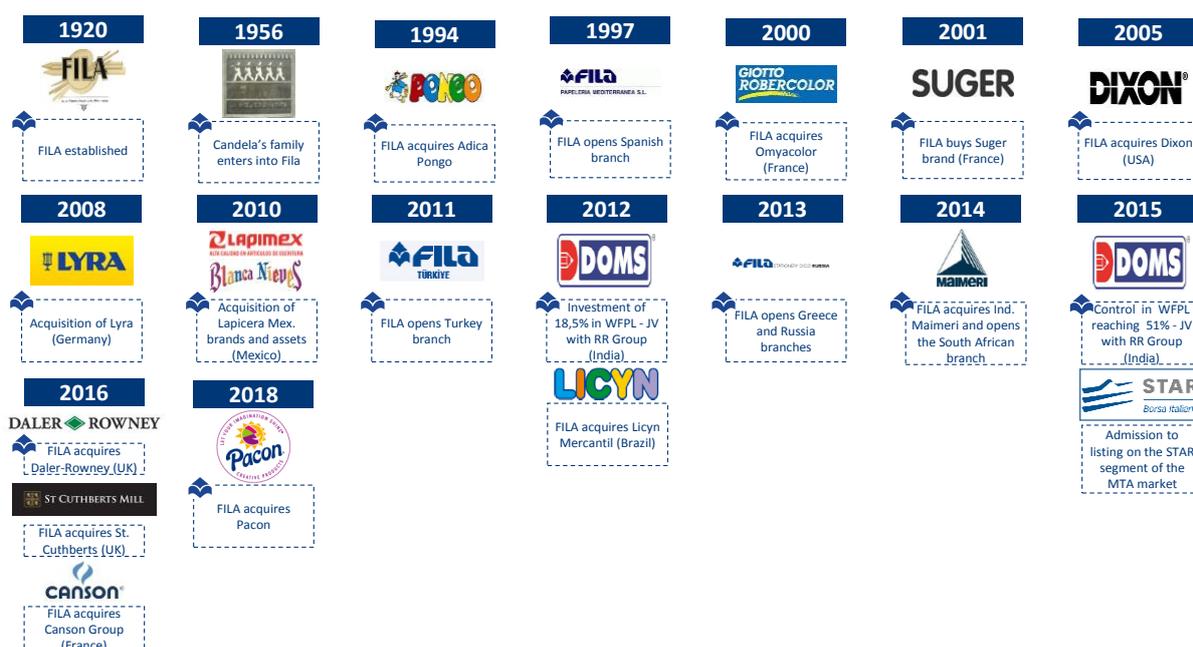
The Group also continued to expand by closing two acquisitions, one of which was significant. In March, FILA acquired a 51% interest in **FILA Art and Craft Ltd** (Israel), a newly formed Israeli company that distributes the Group's writing, fine arts and drawing products in Israel.

In early June **2018**, FILA acquired the **Pacon Group** through its subsidiary Dixon. This was a key step in the Group's growth strategy that contributes to its further expansion in the product categories of the strategic business areas School and Office and Fine Arts, in addition to strengthening its presence on the U.S. market. The FILA Group and the Pacon Group share a similar history, with a commercial presence in the two strategic business areas in question. In addition, over the last decade the Pacon Group has continued to implement a growth strategy and process that dovetails with that pursued by the FILA Group, which has expanded at the international level, while the Pacon Group has traditionally focused on the U.S. market, maximizing its efficiency by reducing its distribution chain and working capital, while also decreasing currency and country risks, through a series of acquisitions undertaken in recent years, the most significant of which are summarized in the following chart:



The process of integrating the Pacon Group is still ongoing and it is expected that synergies may begin to be achieved from the integration starting in 2019.

Over the last few years, the Group has expanded internationally by establishing subsidiaries in various countries, e.g. Greece, Turkey, South Africa, Switzerland and Israel.



2.2.2 GROUP SIZE

At the end of 2018, the FILA Group's numbers were as follows:

- Total number of employees: 9,560 (8,992 without the Pacon Group; 8,439 in 2017)
- Total number of industrial facilities: 51 branches, of which 35 operational, on 5 continents, with 21 production facilities (19 in 2017), two of which in Italy
- Number of countries in which the Group does business: more than 150 (unchanged on 2017)
- Number of products and services provided: 25 iconic brands (20 in 2017) and 50 product categories (over 20 in 2017).

The following tables provide some highlights of the FILA Group's operating results, financial position and cash flow performance in 2017 and 2018:

31 December 2018	Europe	North America	Central and South America	Asia	Rest of the World	Consolidation	Group FILA
<i>Euro thousands</i>							
Intangible Assets	118,913	263,649	3,488	59,861	89	(76)	445,924
Property, plant & equipment	52,578	17,492	7,203	27,048	151		104,472
Total PPE and Intangible Assets	171,491	281,141	10,691	86,909	240	(76)	550,396
<i>of which Intragroup</i>	<i>(76)</i>						
Inventories	87,247	112,390	35,752	28,744	2,768	(4,469)	262,432
Trade and Other Assets	89,014	57,144	51,881	15,179	1,259	(62,860)	151,617
Trade and Other Liabilities	(86,978)	(33,120)	(22,429)	(21,799)	(2,982)	61,771	(105,537)
Other Current Assets and Liabilities	2,457	780	(490)	(676)			2,071
Net Working Capital	91,740	137,194	64,714	21,448	1,045	(5,558)	310,583
<i>of which Intragroup</i>	<i>(3,595)</i>	<i>(1,546)</i>	<i>(211)</i>	<i>(293)</i>	<i>87</i>		

31 December 2018	Europe	North America	Central and South America	Asia	Rest of the World	Consolidation	Group FILA
<i>Euro thousands</i>							
Net Financial Debt	(165,337)	(257,996)	(25,932)	1,117	(4,822)	200	(452,770)
<i>of which Intragroup</i>	<i>200</i>						

31 December 2017	Europe	North America	Central and South America	Asia	Rest of the World	Consolidation	Group FILA
<i>Euro thousands</i>							
Intangible Assets	124,612	16,941	3,746	62,760	108	(76)	208,091
Property, plant & equipment	53,216	2,571	6,338	25,973	257		88,355
Total PPE and Intangible Assets	177,828	19,512	10,084	88,733	365	(76)	296,446
<i>of which Intragroup</i>	<i>(76)</i>						
Inventories	76,251	48,103	31,761	26,074	3,166	(6,656)	178,699
Trade and Other Assets	78,285	44,305	55,515	11,595	1,189	(58,121)	132,768
Trade and Other Liabilities	(89,969)	(24,226)	(21,166)	(16,324)	(2,858)	58,280	(96,262)
Other Current Assets and Liabilities	(277)	1,077	(411)	(148)			241
Net Working Capital	64,290	69,259	65,699	21,197	1,497	(6,497)	215,445
<i>of which Intragroup</i>	<i>(2,461)</i>	<i>(2,720)</i>	<i>(631)</i>	<i>(449)</i>	<i>(234)</i>		
Net Financial Debt	(181,937)	(22,207)	(28,537)	(2,571)	(4,479)	117	(239,614)
<i>of which Intragroup</i>	<i>117</i>						

2018	Europe	North The Americas	Central and South America	Asia	Rest of the World	Consolidation	Group FILA
<i>Euro thousands</i>							
Core Business Revenue	284,379	256,181	96,481	108,972	3,951	(161,217)	588,747
<i>of which Intragroup</i>	<i>(71,488)</i>	<i>(21,471)</i>	<i>(30,086)</i>	<i>(38,086)</i>	<i>(86)</i>		
EBITDA	29,259	24,201	8,760	13,679	(347)	(2,042)	73,510
Net Financial Expense	(51,980)	(2,479)	(5,892)	(428)	(670)	35,030	(26,419)
<i>of which Intragroup</i>	<i>40,267</i>	<i>(5,719)</i>	<i>303</i>	<i>-</i>	<i>179</i>		
Profit/(Loss) for the year	(38,227)	11,542	523	5,738	(1,109)	31,994	10,461
Profit (loss) for the year pertaining to non-controlling interests	318	-	-	1,442	(46)		1,714
Profit (Loss) for the year pertaining to the owners of the Parent	(38,545)	11,542	523	4,296	(1,063)	31,994	8,747

2017	Europe	North The Americas	Central and South America	Asia	Rest of the World	Consolidation	FILA Group
<i>Euro thousands</i>							
Core Business Revenue	294,357	174,845	101,481	100,690	5,200	(166,219)	510,354
<i>of which Intragroup</i>	(74,328)	(19,509)	(33,901)	(38,407)	(74)		
EBITDA	28,235	25,986	9,022	9,678	(910)	1,113	73,124
Net Financial Expense	(31,308)	86	(4,680)	(329)	(261)	14,133	(22,359)
<i>of which Intragroup</i>	16,308	(2,578)	296	-	107		
Profit/(Loss) for the year	(14,893)	15,462	472	2,758	(916)	14,484	17,367
Profit (loss) for the year pertaining to non-controlling interests	499	-	-	1,080	21		1,600
Profit (Loss) for the year pertaining to the owners of the Parent	(15,392)	15,462	472	1,678	(937)	14,484	15,767

The following table provides information regarding the composition of FILA's share capital at December 31, 2018, on the basis of the information available to the Company. For further details, reference should be made to the Annual Financial Report and the Corporate Governance and Ownership Structure Report published on the Company's website:

Shareholder	Ordinary shares	Shares Class B	Total share capital		Total votes = Voting capital		Ordinary capital
Pencil	13,694,564	8,081,856	21,776,420	42.81%	37,940,132	56.60%	32.00%
VEI	3,875,832		3,875,832	7.62%	3,875,832	5.78%	9.06%
Sponsor	361,291		361,291	0.71%	361,291	0.54%	0.84%
Market	24,857,197		24,857,197	48.86%	24,857,197	37.08%	58.09%
Total	42,788,884	8,081,856	50,870,740	100.00%	67,034,452	100.00%	100.00%
	84.113%	15.887%					
Total €	39,364,364.56	7,435,041.44	46,799,406				

2.2.3 FILA GROUP PRODUCTION SITES

In 2018 the Pacon Group's facilities – three in the USA (one in Appleton and two in Neenah) and one in Canada (Barrie) were included within the scope of the Group, whereas the production facilities operated by Daler-Rowney in Wareham, Great Britain, by Canson in Quindao, China, and by Canson in South Hadely, United States, were closed or sold.

The following table provides information regarding the FILA Group's production sites:

SUBSIDIARY	Year of incorp.	Employees	PRODUCTION SITE	PRODUCTS
EUROPE				
FILA	1920	214	Rufina, Florence	Felt-tip pens Modelling clay Writing tools
INDUSTRIA MAIMERI	1923	52	Bettolino di Mediglia, Milan	Colours for the fine arts
OMYACOLOR	1960	79	St Germain La Ville, France	Chalk School-use paints Glues
CANSON	1557	249	Grand Mourier, Annonay, France	Paper for the fine arts School-use paper
			Moulin du Roy, France	Paper rolls

SUBSIDIARY	Year of incorp.	Employees	PRODUCTION SITE	PRODUCTS
LYRA	1806	91	Nuremberg, Germany	School pencils Fine art pencils
DALER-ROWNEY	1783	200	Bracknell, Great Britain	Fine art colours
ST. CUTHBERTS	1700	53	Wells, Great Britain	High grade fine art paper
THE AMERICAS				
DIXON MEXICO	1953	1,261	Tultitlán, Mexico	Graphite and coloured pencils Extruded pencils School-use paints Wax crayons Modelling clay Industrial use crayons Chalk
			Oaxaca, Mexico	Timber slats for the production of pencils
PACON CORP	1951	419	Appleton, USA	School and hobby paper
			Neenah, USA	Paper for the fine arts
			Neenah, USA	Photographic backdrop paper
BAYWOOD		100	Barrie, Canada	School-use paper
DALER-ROWNEY BRIDESHORE	1969	447	La Romana, Dominican Republic	Brushes and canvases
CANSON BRAZIL	2007	84	Indaiatuba SP, Brazil	Paper for the fine arts School-use paper Modelling clay School-use paints
FILA ARGENTINA	1996	25	San Isidro, Argentina	Extruded pencils
ASIA				
FILA DIXON KUNSHAN	2013	421	Kunshan, China	Graphite and coloured pencils
FILA DIXON YIXING ART & CRAFT	2015	63	Yixing, China	School-use paints
DOMS	1974	5,335	Umargan, India	Graphite and coloured pencils Extruded pencils Sharpeners Erasers Felt-tip pens School-use paints Modelling clay Compasses Rulers and set squares Wax crayons Oil crayons Writing tools Glues
			Jammu, India	Timber slats for the production of pencils

2.3 BUSINESS MODEL

2.3.1 FILA GROUP BUSINESS

The Group's registered office and headquarters are in Pero (Milan), on Via XXV Aprile, where the offices of the parent, FILA – Fabbrica Italiana Lapis e Affini FILA S.p.A. are located.

The FILA Group's business model – i.e. the organizational and strategic solutions that the enterprise uses to secure a competitive advance – is based on its growth path guided by three criteria: product, marketing and communication and distribution.

The Group's operations are divided into two main strategic business areas (School and Office and Fine Arts). However, the Company also operates in the less significant segments of industrial instruments (such as glues,

technical drawing tools and erasers) and digital fine art and printmaker paper.

Its products – while distinguished by the use for which they are intended, the function performed, their price and margins – share the same qualitative standards and production processes and – with the exception of a few specific variants by country – the same internal and external distribution systems (sales networks and customer networks).

The FILA Group covers the entire value chain within its business model, from marketing to communication, culminating in sales and distribution, as described in the following chart:



The following table presents the key activities performed by the departments responsible for the value chain within the FILA Group’s business model and the personnel assigned to each department:

Department	Activities
Marketing and communications	Setting of guidelines for the long-term strategy and coordination of commercial activities
Research and Development	Product development and research on new materials and new technical solutions
Planning	Production development and product planning in accordance with our sales budget
Purchasing	Selection and procurement of the raw materials required to produce our products
Production	Manufacture of our products at industrial facilities specialized in producing the various products and located in the various countries
Quality assurance	Monitoring and assurance of compliance with the Group’s policy with regard to the quality and safety standards for its products, suppliers and production
Sales and distribution	Planning of sales activities to reach annual sales budget targets and coordination of the logistics activities required for distribution

Approximately 80% of the Group’s worldwide employees are assigned to the production department and approximately 15% to sales and distribution.

The FILA Group focuses on consumer goods and its main products include pencils, crayons, felt-tip pens, modelling clays, brushers, paints and paper for schools, fine arts and free time. Its products are manufactured by an integrated production chain that consists of 21 production facilities, with limited use of outsourcing.

The FILA Group distributes its products through various stores and commercial channels, to ensure that its products are readily and conveniently available for purchase by consumers or other end users, wherever they prefer to purchase them. These channels include supermarkets, e-tailers, discount stores, corner stores/grocers and general stores, warehouses, specialized vendors, stationery stores and hardware stores, independent office product retailers and big box office supply stores.

The FILA Group’s products are sold in over 150 countries, above all in the USA, but also in Europe, Canada, Brazil, Mexico and India. To consolidate its market share in countries where it does not have a direct presence, the FILA Group has traditionally opened branches, generally with its main distribution partners, in order to strengthen its brands and promote distribution, in terms of the range and number of products.

The FILA Group's main markets of operation are North America (USA and Canada), Mexico, India and Europe. At the end of 2018, over 60% of the FILA Group's revenues were generated outside of Europe. The revenue breakdown by geographical area at the end of 2018 was essentially unchanged in percent terms in the areas of Central/South America, Asia and the Rest of the World, whereas there was a slight decline in the weight of the European area, against a slight increase in the weight of the North American area, primarily due to the acquisition of the Pacon Group, aimed at further strengthening the Group's presence in that area.

For Group management, geographical location is the principal criterion for analysis and decision-making, and the firm's internal reporting is structured accordingly.

The geographical segments into which the Group FILA divides its activities are the following:

- Europe
- North America (USA and Canada)
- Central and South America
- Asia
- Rest of the World (South Africa and Australia).

The following table illustrates the various Group companies in each geographical area:

Europe		North America	Central/South America	Asia	Rest of the World
-Fila (IT)	-Fila Benelux (BE)	-Dixon (USA)	-Grupo Fila-Dixon, (MEX)	-Beijing Fila-Dixon Stationery Company Ltd. (RC)	-Fila SA (ZA)
-Omyacolor (FR)	-Daler Rowney (DE)	-Dixon Ticonderoga (CA)	-Fila Chile (RCH)	-Xinjiang Fila-Dixon Plantation Company (RC)	-Cansons Australia PTY (AUS)
-Fila Hispania (ES)	Lukas-Nerchau (DE)	-Eurholdam USA (USA)	- Fila Argentina (RA)	- PT. Lyra Akrelux (RI)	
-FilaLYRA GB (UK)	-Nerchauer Malfarben (DE)	-Canson Inc. (USA)	- Cansons Brasil (BR)	-Fila Dixon Stationery (Kunshan) Co. (RC)	
-Johann Froescheis Lyra Bleistift-Fabrik (DE)	-St. Cuthberts Holding (UK)	-Pacon Holding Company (USA)	- Bridesshore (DOM)	-Canson Art & Craft Yixing Co. (RC)	
-Lyra Bleistift-Fabrik Verwaltungs (DE)	-St. Cuthberts Mill (UK)	-Pacon Corporation (USA)		-DOMS Industries (IND)	
-Fila Nordic (SUE)	-Fila Iberia (ES)	-Pacon Canadian Holding Co (USA)		-Canson Qingdao (RC)	
-Fila Stationary and Office Equipment Industry (TR)	Canson (FR)	-Baywood Paper (CA)		-Pioneer Stationery (IND)	
-Fila Stationary (RUS)	-Lodi 12 (FR)			-Uniwrite Pens and Plastics Pvt (IND)	
-Industria Maimeri (IT)	-Canson Italy (IT)			-Princeton HK Co (HK)	
-Fila Hellas (GR)	Fila Art Products (CH)			-Fila Art and Craft (IL)	
-Fila Polska (PL)	Castle Hill Crafts (UK)				
-Renoir Topco (UK)	-Creativity Intl (UK)				
-Renoir Midco (UK)					
-Renoir Bidco (UK)					
-Daler Rowney (UK)					

Under the parent's coordination, each company operating in the five geographical areas designs, markets, purchases, manufactures and sells products under known consumer brands in demand amongst end users and used in schools, homes and workplaces. Product designs are adapted to end users' preferences in each geographical region.

FILA's operations are mainly divided into two strategic business areas:

- School and Office; and
- Fine Arts.



The FILA Group is one of the few players with a global geographical presence specializing in products in the strategic business areas School and Office and Fine Arts. Only a few players at the global level (i.e., FILA and Colart) serve both product areas through various brands.

The School and Office strategic business area is characterized by the presence of:

- Large global players, with diversified or multi-business production. The former are distinguished by a portfolio consisting of school and office products, as well as related products, such as educational children's toys, whereas the latter are conglomerates with businesses in a range of sometimes very disparate segments (e.g., BIC, with lighters and razors).
- Specialist companies with production focused on school and office products and a primarily local presence.

The Fine Arts strategic business area is primarily served by operators specializing in the two main product families:

- acrylic and oil paints, water colours, canvases, easels and brushes
- watercolour paper, colour drawing paper, photographic paper, albums and sketchbooks.

The Group's operations are also affected by the seasonality of the School and Office strategic business area. In particular, sales in this strategic business area are concentrated in "school campaign" during the second and third quarters. By contrast, the arts and crafts strategic business segment reports greater sales to some extent in the first, but especially in the fourth quarter, than in the second and third quarters, offsetting the seasonal nature of the school and office strategic business segment.

From 2005 to the present the FILA Group has rapidly expanded its international presence and increased the number of its manufacturing plants to 21. This permits production of virtually the entire product range at plants owned by the Group.

The FILA Group's acquisition strategy, as illustrated in paragraph 2.2.1 "*From foundation to the present day*" is successful because it is based on the following guidelines:

- restructuring and centralisation of corporate functions
- establishing uniform manufacturing processes to make factories/plants increasingly interchangeable
- reorganising manufacturing facilities and product warehouses
- analysing synergies of costs and revenues so as to increase profit margins
- restructuring product and brand portfolios
- focusing on proprietary brands, reducing private labels, which will be used only strategically
- expanding successful manufacturing lines
- eliminating exclusive distributors/importers in order to grow closer to the market and to consumers through branches.

Management believes that the Group's main strengths are:

- leadership of its key markets
- global presence on growing markets
- diversified production
- integrated business model (in terms of coordination of marketing, research and development activities, commercial policies, highly specialised vertical integration of production processes and integrated logistics)
- extensive product range and brand identity
- acquisition track record
- history of revenue growth, solid profitability and cash generation
- management expertise and experience and a long-term commitment by its main shareholder.

Great attention is paid to the process of integrating the acquired firms, both regarding manufacturing and sales, discontinuing the sale of unprofitable goods and setting balanced pricing policies for each market.



In addition to new plant, production machinery and industrial equipment, investments in 2018 included the extension of the French warehouse in Annonay and the implementation of the SAP system to ensure a single ERP (enterprise resource planning) system at the Group level.

2.3.2 PRODUCTION, R&D, QUALITY ASSURANCE, BRANDS AND PRODUCTS

Production structure

The FILA Group manufactures at 21 factories on five continents. A summary of the manufacturing plants by geographical segment, year, start-up and product lines is shown in paragraph 2.2.3 “*FILA Group production sites*” above.

Research and development (R&D) and Quality Assurance (QA) are performed locally by dedicated teams at the Group's various manufacturing companies. These departments avail of, where necessary, the support of technicians and production staff for the execution and testing of specific projects.

Research and Development

Specifically, **R&D** is primarily carried out centrally by the Parent's Research and Development Department, as well as at local level, through dedicated teams, coordinated by the Parent, based at the Group's various manufacturing facilities, above all in Europe, Central and South America and Asia. R&D is performed by experts whose skills are honed by frequent training courses in appropriate subjects. The Group's strong commitment to understanding its customers and designing products that meet their expectations plays a significant role in the development strategy for the Group's products.

It is conducted centrally by the Group's R&D department, which comprises almost 50 employees and devotes most of its efforts to the following activities:

- study and design of new materials and new technical solutions intended to drive innovation or create new products and/or packaging
- determine product quality
- conduct comparisons with competing products
- innovate manufacturing processes jointly with the production research office, with a view to raising company efficiency.

Over the last few years, the R&D team has developed innovative products, such as new formulas for modelling clays, new types of plastic, the redesign of packaging, new products for industrial customers and woodfree pencils made of polymers.

Quality Assurance

The Quality Assurance department is coordinated by the parent and employs approx. 130 staff. It is responsible for enforcing uniform quality standards at the Group's facilities. In 2017, FILA hired a Group Product Safety and Compliance Manager to coordinate Quality Assurance across production plants, where standards are guaranteed by specific compliance officers. In smaller facilities the Quality Assurance department is often also in charge of R&D.

In order to comply with the laws governing the physical and chemical traits of products, the team constantly monitors legislative changes (such as those affecting use of preservatives in different formulations) and assists the R&D department in adjusting formulations to comply with altered requirements. In view of the attention that the FILA Group devotes to product safety issues, the Quality Assurance team strives to enforce the Group's safety guidelines for its products. Further aspects of activities to guarantee product safety and quality are described below in paragraph

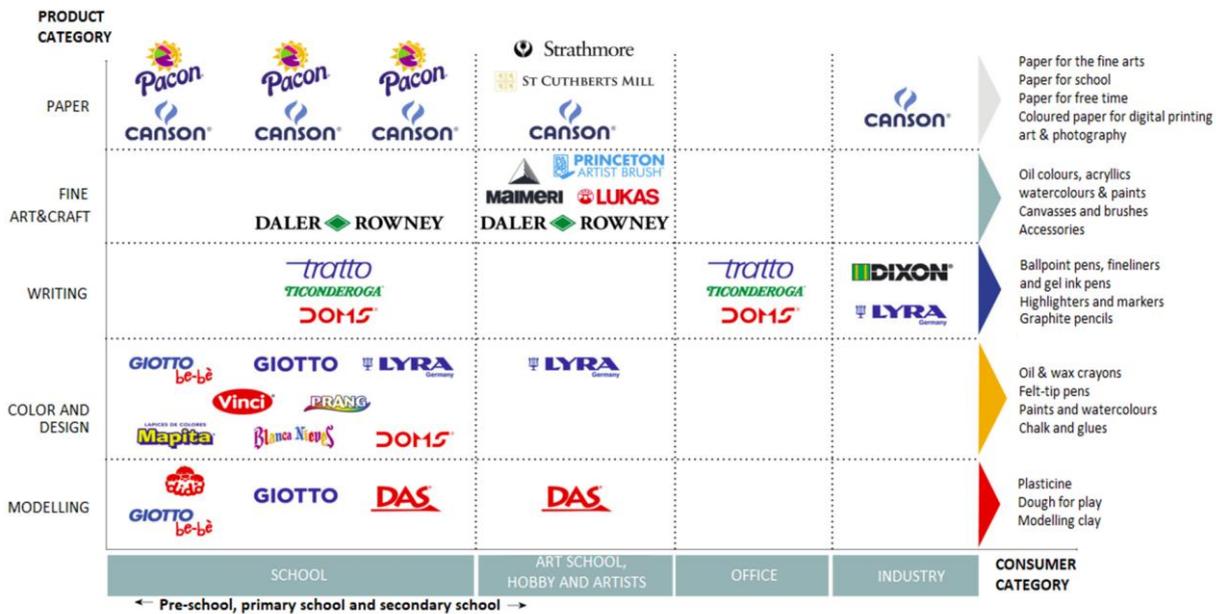


5.2, “Product quality and safety”.

Brands and products

The FILA Group brand portfolio, made up of numerous brands firmly rooted in consumer tastes and preferences, is one of the most significant, comprehensive and diversified brand portfolios in the entire sector, particularly in terms of total number of trademarks and international coverage.

As of December 31, 2018, the FILA Group owns approximately 600 brands, and over 1,800 trademarks. The following chart shows the portfolio of main brands owned by the FILA Group divided into reference segments.

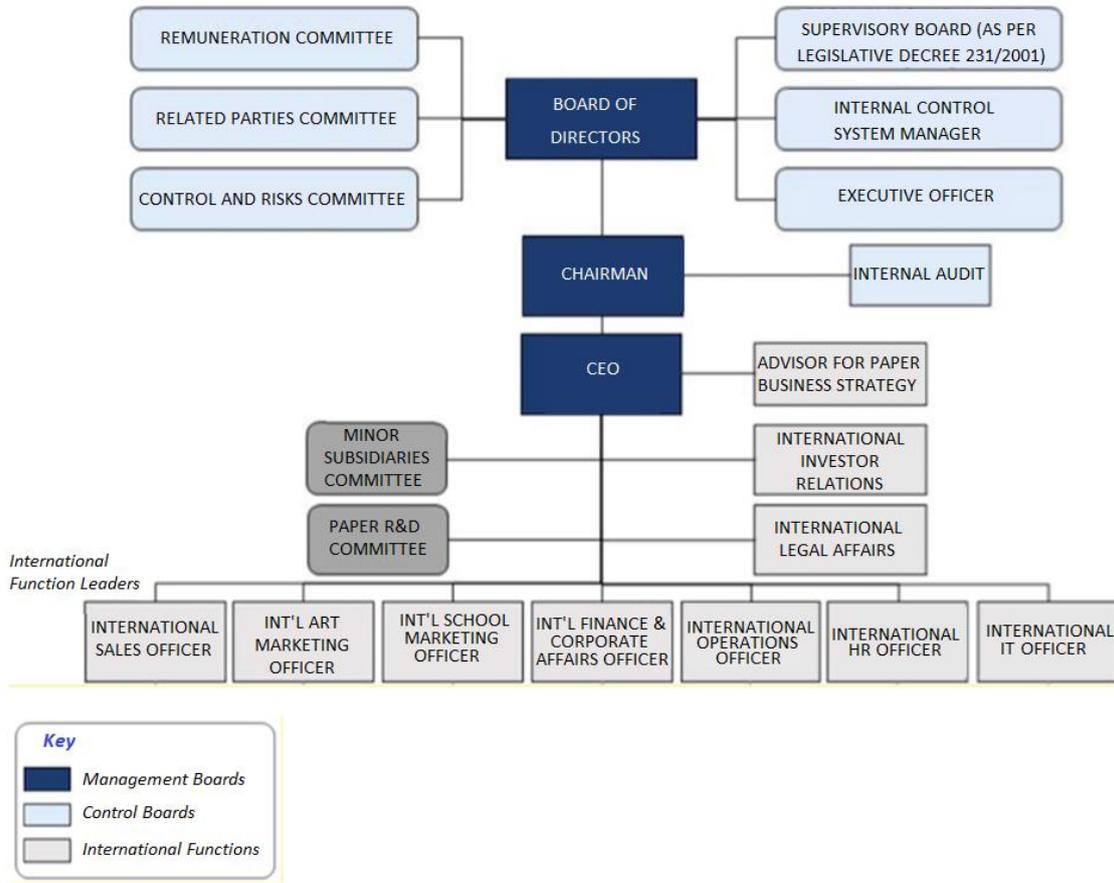


2.4 CORPORATE GOVERNANCE

2.4.1 GOVERNANCE STRUCTURE

FILA adopts a traditional governance model, with the appointment of a Board of Directors and a Board of Statutory Auditors by the Shareholders’ Meeting. The Board of Directors draws up the Group strategy and oversees its implementation. The Chief Executive Officer is tasked with company management and implementation of the strategic guidelines. The Board of Statutory Auditors carries out an oversight role.

The current model is structured as follows:



On March 15, 2016, FILA S.p.A. adopted the Corporate Governance Code published on the Borsa Italiana website and all of the measures and controls to guarantee the effective implementation of the recommendations contained therein. For further details on corporate governance, reference should be made to the “**2018 Corporate Governance and Ownership Structure Report as per Article 123-bis of Legislative Decree 58/1998**”, available on the company website: <http://www.filagroup.it/governance/>.

FILA S.p.A. and its subsidiaries are not subject to any non-Italian laws regarding the corporate governance structure.

The management and control bodies of FILA S.p.A. comply with applicable statutory regulations, as set out by the By-Laws and on the basis of the indications contained in the Corporate Code of Borsa Italiana, also with regards to gender parity.

With regards to the Board of Directors, the By-Laws (Article 11) sets out provisions with regards to the composition, appointment, duration and replacement of the members of the Board of Directors, on the basis of the indications established by law and other applicable provisions, also with regards to gender parity.

The company is governed by a **Board of Directors** (its number is set by the Shareholders’ Meeting on the basis of the By-Laws), chaired by Gianni Mion and at the approval date of this document comprising 9 members: 2 directors are executives and 7 non-executive, of which 5 independent. All directors must satisfy the eligibility and good standing requirements established by applicable law and other provisions and the Board of Statutory Auditors oversees compliance.

The election of the Board of Directors is made on the basis of slates presented by shareholders, according to the procedure laid down in the By-Laws. The directors are elected for a period, established by the Shareholders Meeting,

of not greater than three years from the acceptance of their office and until the date of the Shareholders' Meeting for the approval of the financial statements for the last year of their appointment.

The Board of Directors is tasked also with drawing up of the Ethics Code and the applicable values, preparation and approval of this Consolidated Non-Financial Statement. As part of its activities, also with regards to the voluntary adoption of the Corporate Code of Borsa Italiana, the Board of Directors carries out a periodic self-assessment, reporting such in the Corporate Governance and Ownership Structure Report.

With regards to gender parity, the Board of Directors of FILA comprises 3 female and 7 male members, in full compliance with the applicable legal and regulatory provisions and the Group's **Diversity Policy**.

The following tables present the members of the Corporate Boards and Committees of FILA S.p.A. in office at December 31, 2018, as indicated in the Corporate Governance and Ownership Structure Report.

BOARD OF DIRECTORS IN OFFICE AT 31.12.2018								
OFFICE	DIRECTOR	DATE FIRST APPOINTMENT	YEAR OF BIRTH	EXECUTIVE	NON-EXECUTIVE	INDEPENDENT	COMMITTEE	
							CONTROL, RISKS AND RELATED PARTIES COMMITTEE	REMUNERATION
Chairman	Gianni Mion	7/10/2013	1943		X			
Chief Executive Officer	Massimo Candela	4/6/2015	1965	X				
Executive Director	Luca Pelosin	4/6/2015	1966	X				
Director	Annalisa Barbera	22/7/2015	1969		X			Member
Director	Francesca Prandstraller	29/7/2014	1962		X	X		Chairman
Director	Filippo Zabban	27/4/2018	1957		X	X	Member	Member
Director	Alessandro Potestà	13/11/2018	1968		X	X	Member	
Director	Paola Bonini	27/4/2018	1967		X	X	Member	Member
Director	Gerolamo Caccia Dominioni	22/7/2015	1955		X	X	Chairman	

Sergio Ravagli, appointed by the shareholders' meeting of April 27, 2018, resigned from his position as member of the FILA Board of Directors on October 5, 2018. On November 13, 2018, Alessandro Potestà was appointed by the Board of Directors to replace Sergio Ravagli as co-opted director until the following shareholders' meeting, as approved by the Board of Statutory Auditors, in accordance with Article 2386 of the Italian Civil Code.

2.4.2 CONTROL BODIES

As part of the process of the structuring and strengthening of the Internal Control and Risk Management System, the Board of Directors appointed on July 22, 2015 Luca Pelosin as **Director in charge for the establishment and maintenance of an effective Internal Control and Risk Management System** "Director in Charge".

The risk assessment activity undertaken - with the support of the External Consultant permitted the identification of the principal risks relating to the main business processes of the Group, taking into account the activities undertaken by the Company. These risks were brought to the attention of the Board, through the periodic reports prepared by the Internal Audit department.

Based on the results of the risk assessment activities the overall procedural framework was updated and appropriate changes made to the internal control system ensuring overall compliance with legislative and regulatory requirements and an efficient and effective system in line with operating conditions.

With regards to the **Board of Statutory Auditors** of FILA, the By-Laws (Article 17) sets out provisions with regards to the composition, appointment, duration and replacement of the members of the Board of Statutory Auditors, on the basis of the indications established by law and other applicable provisions, also with regards to gender parity.

The Board of Statutory Auditors comprises 3 statutory auditors and 2 alternate auditors, appointed on the basis of slates presented by shareholders according to the procedures outlined in the By-Laws. Statutory Auditors shall hold office for three years, may be re-elected, and their term expires on the date of the shareholders' meeting for the approval of the annual accounts related to the third year of their appointment.

With regards to gender diversity, the Board of Statutory Auditors (considering also the alternate auditors), comprises 2 female and 3 male members.

The following table presents the members of the Board of Statutory Auditors in office at December 31, 2018.

BOARD OF STATUTORY AUDITORS IN OFFICE AT 31.12.2018			
OFFICE	NAME AND SURNAME	DATE OF APPOINTMENT	YEAR OF BIRTH
Chairman	Gianfranco Consorti	27/4/2018	1950
Standing Auditor	Pietro Michele Villa	27/4/2018	1967
Standing Auditor	Elena Spagnol	27/4/2018	1968
Alternate Auditor	Stefano Amoroso	27/4/2018	1964
Alternate Auditor	Sonia Ferrero	27/4/2018	1971

Following admission of the shares of the Company to trading on the STAR segment, the Issuer's Board of Directors, with the favourable opinion of the Control and Risks Committee and the Board of Statutory Auditors, resolved to implement a general inspection of the internal control structure and functionality of FILA and, therefore, to establish the Internal Audit function, outsourced to Key Advisory S.r.l., represented by Mr. Massimiliano Rigo as the Internal Audit Manager.

2.5 ORGANISATION, MANAGEMENT AND CONTROL MODEL PURSUANT TO LEGISLATIVE DECREE NO 231/01

In order to prevent the committal of the relevant offenses as per Legislative Decree 231 of 2001 (“Legislative decree No. 231/2001”) and in compliance with the regulation adopted by CONSOB and the Corporate-Governance Code, the Board of Directors of FILA. adopted its Organisation, Management and Control Model (“231 Model”), updated in 2018.

The 231 Model was drawn up to respond to the following requirements identified by Legislative decree No. 231/2001:

- identify at risk activities
- set out protocols for the prevention of the relevant offenses
- identify the means for the management of financial resources and the prevention of relevant crimes
- establish disclosure obligations to the body controlling the function and compliance of the models (Supervisory Board)



- introduce an internal disciplinary system to sanction failure to comply with the measures indicated in the 231 Model.

The criteria for the prevention of the commission of offenses is based on “acceptable risk” i.e. residually “*possibility to commit an offence only by fraudulently violating a preventative protocol*”.

The key objective of the 231 Model is to ensure that all Addressees are fully aware that FILA’s operations are based on strict compliance with applicable laws and regulations and that such observance is undertaken to ensure that the physical persons and the companies of the FILA Group do not run the possibility of committing the cited offenses.

Compliance with the 231 Model is obligatory and any violations constitute non-fulfilment of mandate in terms of the members of the Board of Directors and Statutory Auditors, violation of their employment contract obligations, resulting in the application of the penalties established by the disciplinary system.

Except for application of the Ethics Code and the Group policies and procedures, the subsidiaries are not direct addressees of the Model adopted by FILA., but are required by the parent company to adopt adequate management and control systems to ensure the legal and regulatory compliance and correctness of the respective activities.

A key element of the 231 Model is the **Ethics Code**, which outlines the general principles on which the conduct of all employees of the management and control board should be based, in addition to that of the employees of the parent company of FILA S.p.A. and of the subsidiaries and all those who undertake contractual relations with the company. The Ethics Code of the FILA Group, available on the company website www.filagroup.it, is the touchstone of all Group policies.

The Supervisory Board - appointed by the Board of Directors, to whom it reports periodically - oversees the updating and correct functioning of the 231 Model.

Compliance with the Ethics Code and the 231 Model are monitored through a specific procedure for the reporting of potential violations and internal audits on 231 compliance for all company areas, also with regards to environmental and worker health and safety aspects.



MATERIAL ENVIRONMENTAL TOPICS

3. Material environmental topics

3.1 RESPECT FOR THE ENVIRONMENT AND MATERIAL TOPICS FOR THE FILA GROUP

The FILA Group operates 21 production sites in various geographical areas, including Italy, France, Germany, the United Kingdom, Brazil, Mexico, the Dominican Republic, China, India, the USA and Canada. Production activities at the sites are bound by environmental protection and occupational health and safety legislation in force in such countries. The following paragraphs are devoted to analysing and reporting on various aspects of the company's business and manufacturing operations.

In defending the natural environment through its business practices, the FILA Group is not merely complying with the law, but is also applying one of its core conduct values, since its Ethics Code expressly commands the protection of the environment.

Environmental protection

"The Company shall support dissemination and awareness of environmental protection issues and shall operate the business entrusted to it in an eco-compatible manner and comply with applicable domestic law both at its headquarters and wherever else it conducts its business.

For these purposes, the operating management must refer to, in relation to environmental prevention and protection, the most appropriate environmental protection, disposal of waste and energy efficiency criteria.

Managers must exercise the coordination and control functions required to ensure that the companies belonging to the Group comply with domestic and international law concerning the environment, construction, urban planning, pollution, waste disposal etc."

FILA conducts its business in a manner consistent with the **Precautionary approach** of Principle 15 of the Rio Declaration of the United Nations. This principle states that organisations must apply the precautionary approach whenever they can, and that if serious or irreversible damage threatens the environment, a lack of absolute scientific certainty is no valid reason for delaying action to prevent environmental damage, provided the measures proposed are cost-effective.

In 2017 FILA formulated its **Environmental Policy** and distributed it to all consolidated companies. This Policy is based on the principle that the Group's business operations must comply with its Ethics Code, with particular reference to protection of the environment and compliance with applicable rules. The general principles of the Group's environmental policy are:

- preventive approach to the environmental impact of operations
- containment of environmental impacts
- continuous improvement
- compliance with law
- responsibility in operating the supply chain
- raising awareness among all staff.

The materiality analysis and the process of gathering non-financial information that began in 2017 indicated the environmental issues relevant to the FILA Group as the following:

- use of raw materials
- consumption of energy resources
- water consumption
- atmospheric emissions.



The main materials used to produce many of the FILA Group's products are paper, cellulose, wood, plastic, chalk, calcium carbonate, dyes, graphite and, in some cases, semi-finished and finished materials, such as glues.

There can be no doubt that the consumption of renewable and non-renewable raw materials as manufacturing inputs is an important factor in terms of the impact of the use of resources: consumption of some materials by the FILA Group may have substantial environmental impact. Among them are for example wood for pencils and crayons, plastic for felt-tip pens, flour for modelling clay and cellulose fibres.

FILA's facilities need power to operate, so its choice of energy sources significantly affects the environment both in terms of the consumption of fossil fuels (e.g. natural gas) and in terms of greenhouse gas emissions from combustion (e.g. CO₂).

Industrial processes for manufacturing special papers, paints, play dough and chalk consume water, and the FILA Group is very aware that this raw material must be used responsibly.

The FILA Group's manufacturing processes do not involve chemical reactions or process phases likely to generate significant air pollution. Nonetheless, power consumption involves (principally via indirect routes) combustion processes that generate greenhouse gases.

The following paragraphs discuss in greater detail and furnish examples of the aforesaid material aspects and the indicators chosen from the GRI Standards.

During the process to define 2018's indicators, some comparative data relating to 2017 was restated in accordance with the Group's general refinement of reporting processes and methods. Furthermore, for a better comparison with 2017, and a more complete representation of the Group's activities, data on several additional materials were included, such as paper sheets, pre-dispersed acrylic resins, and so on.

In the countries where they are located, the Group's facilities are subject to specific environmental legislation on, for example, atmospheric emissions, pollutant soil, subsoil and water concentrations, water discharges and waste disposal. In Italy, such legislation is incorporated in Legislative decree No. 152, of April 3, 2006 (the "Consolidated Environmental Act"), which, regarding industrial activities, includes legislative provisions on waste management, contaminated site reclamation, water and soil protection, protected area management, environmental damage compensation, environmental impact assessments, atmospheric emissions and noise pollution.

The FILA Group recently launched a programme to obtain environmental certifications for its facilities. At the date of this Report, Canson France had its Environmental Management System certified according to ISO 14001: 2015. In 2018, with the support of consulting experts, the Parent company initiated an initial environmental assessment process for its Rufina (Florence) and Pero sites aimed at ISO 14001 certification: 2015, which was achieved in early 2019.

3.2 USE OF RAW MATERIALS

Over the years, the FILA Group has focused its attention on recycling some of the raw materials used in its production processes where technically feasible.

The production of timber slats from which pencils are made requires re-using primary manufacturing rejects, such as, for example, joining below-standard size slats or "finger joints" or low-width timber slats for the production of canvas frames.

The main raw materials used in the production process of the FILA Group are:

- Timber, in particular cedar, poplar, raffia and pine, in sticks or boards, in order to produce coloured and graphite pencils in Mexico, India and China, in addition to canvas frames.
- Plastics for the production of felt-tip pens, drawing products, packaging, mechanical pencils and other writing instruments (e.g. sharpeners and rulers), procured mainly in Italy and India

- Calcium carbonate and sulphate for the production of chalks, paints and modelling materials procured mainly in France, where the Group relies on the local supplier Omyacolor, mainly due to its proximity to the Group's Saint Germain La Ville plant
- flours used in the production of play dough
- graphite used in the production of pencil leads
- wax used in the production of wax crayons and in pencil leads
- Paper for the production of paper sheets for school use in the North American market.
- high quality cellulose fibres used in paper production in France and the United Kingdom
- clay used in the production of modelling clay
- paraffin for the production of crayons, acquired in Mexico and India
- glues, procured in Korea and Italy.

The Group recognised that the **main risks** associated with its operations were the consumption of raw materials, the uncontrolled use of resources and natural raw materials, an excessive consumption of energy from non-renewable sources and an uncontrolled consumption of water. To mitigate such risks, action was taken to determine the levels of this consumption and to monitor it over time by comparing them to comparable scenarios across the various Companies within the Group.

Timber is the main raw material, after paper, used in the Group's production processes. It is used in the production of graphite and coloured pencils. Logs, slats and timber planks are purchased to manufacture pencils in the factories located in Mexico, India and China.

In recent years, the FILA Group has moved towards certifying (see *Chain of Custody*) the timbers in conjunction with the *Forest Stewardship Council*, as well as joining the *Programme for Endorsement of Forest Certification schemes* for economically sustainable forestry management. These certifications ensure that certified products are realised using timber from suppliers who abide by these certifications based on sustainable forestry management.



The Forest Stewardship Council (FSC®) certification is an independent and third-party international certification specifically for the forestry industry, for timber and non-timber products - sourced from certified forests.



The PEFC programme (Programme for Endorsement of Forest Certification schemes) is based on three fundamental principles:

- compliance with the Criteria and Indicators defined in the Ministerial Conferences for the protection of forests in Europe (Helsinki 1993, Lisbon, 1998) which launched the so-called "Pan-European process"
- its application at regional or Group level (individual membership is also possible)
- inspections, and the certification process are allocated to an independent and accredited third party

As there are only few and highly concentrated timber producers worldwide, relationships with these companies is particularly important. Timber consumption in the form of logs, planks and slats and the related certifications are shown in the table below:

TIMBER CONSUMED AND CERTIFICATIONS	2018			2018 excluding Pacon			2017		
	Amount	of which certified	Type of certification	Amount	of which certified	Type of certification	Amount	of which certified	Type of certification
<i>Unit</i>	<i>cubic met</i>	%		<i>cubic meters</i>	%		<i>cubic meters</i>	%	
Logs	33,603	0%	FSC	33,603	0%	FSC	23,925	7%	FSC
Slats	23,930	20%	FSC	23,930	20%	FSC	25,634	55%	FSC

Planks	8,245	100%	PEFC	8,245	100%	PEFC	18,182	100%	PEFC
Total	65,778			65,778			67,741		

In particular, timber purchased in Central/South America is used in the facilities in Tultitlán and Oaxaca in Mexico, as well as in Asia in the Kunshan factories in China and in the Gujarat and Jammu facilities in India.

In 2018, more logs were sourced in India, due to a rise in production volumes, and in Mexico, due to the “Stretch Bar” project for the production of picture frames for supply to the Dominican Republic branch. During the period, cedar lumber procurement fell due to international scarcity driving up its price.

To optimise purchases and the synergies between the companies within the Group, a portion of the processed timber from the facilities is sold to other companies within the Group with pencil production lines (for example Lyra in Germany for the Nuremberg facility).

As already illustrated, recovering timber is a practice consolidated by the FILA Group, and specifically numerous stages in the production of the timber slats involve the re-use of timber rejects to manufacture products using the “finger joint” technique whereby timber rejects are recovered to produce the eco-friendly pencil product ranges (e.g. The Ticonderoga Envirostik). The timber rejects from the timber board production line in the Oaxaca factory in Mexico are used to manufacture the canvas frames which are then assembled in the Brideshore facility in the Dominican Republic.

As wood is a heavily used raw material and with most environmental impact in terms of Group manufacturing, significant investment has been made in a plantation of approximately 250,000 poplar trees in Xianjiang in north-west China, with the aim of ensuring in future at least a partial use of timber from its own renewable forests. The investment is expected to fully operational, with the usage of the first cycle of trees, from 2021/2022 and the plantation could produce 40% of supplies required for the Chinese factory's production needs, i.e. 15% of the FILA Group's total supply requirements. This will simultaneously reduce exposure to the volatility in the cost of raw materials, as well as improving the environmental sustainability of its production processes. The project envisages progressively harvesting the timber with the subsequent planting of new trees for at least five cycles.

Across all the timber processing factories, dust and woodchips aspiration systems are present to capture sawdust and woodchips which are then put to various uses.

Amongst the recycling techniques of the timber rejects it is worthwhile mentioning the Lyra facility in Nuremberg where wood dust impurities are separated out and once pressed and compacted are sold to third parties for various applications including the production of parquet floors. In 2018, this process allowed us to reuse 89.7 tons of sawdust from the process (77.5 tons in 2017).

Also the Oaxaca factory in Mexico uses log bark and saw dust as fuel to generate heat through two proprietary systems. The annual average production of energy from this source was approx. 119 million MJ in 2018.

In various factories of the Group, the production process involves, upstream to the various production phases, either the re-entry of the primary production rejects into the production process or their sale for use by third parties. These materials are not considered recyclable materials. It would be highly complex to assess the impact of this recycling process.

Plastics are purchased to produce writing and drawing materials in addition to packaging materials. Focus on the recycling of plastic materials is ongoing in several recovery processes across several production phases.

In terms of the recovery of plastic materials, the Rufina factory, near Florence, recovers the plastic reject material derived from the production of pens and markers: in 2018, a total of 46,768 kg of plastic production rejects, for example ground plastic, containers, colour replacement scraps from injection presses etc. (55,343 kg in 2017), as well as 1,740 kg of soft plastics, were recovered (560 kg in 2017).

The Parent FILA S.p.A. also recovers production rejects which fail quality standards for re-use and sells them to companies for their use in their production processes in materials with the corresponding characteristics.

In the Group's paper mills, primary production rejects from the paper production process are re-used in the same production process.

The table below list the main raw material purchases by the FILA Group over the last two years, with the 2018 figures at like-for-like consolidation scope (i.e. without the Pacon Group) also presented.

OTHER MATERIALS CONSUMED	2018	2018 excluding Pacon	2017
<i>Unit</i>	<i>kg</i>	<i>kg</i>	<i>kg</i>
Non-treated plastic raw material (PHE/PHEG/ABS/ECC)	8,105,896	8,105,896	7,853,176
Calcium carbonate	11,701,708	11,701,708	10,249,504
Calcium sulphate	1,038,817	1,038,817	818,166
Clay	6,280,135	6,280,135	5,653,719
Kaolin	457,561	457,561	400,273
Graphite dusts	1,416,716	1,416,716	1,155,800
Cellulose fibre	14,838,739	14,838,739	13,667,100
Paper rolls	68,414,413	2,601,378	269,826
Paper sheets	1,766,191	1,628,984	N.A.
Pre-dispersed acrylic resins	646,467	646,467	N.A.
Purchased Semi-processed inks	487,693	478,149	553,896
Talc	2,374,852	2,374,852	876,175
Corn starch	383,115	294,509	168,249
Flour	1,572,985	1,572,985	457,007
Pigments	892,026	892,026	N.A.

The increase in paper roll procurement in 2018 was mainly due to Pacon Group's integration.

The increase in flour and talc volumes is attributable to a general improvement in quality and data collection compared with 2017.

3.3 CONSUMPTION OF ENERGY RESOURCES

Energy sources are the available energy sources on Earth i.e. natural resources that humans use to generate heat, move industrial systems, and for light and warmth.

Energy sources are classified in accordance with the available technology and by acquired scientific knowledge. The main energy sources are:

- fossil energy (or non-renewable energy) i.e. crude oil, carbon and natural gas reserves
- renewable energies, i.e. solar energy (photovoltaic), wind energy, (aeolian), hydropower (hydroelectric), geothermal energy and biomass energy (wood, biofuels, etc.)
- nuclear energy which uses the energy produced from either splitting the atom (nuclear fission or) or from fusing atoms (nuclear fusion).

The resources and the natural raw materials used by the FILA Group in the production process include non-renewable and renewable energy sources.

The major differences between fossil and renewable energy sources is mainly based on the length of the time it takes to create them. In the case of fossil energy, the timescales for their natural formation are very long (geological times) and for this reason they are considered "**non-renewable resources**". In contrast, renewable energy sources reproduce over short cycles and over very short periods of time (for example the rising of the sun, the tides, the wind, biomasses, etc). The formation periods for renewable energy sources are lower and for this reason they are called "**renewable resources**".

Energy sources can be also classified as primary and secondary energy sources. **Primary energy sources** are sources where the energy content is used directly in that it is already available naturally, such as fossil fuels (oil, carbon, and natural gas), water, the sun and the wind. **Secondary sources** are the result of a production process, such as the fuels produced by the refining of crude oil or the electricity produced by power stations using primary energy sources.

The energy sources used by the FILA Group in its production processes are:

- electricity
- thermal energy
- system-cooling energy
- steam
- fuel
- diesel
- natural gas
- biomass (sawdust).

The Group recognised that the **main risks** associated with its operations were the consumption of energy sources, the uncontrolled use of natural raw materials (e.g. combustibles) and an excessive consumption of energy from non-renewable sources. To mitigate such risks, action was taken to determine and monitor the levels of this consumption, also by comparing them to comparable scenarios across the various companies within the Group.

The FILA Group uses different sources of energy to operate its production sites, from the cooling of production systems, to the heating of its workplace environments. In Europe, in North America and in the rest of the world, the main energy purchased is electricity. The main energy source in China is steam energy.

The following table shows per energy source, the volumes of energy purchased by the FILA Group.

ENERGY CONSUMPTION PER SOURCE	Unit	2018	2018 excluding Pacon	2017
Electricity	<i>MWh</i>	79,507	72,800	67,438
Thermal energy	<i>Mega Joules</i>	428,866	216,000	288,000
Steam	<i>Mega Joules</i>	37,745,208	37,745,208	39,590,252

Regarding the consumption of fossil fuels by the Group, again in 2018, natural gas was the main source of non-renewable energy used, followed by diesel oil (representing approx. 2.5% of non-renewable energy employed). Natural gas is mainly used for heating and in some production processes.

ENERGY CONSUMPTION BY SOURCE	2018	2018 excluding Pacon	2017
<i>Unit</i>	<i>Mega Joules</i>	<i>Mega Joules</i>	<i>Mega Joules</i>
Fuel oil	3,045,393	3,045,393	2,191,689
Diesel	5,515,357	5,515,357	5,419,924
Carbon	0	0	0
Natural gas	221,383,225	184,883,947	183,471,736
Total	229,943,974	193,444,697	191,083,349

In addition to the above, 119,118,480 MJ of biomass energy was produced by the Mexican branch, as in 2017.

Overall, based on the information presented in the previous tables, the FILA Group acquired 79,507 MWh of electricity (67,483 MWh in 2017) and utilised 387,236,528 MJ of energy from other sources (326,256,385 MJ in 2017), for a total of 637,462,748 MJ of energy consumed (569,033,185 MJ in 2017).

Several Group companies have launched energy consumption reductions projects aimed at improving their energy efficiency, for example, by reducing lighting electricity consumption, combustion inefficiencies and compressed air losses. Such initiatives are summarized in the following table.

ENERGY CONSUMPTION REDUCTION	Companies involved	2018
<i>Unit</i>		<i>Mega Joules</i>
Savings on lighting	Canson France	518,400
Heat produced by sawdust combustion	Doms India	6,744
Reduction of compressed air losses and use of LED lighting	Pacon Corp.	500,000
Improvement in combustion sources in the lead department	Dixon Mexico	6,747,808

As already stated, in order to reuse production rejects to generate energy, Dixon Mexico at its plant in Oaxaca operates a steam generation system which uses the sawdust generated from the production process as its fuel. The average annual self-generated power from this source in 2018 was approximately 119,118,480 MJ.

3.4 ATMOSPHERIC EMISSIONS

The phenomenon of climate change is not only a global topic but is a constantly evolving phenomenon that encompasses all aspects of the environment, societies and the economic system, with potentially significant impacts on social dynamics and on future generations and consequently on the Group's overall operations.

The "greenhouse effect" is the manner in which the Earth's atmosphere captures and distributes solar energy in all directions, thus heating both the surface of the Earth as well as the lower part of the earth's atmosphere. Without it, life on Earth would be much more difficult. Scientists believe that industrial and agricultural activities increase this natural greenhouse effect: this phenomenon is known as global warming or climate change. The types of greenhouse gases are:

- carbon dioxide (CO₂) from the use of fossil fuels, deforestation, and the decomposition of biomasses, etc.
- methane
- nitrous oxide
- fluorinated gases.

Although there are no significant gas emissions arising from the production processes and there are no internal systems in order to self-generate electricity, in such a global and current context, the Group believes it is important to monitor greenhouse gas emissions and any other emissions to determine positive choices to curb its own carbon footprint. In its activities, the Group has identified as the **main risk** the use of a fuel mix having a high impact on greenhouse gases and management inefficiencies in the periodic monitoring of purchases and consumption.

The standard expression for greenhouse gas emissions is the CO₂ equivalent, to determine the contribution of the main gases directly responsible for the greenhouse effect as defined by the Kyoto Protocol; gases such as methane (CH₄), nitrous oxide (N₂O) and carbon dioxide (CO₂). These gases are categorised as a CO₂ equivalent under the specific GWP value (global warming potential value).

The FILA Group in 2017 started to collect data and calculate greenhouse gas emissions to analyse possible operational areas where future performances could be improved. Specifically, the Parent FILA collected and calculated CO₂ emission data based on the GRI 305-1 indicator for direct emissions (Scope 1), as well as the 305-2 indirect emission indicator (Scope 2) based on the emission factors obtained from the International Energy Agency - energy and CO₂ emissions in the OECD (2017) and from the Intergovernmental Panel on Climate Change (guidelines for National Greenhouse Gas Inventories).

Following are values for 2018, compared with those of 2017.

GREENHOUSE EFFECT GAS EMISSIONS	2018	2018 excluding Pacon	2017
<i>Unit</i>	<i>Tons of CO₂</i>	<i>Tons of CO₂</i>	<i>Tons of CO₂</i>
Direct emissions (Scope 1)	26,395	23,826	24,198
<i>Of which Biomass</i>	<i>13,341</i>	<i>13,341</i>	<i>13,341</i>
Indirect emissions (Scope 2)	42,518	40,471	37,387
Total CO₂ emissions	68,913	64,297	61,585

Direct greenhouse gas emissions (GHG) derived from internal combustion processes from fuels used in production operations are mainly from natural gas. **Indirect emissions** were calculated based on consumptions of electrical energy, steam and heating energy purchased from third-party providers.

In addition to the above, 119,118,480 MJ of biomass energy was produced by the Mexican branch, as in 2017.

Overall, based on the information presented in the previous tables, the FILA Group acquired 79,507 MWh of electricity (67,483 MWh in 2017) and utilised 387,236,528 MJ of energy from other sources (350,080,081 MJ in 2017), for a total of 637,462,748 MJ of energy consumed (593,018,881 MJ in 2017).

The investment in the poplar plantation in Xinjiang in north-west China may, in future, deliver a range of benefits including the reduction in CO₂ through its absorption during the lifecycle of the trees themselves.

The FILA Group does not purchase or use significant quantities of substances which deplete the ozone layer (better known as ozone-depleting substances (ODS)).

The table below shows the FILA Group's other polluting emissions in 2018 and in 2017, expressed in kilos. The Group's production processes do not generate any hazardous air pollutants (HAPs) nor any other category of air

pollutants identified by local applicable regulations. Significant pollutant emissions in 2018 concerned, as in 2017, Volatile organic compounds (VOCs), Particulate Matters (PMs) and Persistent Organic Pollutants - (POPs).

OTHER SIGNIFICANT EMISSIONS	2018	2018 excluding Pacon	2017
<i>Unit</i>	<i>kg</i>	<i>kg</i>	<i>kg</i>
Persistent organic pollutants (POP)	71	71	340
Volatile Organic Compounds (VOC)	44,813	32,955	35,951
Hazardous air pollutants (HAP)	0	0	0
Particulate matters (PM)	15,218	15,218	12,370
Total other significant emissions	60,102	48,244	48,661

2018's decrease in Persistent Organic Pollutants (POPs) was due to a reduction in the use of solvent-based lacquer in the Chinese Dixon Kunshan plants.

Volatile Organic Compounds (VOCs) are due to the use of solvent-based varnishes for the production of pencils, particularly in India, South America and North America. The increase in Volatile Organic Compound emissions in 2018 is mainly attributable to Pacon's entry into the Group. In terms of geographic regions, significant quantities of air pollutants occur in regions where the production facilities are located.

3.5 WATER CONSUMPTION

The term "hydro resources" commonly relates to all available forms of water, an indispensable element for human life and for the life of ecosystems.

In the FILA Group's production process, water is mainly used in:

- the production of paper at the St Cuthbert's paper mills in Great Britain and at Canson in France
- the production of paints, glues, etc., mainly at the Omyacolor factory in France, Grupo F.I.L.A-Dixon Group in Mexico, the Daler-Rowney facility in England, Maimeri in Italy and FILA Yixing in China, Doms in India at Canson Brazil
- the production of play dough mainly at the Rufina factory in Italy, at Canson in Brazil and at the Dixon Group in Mexico.

The Group identified the excessive use of water in the production process as one of the **main risks** of water consumption in our operations. To mitigate this risk, actions were taken to improve our estimates of water consumption, monitoring its consumption over time as well as bench marking comparable scenarios across the different companies within the Group.

In 2018, the Group's water supply was mainly from groundwater, which accounted for 40% of the total water withdrawn (41% in 2017), in addition to underground water (52% in 2018 and in 2017), while municipal water supplies (8% in 2018, 7% in 2017) and waste waters and other operator-sourced water supplies and recycled waters were limited. Specifically, withdrawals of groundwater occur in China where there is a significant use of water resources from aquifers.

Water consumption and discharge by the Pacon Group was not significant. For more details on investments made in various Group companies, refer to paragraph 3.6.2 "*Environmental protection investments*" below.

Water recycled within production plants amounted to 501,604 cubic meters, in line with 2017's 507,170 cubic meters.

HYDRO RESOURCES	2018	2018 excluding Pacon	2017
<i>Unit</i>	<i>Cubic meters</i>	<i>Cubic meters</i>	<i>Cubic meters</i>
Surface waters	767,306	767,306	715,856
Groundwater (from aquifers)	996,048	996,048	909,418
Rainwater - collected directly and stored	1,132	1,132	n.a.
Municipal water supplies or water supplies from other public/private suppliers	153,863	147,214	128,869
Waste waters from other organisations or companies	0	0	2,500
Total withdrawn	1,918,349	1,911,700	1,756,643

Surface water is mainly river water withdrawn at the Canson facility, France and used in the Moulin du Roy paper mill for the production process. At the end of the production process, the paper mill carries out an internal purification treatment of the industrial effluents which are then transferred into the same water flow with legally-compliant values.

Indeed, considering the importance of managing waste waters in the production processes, numerous initiatives have been taken over time at a local level.

The effluents produced by the FILA Group are constantly monitored on a regular basis, both internally and externally, to ensure compliance with the prescribed limits. In the majority of cases, industrial effluents are discharged indirectly into local sewage systems and to external treatment plants. Nevertheless, there is no data on rainwater collected, as at present, there is no system to effectively collect data reliably.

In China, in the Kunshan facility, steam is used during processing and discharged into systems located on the factory roofs. There, it is condensed and transformed into water to be used in civilian installations. Currently, there are no methods to measure the quantity of steam and water recovered with this process.

In terms of the quantity and quality of the wastewaters, the table below outlines the FILA Group's final data for 2018, compared with the previous year (in cubic metres). In most cases, the Group's effluents are discharged indirectly to local sewage systems and to external treatment plants. The remainder is discharged into the acquirer through internal treatment systems.

WATER DISCHARGE	2018	2018 excluding Pacon	2017
<i>Unit</i>	<i>Cubic meters</i>	<i>Cubic meters</i>	<i>Cubic meters</i>
Sub surface waters (excluding groundwater)	0	0	0
Surface waters	762,293	762,293	773,534
Waste water discharged into treatment plants	40,640	35,653	41,655
Groundwater acquirer waters	18,425	18,425	18,745
Total waste waters	821,358	816,371	833,934

In 2018, a night-time incident at Daler Rowney, involving a resin tank pump, caused the loss of approximately 400 kg of water, consequently captured by the plant's collection systems. The tank was subsequently repaired, and procedures and control systems updated to prevent further similar incidents.

3.6 OTHER ENVIRONMENTAL TOPICS

Other environmental topics for the Group are:

- waste management
- environmental protection investments
- compliance with environmental rules

3.6.1 WASTE MANAGEMENT

A waste product is any solid or liquid material rejected during a process from a domestic, agricultural or industrial source. Waste is classified in accordance with local regulations as hazardous or non-hazardous.

Solid waste products produced by the Group are almost entirely non-hazardous wastes, as shown in the table below

WASTE PRODUCED	2018		2018 excluding Pacon		2017	
	hazardous	non-hazardous	hazardous	non-hazardous	hazardous	non-hazardous
<i>Unit</i>	<i>kg</i>	<i>kg</i>	<i>kg</i>	<i>kg</i>	<i>kg</i>	<i>kg</i>
Solid wastes	32,847	12,606,570	32,847	8,698,240	46,656	6,331,517
Liquid wastes	62,474	1,052,277	62,038	980,820	50,696	994,705
Total waste	95,321	13,658,847	94,885	9,679,060	97,352	7,326,222

In terms of categories of solid wastes (hazardous/special and non-hazardous wastes) and in terms of geographic regions, these are homogeneous across the various entities worldwide, with the prevalence of non-hazardous wastes.

The increase in non-hazardous solid waste recorded at the end of the period, attributable in part to Pacon's entry into the Group, was otherwise mainly due to greater production volumes in India and the Dominican Republic.

The reduction in non-hazardous solid waste recorded in the period is attributable to reduced production in Dixon Kunshan, China, and in Industria Maimeri.

Liquid wastes, almost entirely non-hazardous, in 2018 accounted for approx. 8% of total waste produced by the Group (11% without the Pacon Group; 14% in 2017). The increase in hazardous liquid waste recorded in 2018 is attributable to production issues at the Daler Rowney plant requiring greater use of plant cleaning products.

3.6.2 INVESTMENTS IN ENVIRONMENTAL PROTECTION

The protection of the environment as well as compliance with environmental standards require a dedicated management approach and ad hoc investments, sometimes of a significant nature.

At the Canson facility in France, in 2017, in Grand Mournier a large rainwater decantation basin was built to separate any potential pollutants (such as hydrocarbons) before their controlled emission into the environment. Again the Canson facility, in Moulin du Roy, in France, uses an active water purification system (effluent plant) to treat water before discharging it into the water course.

In Omyacolor a new industrial wastewater purification system was built for the industrial waste waters resulting from the production processes.

At the St Cuthbert's paper mill a new water treatment plant (effluent plant) was built to treat the water before it is partially re-utilised for production and discharged back into the river course.

The Dixon Mexico water purification plant in Oaxaca separates the water from the wax used in the production process.

The environmental protection investments in the USA include ongoing reclamation of proprietary lands related to pre-production operations carried out on the site before its acquisition by FILA S.p.A..



3.6.3 COMPLIANCE WITH ENVIRONMENTAL STANDARDS

For the FILA Group, compliance with applicable standards, including environmental standards, is paramount.

The FILA Group believes that the internal control system to ensure environmental compliance must be capable of mitigating any risks of non-compliance as well as the lack of and/or incomplete knowledge of the applicable environmental standards and rules across every site where the Group operates.

Rationalisation of production operations ensures compliance with environmental standards as well seeking to reduce the environmental impact of the Group's operations.

In 2018, a fine of USD 9,500 was imposed on Dixon Ticonderoga (United States) for the incorrect storage of hazardous materials.



MATERIAL EMPLOYMENT TOPICS

4. MATERIAL IMPORTANT TOPICS

4.1 RESPECT FOR THE INDIVIDUAL AND RELEVANT TOPICS FOR FILA

Employees are an important element for the Group's competitiveness and development, and given the Group's acquisition-based growth strategy over the years, the Company's workforce has constantly and rapidly increased.

The FILA Group presence spans 5 continents, with 51 branches (of which 35 operative) and with over 9,500 personnel at the end of 2018. The **main risks** identified in terms of employee management are low productivity and low-quality work (e.g. due to high levels of turnover and absenteeism), as well as little training or professional upskilling. In order to manage these risks, practices and procedures were implemented locally within the scope of the Group to better manage the potential negative impacts and to propose solutions for improvements where required.

The **Corporate Social Responsibility Policy** (issued at Group level in 2017 and extended to the companies joining thereafter) stipulates the importance of the Group's commitment to valuing its own employees, respecting human rights, offering proper working conditions and compliance with the applicable standards as fundamental elements towards continuing to operate successfully.

The Group's *Human Resources* Management team provides all the companies with the tools and guidelines in terms of recruitment, reviews and employee development, such as training initiatives, and remuneration management support in compliance with specific situation and locally applicable regulations.

The Group issued a **Human Rights Policy** document (detailed in section 6 below) which describes, also for its own employees, the general behavioural principles in terms of respecting human rights, valuing diversity, ensuring non-discrimination, providing suitable working conditions, combating forced labour and trafficking human being, compliance with working times, remuneration and child labour regulations, the provision of safe and secure workplaces, the freedom of association and entitlement to collective bargaining agreements, the respect of integrity, privacy and relations with the local community.

From the materiality analysis at paragraph 1.3 above and from the process of collecting non-financial type data and information, the topics of relevance for employees of the FILA group are the following:

- Equal opportunities
- Occupational health and safety

Before tackling in detail the employee-related topics, we outline below some data regarding the composition of the FILA workforce in terms of turnover, remuneration and training programmes.

Composition of the workforce

The FILA Group at the end of 2018 had 9,560 employees (8,992 without the Pacon Group and 8,439 at December 31, 2017), of which approx. 99% on full-time contracts. The workforce is 47% female (in line with 2017) and who represent over 70% of part-time contracts (80% in 2017).

A more in-depth breakdown of the composition of the workforce Group-wide segment is presented below.

EMPLOYEE BREAKDOWN	2018			2018 excluding Pacon			2017		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<i>Number of employees</i>									
Full-time employees	5,044	4,402	9,446	4,709	4,208	8,917	4,427	3,935	8,362

EMPLOYEE BREAKDOWN	2018			2018 excluding Pacon			2017		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<i>Number of employees</i>									
Part-time employees	34	80	114	14	61	75	15	62	77
Total	5,078	4,482	9,560	4,723	4,269	8,992	4,442	3,997	8,439
<i>% of total</i>	<i>53.1%</i>	<i>46.9%</i>	<i>100%</i>	<i>52.5%</i>	<i>47.5%</i>	<i>100%</i>	<i>52.6%</i>	<i>47.4%</i>	<i>100%</i>

In order to further improve non-financial disclosure for 2019, the Group has planned to collect information on the ratio of permanent to fixed-term contracts, where permitted by local legislation.

The workforce increase from 2017 is attributable to the addition of 568 workers from Pacon's entry into the Group, and 759 workers in India (DOMS), up 17% from the end of 2017. For the sake of comparison, excluding Pacon's contribution, the overall workforce increase comes down to 7%, accounting for a partial offset of India's increase by a 28% decrease at Dixon Kunshan in China and a 7% decrease in the Dominican Republic.

Globally, the majority of FILA Group personnel are located in Asia (with over 61.6% of Group personnel at the end of 2018, in line with the previous year), followed by Central and South America (19.5%), Europe (11.3%), North America (7.3%) and the Rest of the World (0.3%). The majority of the workforce in fact are based in the countries in which the main production facilities are located (India, China and Mexico), as outlined at paragraph 2.2.3 "*FILA Group production sites*" above.

Outside of Europe, the Company's workforce grew hand in hand with the Group's acquisition process, initiated in 2005 (see paragraph 2.2.1 "*From foundation to the present day*" above). The geographic segment with the greatest percentage of women in the workforce is Central/South America (with 56.8%).

EMPLOYEE BREAKDOWN BY GEOGRAPHIC SEGMENT, GENDER AND CONTRACT TYPE	2018								
	Full-time			Part time			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<i>Number of employees</i>									
Europe	645	355	1,000	13	63	76	658	418	1,076
North America	418	260	678	20	7	27	438	267	705
Central/South America	803	1,053	1,856	0	4	4	803	1,057	1,860
Asia	3,160	2,723	5,883	0	2	2	3,160	2,725	5,885
Rest of the World	18	11	29	1	4	5	19	15	34
Total	5,044	4,402	9,446	34	80	114	5,078	4,482	9,560

EMPLOYEE BREAKDOWN BY GEOGRAPHIC SEGMENT, GENDER AND CONTRACT TYPE	2017								
	Full-time			Part time			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<i>Number of employees</i>									
Europe	654	379	1,033	11	55	66	665	434	1,099
North America	113	92	205	1	0	1	114	92	206
Central/South America	814	1,020	1,834	0	2	2	814	1,022	1,836
Asia	2,829	2,432	5,261	0	2	2	2,829	2,434	5,263
Rest of the World	17	12	29	3	3	6	20	15	35
Total	4,427	3,935	8,362	15	62	77	4,442	3,997	8,439

Pacon Group's entry increased the workforce by 568, most of which full-time contracts, held by 62% men and 38% women.

In terms of the composition of the workforce per contractual category, Group-wide, at the end of 2018 a little over three quarters of employees were blue-collar (77.1%), 20.4% white-collar, with 2.5% in management, in line with the previous year. In Asia, nearly 84% were blue-collar (over 80% at the end of 2017), in Central/South America over three quarters (76%), whereas in Europe accounting for half (51%), in North America 66%, followed by the rest of the world, with less than one third of the workforce (30%). This data coincides with the location of the Group's operations in places with a significant level of manufacturing i.e. Asia and Central/South America.

In absolute values, the number of managers is higher in Europe and North America.

EMPLOYEE BREAKDOWN BY CATEGORY AND GEOGRAPHIC SEGMENT								
Number of employees	2018				2017			
	White-collar	Blue-collar	Manager	Total	White-collar	Blue-collar	Manager	Total
Europe	419	550	107	1,076	442	558	99	1,099
North America	153	465	87	705	74	95	37	206
Central/South America	433	1,413	14	1,860	411	1,410	15	1,836
Asia	926	4,932	28	5,886	873	4,366	24	5,263
Rest of the World	17	10	6	33	19	10	6	35
Total	1,948	7,370	242	9,560	1,819	6,439	181	8,439

In terms of the composition of the workforce per age group, it emerges that at December 31, 2018 almost half the employees at Group level were under 30 (49%), with more than a fifth aged between 31 and 40 (22.7%). 72.5% of the total workforce was composed of employees under 40, in line with the previous year.

In terms of geographic segment, at the end of 2018, Europe reported a majority of employees over 40 years of age (69.9%; 73% at the end of 2017), with nearly 40% of the North American population over 50 (37.6%; 36% in 2017), while nearly 60% of the population in Central/South America was under 40 (57.6%; 57% in 2017), a percentage which in Asia rises to 89% (88% in 2017), while at 60.6% in the Rest of the world (54% in 2017).

EMPLOYEE BY AGE AND GEOGRAPHIC SEGMENT										
Number of employees	2018					2017				
	< 30	31-40	41-50	>50	Total	< 30	31-40	41-50	>50	Total
Europe	121	202	369	384	1,076	115	189	380	415	1,099
North America	121	162	157	265	705	32	51	51	72	206
Central/South America	631	440	467	322	1,860	678	378	439	347	1,842
Asia	3,879	1,354	540	113	5,886	3,218	1,425	527	93	5,263
Rest of the World	8	12	10	3	33	8	11	8	8	35
Total	4,760	2,170	1,543	1,087	9,560	4,045	2,054	1,405	935	8,439

Staff turnover

In the turnover period (i.e. the net effect of new hires and departures) at Group level a 7% impact on staff numbers at the beginning of the year at like-for-like scope was reported, rising to 13% considering also the Pacon Group. In 2018, the Group employed almost 5,800 people worldwide (over 5,600 excluding Pacon Group, and almost 4,600 of which recruited in 2017), in comparison with 5,200 outgoing staff, including retirements (just over 5,000 excluding Pacon Group, of which almost 3,900 in 2017).

Contributions to the net change in the workforce came from Pacon's entry into the Group of 568 people, India's gain of 750, and China Kunshan's loss of 160.

The employee category with the biggest turnover in terms of numbers is the blue-collar category (8.5%), followed by white-collar (2.6%) and finally management (-6.6%). Despite the FILA Group's best efforts, the high turnover of blue-collar workers in Asia and in Mexico can be explained by the inherent nature of the world of work in these countries. Here work is considered by employees as something temporary, resulting in low levels of staff loyalty. The Indian facility, which is located in a rural area, shows employees leaving during the harvest period or employees re-locating to industrial areas. It can also be highlighted that a good portion of the blue-collar workers working in the Chinese industrial agglomerations come from rural areas and return there during Chinese New Year celebrations and very often do not necessarily return to the Company. Employee-retention initiatives implemented by the FILA Group specifically focused on potentially critical roles, whereas the Group does not believe it necessary to take action in relation to roles which have no impact on product quality and safety (for example manual production operations).

Testament to this is the increased stability in the European continent where due to the characteristics of the labour market, company loyalty is more widespread.

At the same time, it is noted that the turnover in North America is due to the inherent nature of the labour market, particularly in relation to the preferences of the so-called millennials, a trend confirmed by various sociological studies.

The table below provides a Group-wide breakdown of turnover, per gender, contract category and geographic segment.

In 2018, the Group turnover rate was 7% (for males 6.9%, 10% in 2017) and for females 7.1% (7% in the previous year).

From a point of view of age-group, in 2018 the greatest number of employee hires were employees under the age of 30 (almost 70.8 % of annual hires; nearly 70% in 2017), and within the 31 to 40 age category (slightly below 20%, in line with the previous year), an employee category representing almost three quarters of the company's workforce, as shown above.

Blue-collar worker turnover, considering the year's 5,152 incoming and 4,603 outgoing workers, accounted for 8.5%, in comparison with 9% in 2017.

TURNOVER BY GENDER	2018 including Pacon			2018 excluding Pacon			2017		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<i>Number of employees</i>									
Total number of employees at the beginning of the year	4,442	3,997	8,439	4,442	3,997	8,439	4,012	3,711	7,723
Hires in the year	3,425	2,336	5,761	3,332	2,275	5,607	2,910	1,675	4,585
Departures in the year	3,120	2,054	5,174	3,051	2,003	5,054	2,479	1,390	3,869
Change in consolidation scope (Pacon)	331	203	534						
Total employees at year-end	5,078	4,482	9,560	4,723	4,269	8,992	4,443	3,996	8,439

TURNOVER BY GEOGRAPHIC SEGMENT AND GENDER	2018								
	Male			Female			Total		
	New Hires	Departures	Total	New Hires	Departures	Total	New Hires	Departures	Total
<i>Number of employees</i>									
Europe	83	(115)	(32)	48	(87)	(39)	131	(202)	(71)
North America	27	(38)	(11)	20	(29)	(9)	47	(67)	(20)
Central/South America	414	(431)	(17)	600	(559)	41	1,014	(990)	24
Asia	2,798	(2,466)	332	1,606	(1,316)	290	4,404	(3,782)	622
Rest of the World	6	(5)	1	5	(8)	(3)	11	(12)	(2)
Total	3,328	(3,055)	273	2,279	(1,999)	280	5,607	(5,054)	553

TURNOVER BY GEOGRAPHIC SEGMENT AND GENDER	2017								
	Male			Female			Total		
	New Hires	Departures	Total	New Hires	Departures	Total	New Hires	Departures	Total
<i>Number of employees</i>									
Europe	88	(100)	(12)	41	(44)	(3)	129	(144)	(15)
North America	40	(24)	16	46	(27)	19	86	(51)	35
Central/South America	459	(408)	51	448	(431)	17	907	(839)	68
Asia	2,320	(1,948)	372	1,138	(883)	255	3,458	(2,831)	627
Rest of the World	8	(4)	4	2	(6)	(4)	10	(10)	0
Total	2,915	(2,484)	431	1,675	(1,391)	284	4,590	(3,875)	715

TURNOVER BY AGE	2018					2018 excluding Pacon					2017				
	< 30	31-40	41-50	>50	Total	< 30	31-40	41-50	>50	Total	< 30	31-40	41-50	>50	Total
<i>Number of employees</i>															
Total number of employees at the beginning of the year	4,045	2,054	1,405	935	8,439	4,045	2,054	1,405	935	8,439	3,431	1,947	1,387	959	7,724
Hires in the year	4,079	1,100	443	139	5,761	4,003	1,071	413	120	5,607	3,153	949	366	122	4,590
Departures in the year	(3,372)	(1,146)	(439)	(217)	(5,174)	(3,321)	(1,119)	(421)	(193)	(5,054)	(2,539)	(842)	(348)	(146)	(3,875)
Age group	(70)	25	21	24	0	(70)	25	21	24	0					
New hires	77	138	113	206	534						-	-	-	-	
Total	4,760	2,170	1,543	1,087	9,560	4,652	2,030	1,418	886	8,992	4,045	2,054	1,405	935	8,439

TURNOVER BY CATEGORY	2018				2018 excluding Pacon				2017			
	White-collar	Blue-collar	Manager	Total	White-collar	Blue-collar	Manager	Total	White-collar	Blue-collar	Manager	Total
<i>Number of employees</i>												
Total number of employees at the beginning of the year	1,819	6,439	181	8,439	1,819	6,439	181	8,439	1,698	5,858	168	7,724
Hires in the year	586	5,152	23	5,761	568	5,025	14	5,607	554	4,000	36	4,590
Departures in the year	(536)	(4,603)	(35)	(5,174)	(524)	(4,504)	(26)	(5,054)	(433)	(3,419)	(23)	(3,875)
Career advancement	(7)	0	7	0	(7)	0	7	0	0	0	0	0
Change in consolidation scope	86	382	66	534								
Total	1,948	7,370	242	9,560	1,856	6,956	176	8,992	1,819	6,439	181	8,439

The following table, in addition to incomings and outgoings, also accounts for any changes in demographic categories within the period.

TURNOVER BY AGE AND GEOGRAPHIC SEGMENT	2018					2017				
	< 30	31-40	41-50	>50	Total	< 30	31-40	41-50	>50	Total
<i>Number of employees</i>										
Europe	(4)	(5)	(22)	39	(70)	18	(11)	0	(22)	(15)
North America	22	(9)	4	(5)	12	11	7	10	7	35
Central/South America	(41)	62	28	(25)	24	63	(2)	0	7	68
Asia	661	(72)	13	20	622	521	113	5	(12)	627
Rest of the world	0	2	2	(5)	(1)	1	0	3	(4)	0
Total	638	(22)	25	(54)	587	614	107	18	(24)	715

Remuneration

Remuneration in each contractual category is established in compliance with the local legislative standards in force, where existing, and according to national collective contracts and private contracts according to the features of the labour market in individual countries.

The remuneration policy seeks to recognise equally, and in a tangible manner, the employees' commitment and contribution to the Company's success. Salary scales are based on employee roles and responsibilities and must reflect their experience and the requisite skills for the role, as well as a demonstrable level of excellence and overall contribution to the business, and shall not discriminate.

The variable elements in some of the Group company payscales relate to performance-based bonuses across the board for white-collar, blue-collar and management, and are governed by "second level contracts" and individual bonuses linked to performance reviews for positions of responsibility. For countries where there is no "second level contract" for employees with positions of responsibility, there are however individual bonuses linked to achieving qualitative and quantitative objectives in line with the parent company's remuneration policy. In fact, in 2016, the Parent FILA established and issued a **Remuneration policy key management personnel**, senior executives and managers.

There were no cases of remuneration below the minimum local wage for the reference category of new employee hires.

Training

In 2018, as in the previous years, FILA Group employees engaged in training and upskilling programmes, particularly in the area of operations and health and safety, with over 84.6% (70% in 2017) of the training delivered Group-wide, in order to maintain high quality standards in compliance with the Group's training policy. Of particular relevance, considering the international nature of the Group, was foreign language training.

TRAINING BY GENDER AND TOPIC	2018			2018 excluding Pacon			2017		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<i>hours</i>									
Operator training	15,828	17,003	32,831	14,463	15,545	30,008	14,228	13,890	28,118
Health & Safety	9,065	6,315	15,380	7,073	5,223	12,296	6,854	4,086	10,940
Foreign languages	1,560	2,469	4,029	1,560	2,469	4,029	2,757	3,352	6,109
Other training courses	543	1,009	1,552	543	1,009	1,552	2,705	1,848	4,553
IT	1,188	953	2,141	868	743	1,611	1,622	948	2,570
Risk Management	485	416	901	437	384	821	177	266	443
Anticorruption & Antibribery	72	87	159	63	67	130	34	4	38
Total	28,741	28,252	56,993	25,007	25,440	50,447	28,377	24,394	52,771

TRAINING BY GENDER AND GEOGRAPHIC SEGMENT	2018			2017		
	Male	Female	Total	Male	Female	Total
<i>hours</i>						
Europe	10,555	5,821	16,376	11,168	5,745	16,913
North America	4,133	3,158	7,291	159	88	247
Central/South America	8,036	13,876	21,912	6,210	13,893	20,103
Asia	5,994	5,377	11,371	10,819	4,648	15,467
Rest of the World	23	20	43	20	20	40
Total	28,741	28,252	56,993	28,376	24,394	52,770

Training focused on operational issues (70% of total hours) in Central and South America, and on health and safety (approx. 54%) and operational issues (35%) in Asia.

Average training hours by employee in 2018 was highest in Euro (15, in line with 2017), with a significant increase in average pro capita training provided in North America on the previous year.

TRAINING BY PROFESSIONAL CATEGORY BY TOPIC	2018				2018 excluding Pacon				2017			
	White-collar	Blue-collar	Manager	Total	White-collar	Blue-collar	Manager	Total	White-collar	Blue-collar	Manager	Total
<i>hours</i>												
Operator training	8,092	23,080	1,659	32,831	6,822	22,767	419	30,008	6,491	21,240	387	28,118
Health & Safety	2,694	12,098	589	15,380	2,550	9,346	401	12,296	1,701	8,752	487	10,940
Foreign languages	3,500	224	305	4,029	3,500	224	305	4,029	5,305	353	451	6,109
Other topics	1,552	0	0	1,552	1,552	0	0	1,552	1,631	2,501	421	4,553
IT	1,431	458	252	2,141	1,353	109	149	1,611	2,319	117	134	2,570
Risk Management	597	222	82	901	595	152	74	821	171	212	60	443
Anticorruption & Antibribery	104	25	30	159	82	25	23	130	20	0	18	38
Total	17,969	36,107	2,917	56,993	16,453	32,623	1,371	50,447	17,638	33,175	1,958	52,771

In relation to the training by professional category, in 2018, 63% of the total training Group-wide was delivered to blue-collars (60% in 2017), with 32% to white-collars and the rest to management. 70% of the total training hours allocated were to white-collars on operation-related topics and 33.5% related to health and safety. Most of the IT training (over 67%) was provided to white-collar staff.

During the year, management mainly received operations (57%) and health and safety training (20%). White-collar employees mainly received training on operating matters (45%) and foreign languages (19%), while blue-collar workers mainly received training on operational topics (64%), as well as training on health and safety in the workplace (34%).



Industrial relations and job protection

At the FILA Group, industrial relationships are based on an effective collaborative relationship respectful of the reciprocal roles of the parties.

FILA S.p.A., applies the national collective employment contract (CCNL) for employees of Companies manufacturing pens, pencils, detachable parts of pens and pencils and associated articles and for employees of companies manufacturing brushes, paintbrushes, sweeping brushes and raw material preparations, as well for employees of the other Italian Chemical Industry subsidiary, thus by extension to all Italian companies. Thus, 100% of these employees are covered by the CCNL. In terms of the pre-notification limits for organisational change, the contracts of the Italian Companies' employees are in line with the collective contracts outlined above. In order to continue improvements to reporting, from 2019, data on the number of employees covered by collective bargaining agreements will also be extended to foreign companies, where applicable.

During 2018, no significant changes in foreign company trade union activities were observed, except at the Kunshan production site in China, which made provisions for the introduction of factory worker union representatives.

4.2 EQUAL OPPORTUNITIES

FILA Group personnel at December 31, 2018 were 47% female (47.5% without the Pacon Group; 47% in 2017) and 53% male (52.5% without the Pacon Group; 53% in 2017). In terms of geographic segment, Central/South America is the region with the greatest number of women in the workforce (with 56.8%, over 55% in 2017), while in the other areas the percentage was 46.3% in Asia, 38.9% in Europe and 37.9% in North America.

As stated in the **Group's Policy on Corporate Social Responsibility**, valuing employees is a fundamental requirement for our continued operational success. In this context, gender diversity and diversity of opinion are considered elements that need to be taken into account as these are sources of cultural and professional enrichment.

The **main risk** identified by the Group in relation to equal opportunities is eliminating discriminatory practices that conflict with the provisions of this policy.

In 2017, the Group issued a **Diversity Policy** in which it announced the general principles of equal opportunity, non-discrimination and meritocracy.

At Group-level, employees are managed mainly through full-time employment contracts (part-time contracts represent slightly more than 1% of the total employment contracts, in line with 2017), in addition to a variety of other contract options, such as flexible-time contracts, seasonal work contracts, (for work over concentrated periods of less than 12 months per annum), short working weeks (in the case of a weekly work timetable compacted into a lower number of working days) and an individual working time accounts.

All contract options, (flexible time, seasonal work, short working weeks and working accounts contracts), in addition to part-time options (in 2018, 76 out of 1,076 employees; in 2017, 66 out of 1,099), are available in Europe. In North America, seasonal work and short working week and part-time contract options are available (in 2018, 27 out of 705 employees; in 2017, 1 out of 206), while in Central/South America the working time accounts and part-time options are available (in 2018, 4 out of 1,860 employees; in 2017, 2 out of 1,836 employees). In Asia, seasonal work and part-time work contract options are available, although only a limited number of employees choose the part-time contracts (in 2018, 2 out of 5,885; in 2017, 2 out of 5,263 employees). In the rest of the world, there are short working week and part-time contract options available (in 2018, 5 out of 34 employees; in 2017, 6 out of 35 employees).

As outlined in the above section 2.4.1 "*Governance structure*", the composition of the administrative and control bodies of the parent company are compliant with legal requirements in terms of gender diversity, with 3 women on the 9-member Board of Directors, and 1 on the 3-member Board of Statutory Auditors. The educational and professional backgrounds of the Board of Directors covers experience at Board level, operational, financial, fiscal, legal, and Human Resource competencies, as well as academic teaching.

In addition to the implementation of the internal disciplinary system on gender discrimination, the Parent Company introduced improved standards regarding women's occupational safety, for example, by placing more stringent limits than current legislation on the handling of weights.

4.3 OCCUPATIONAL HEALTH AND SAFETY

The protection of the health and safety and the wellbeing of employees in the workplace is an important value by which the FILA Group conducts and develops its operations.

The **main risk** identified in relation to health and safety is non-compliance with applicable legislative standards. To manage this risk, the Group has implemented risk management activities, training for all those concerned and periodic monitoring of reference legislation.

Indeed, by their very nature, health and safety risks in the workplace are transversal to practically all areas/functions of the company, and specifically concern production areas where machines and systems are operated, or external warehouses where logistics are managed.

As seen in paragraph 4.1 *"Respect for the individual and relevant topics for FILA"* above, a significant amount of the total training hours allocated in 2018 related to health and safety in the workplace (27% of the total training hours, compared to 20% in 2017). Occupational health and safety training programmes at Group level in 2018 were mainly delivered to workers and administrative staff (over 96% of the total training hours on this topic).

In 2018, there were 169 incidents recorded at Group level (146 without Pacon; 137 in 2017), none of which were fatal. The increase in accidents is partly attributable to improvements in the monitoring and recording of events, as well as to the increase in the size of the Group. The majority of these cases related to illnesses of less than 40 days. The majority of workplace accidents involved men.

Days lost at Group level in 2018 were 317,568 (317,247 excluding Pacon, compared with 178,913 in 2017), representing 13.3% of days worked (considering 19,106,701 hours worked), or 14% excluding Pacon (considering 17,889,634 hours worked), in comparison with 10.8% in 2017 (considering 16,537,861 hours worked), without any gender differences being recorded.

As emerges from the subdivision of the geographic segments, absent days for other reasons occurred mainly in India (DOMS): the company records, on an app., the days lost by employees not presenting for work due to having changed job without notifying the employer. The full tally of these days is only really complete when it is ascertained that the employee has definitively left the company.

DAYS OF EXCUSED ABSENCE	2018			2018 excluding Pacon			2017		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<i>Days</i>									
Incidents	1,651	525	2,176	1,634	523	2,157	2,002	1,534	3,536
Illness	8,394	8,844	17,237	8,207	8,756	16,962	9,536	8,455	17,991
Other reasons	156,147	142,008	298,155	156,136	141,992	298,128	78,013	79,373	157,386
Total	166,191	151,377	317,568	165,976	151,271	317,247	89,551	89,362	178,913

EXCUSED ABSENCE BY GEOGRAPHICAL REGION	2018				2017			
	Accident	Illness	Other reasons	Total	Accident	Illness	Other reasons	Total
<i>Days</i>								
Europe	449	10,332	2,044	12,825	1,898	11,441	1,694	15,033

EXCUSED ABSENCE BY GEOGRAPHICAL REGION	2018				2017			
	Accident	Illness	Other reasons	Total	Accident	Illness	Other reasons	Total
<i>Days</i>								
North America	50	682	2,496	3,228	44	714	2,355	3,113
Central/South America	1,013	3,873	17,280	22,166	718	3,587	11,841	16,146
Asia	664	2,205	276,326	279,195	876	2,083	141,496	144,455
Rest of the world	0	145	9	154	0	166	0	166
Total	2,176	17,237	298,155	317,568	3,536	17,991	157,386	178,913

In 2017 the Parent FILA S.p.A., Omyacolor and Canson France signed social contract agreements for the benefit of their employees.

The Parent FILA S.p.A. is certified according to the BS OHSAS Standard 18001:2007 “Occupational Health and Safety Assessment Series” in terms of workplace health and safety. During the process of managing and improving its own Occupational Health and Safety Management System, and based on the OHSAS 18001 standards, the Parent Company identified and defined the following processes which it monitors regularly:

- definition of health and safety policies
- risk factors and legislative compliance
- assessment and significance of the implications of the risk factors
- definitions of targets and objectives
- review of the governance and the Occupational Safety Programme

Canson France is also BS Standard OHAS 18001:2007 certified for its Occupational Health and Safety Management System.



MATERIAL – SOCIAL TOPICS



5. MATERIAL SOCIAL TOPICS

5.1 THE SOCIAL ROLE OF FILA AND RELATED TOPICS

The FILA Group has over 9,500 employees - spanning 5 continents - and manufactures and sells products for children, teenagers and adults. Topics of social relevance for a Group such as FILA range from relationships with stakeholders, to the integrity and the rigour of the Company's conduct, from supplying quality and safe products, to the management of quality relationships with its supply chain as well as with the communities wherein we operate.

From the analyses of the content and from the process of collecting non-financial data and information, topics of increasing relevance for the FILA Group are the following:

- product safety
- integrity of the supply chain
- diversity.

The section below presents an analysis of the following aspects:

- product quality and safety
- relationships with the supplier chain
- support for culture and the local communities
- protecting diversity.

5.2 PRODUCT QUALITY AND SAFETY

The supply of quality products is a fundamental value under the Group's Ethics Code:

Product quality

“The company places a particular focus on the satisfaction of its customer base, both existing and potential, and on their demands and expectations, in order to supply within the sector highly competitive products which ensure maximal professionalism, flexibility and high-quality standards. The company pursues excellence in terms of quality, safety, health protection and environmental protection standards and therefore requires all those involved in the creation of the products marketed by the company to commit entirely to the achievement of these additional values. All disclosure or communication to public or private clients – even prospective – concerning FILA products must be true, complete and correct.

It is essential that in the conduct of its business operations there is complete and timely knowledge of the standards applicable to product safety overall, and more specifically to the safety of toys/cosmetic toys, both in terms of their production and their sale.

Given that the majority of the FILA Group's products' end-consumers are school-going children, the risks associated with product non-compliance are closely monitored and managed.

The **main risks** related to the quality and safety of the products launched on the market are failed compliance with all of the product safety standards. To mitigate this risk, the products manufactured by the Group are extensively assessed for safety and compliance before their market launch and periodically monitored, in addition to cases of non-compliance or flagging.

The FILA Group's quality control process, managed by the quality assurance function, as described in greater detail at paragraph 2.3.2 *“Production Structure, Research and Development, Quality Assurance, brands and patents”*, consists of two phases:

- statistical control, consisting of various tests performed at its internal laboratories for the analysis of materials and finished products. Its internal laboratories are also used to test its products in the research and development phase with the aim, inter alia, of assessing industrial product feasibility;
- the “control” process, which consists of various tests conducted on an ongoing and/or random basis throughout the stages of the production process by its production personnel. Visual and instrumental controls are performed directly at its facilities by machine technicians (for example, the fixing of labels on products, correspondence of colours to the prototype, the range and combination of colours in each packet). Such tests are performed in addition to the technical tests required by national and international standards and/or the customer’s specifications.

In addition to internal tests to verify product safety, the FILA Group also uses external, and fundamentally accredited laboratories to obtain third-party safety standard compliance certificates. Each of the Group’s production site liaises with and continues an ongoing relationship with its own historical reference institute, whilst subsidiaries outside the European Union obtain certificates issued by globally accredited institutes.

Furthermore, in 2017, the Group issued a specific **Product Safety Policy**.

The management of product safety takes product category into account, i.e. products classified as toys, products classified as “cosmetic toys” and products classified neither as toys nor as cosmetics, as briefly illustrated in the following paragraphs.

Products classified as toys

Launching any generic product on the market and launching products that come under the standards required for toys, requires, specifically, that they are designed and manufactured to avoid:

- exposure to hazards due to physical/mechanical properties. (e.g. pointed and sharp edges for all toys; small parts and dangerous conditions as above after abuse testing procedures, which are applicable to toys for children under 36 months) or
- chemical risks due to restricted substances that might cause adverse health effects in the consumer, such as heavy metal, phthalates and allergens.

The main factors taken into account to ensure product quality and safety are the production processes, the products’ physical and mechanical characteristics, their packaging and labelling, non-flammability, as well as their chemical and hygiene specifications.

Toy safety is standardised European-wide to comply with essential requirements required to be implemented during the manufacturing process prior to the products’ market launch. The EU directive 2009/448 on toy safety requires that the manufacturer, prior to the market-launch of a toy, applies specific procedures to assess its safety. Moreover, the manufacturer must provide a technical sheet for each toy detailing all the information required to demonstrate the toy’s compliance with regulatory standards. The product or product associated with the toy and compliant with these requirements will bear the CE compliance marking.

All products classified as toys by the FILA Group and sold on the European market are compliant in relation to the relevant standards and bear the “CE” compliance marking.

Products launched on the US market are also required to be CPSA-compliant (*Consumer Product safety Act*), specifically in terms of their total lead content (under 100 ppm), as well as for the presence of phthalates.

The AP-seal can only be applied once a Toxicological Risk Assessment complemented by a formula review, as well as documentation on the components and specific analyses based on the CPSA requirements (*Consumer Product safety Act*), have been carried out by Duke University.

For all other markets, reference is generally made to any potential specific requirements by local distributors, in addition to the European standards. A useful reference tool is the International Council of Toy Industries website



detailing, nation by nation, the toy industry standards in effect as well as the accreditation Entities (for further details, see <http://www.toy-icti.org/info/toysafetystandards.html>).

Products classified as “cosmetic toys”

Some of the FILA Group’s products are classified as cosmetic toys, thus, in addition to regulatory standards previously mentioned applicable to toys, these toys are also subject to regulation 1223/2009 EC (Cosmetics Directive).

This Directive requires a toxicological assessment of the product’s safety, as well as compliance with good manufacturing processes practices (GMP), established under UNI EN ISO 22716:20084 for cosmetic products.

Other aspects relating to product safety

The safety for Group products not classified as toys or cosmetics is guaranteed by compliance with the general standards applicable to products or miscellaneous products launched on the market (i.e. REACH Regulation 1907/2006 CLP, Regulation 1272/2008 and BPR Regulation 528/2012).

Production and design measures also guarantee product safety by mitigating risks to consumers in products where no specific standards apply, in addition to the product safety assured by Parent FILA and the Group itself through its application of *British Standard 7272*, a non-harmonised, and therefore, non-binding standard.

Finally, product safety is also covered by the correct and timely identification of hazards, both by complying with applicable standards as well as providing correct consumer information.

Management of product safety topics

Product safety is a fundamental element for the FILA Group and therefore continuous reviews are carried out to identify any potential flaws or elements for improvement. This review is not only of the laws and applicable regulations, but also of the voluntary codes related to product safety, as well as also monitoring product safety incidents.

There are numerous aspects that concern the labelling requirements of the FILA Group’s products, including component supply, composition, specifically in terms of substances potentially harmful to the environment and/or to the local communities, the safe use of the product, as well as product disposal requirements once the product has been used.

In 2018, the Group saw a limited number of cases of non-compliance with laws and regulations, partly of a voluntary nature, concerning product safety and labelling, all of which had modest impacts, and were fully resolved within the year. Several required more detailed label and packaging descriptions concerning product origin, composition and specific indications.

Various Group companies have drawn up specific internal procedures for the management of health and safety topics, product information, labelling and marketing, in compliance with applicable regulations.

In 2018, as in previous years, no significant cases of non-compliance in terms of marketing were reported.

5.3 SUPPLIER RELATIONS

Even though the business model entails the verticalisation of production operations involving a high degree of inter-company exchanges, the Group undertakes relations with various outside suppliers, always based on legality, correctness, transparency and equal treatment.



With regard to its own operations, the **main risks** identified by the Group in its relations with its own suppliers, are the risks of disruption to the supply chain, indiscriminate price increases or material supplies not complying with pre-defined qualitative standards or non-compliances with regulatory standards (e.g. for direct material suppliers, risks related to soil and water pollution due to the incorrect disposal of water and liquids for the cooling and maintenance of machinery, in addition to atmospheric pollution from fumes caused by plastic material processing).

In order to maintain high product quality standards, supplier screening is based on the technical, qualitative and quantitative requirements of the purchased products as ordered, the reputation and the reliability of the third-party company (including an ability to comply with the supply-plan so as to avoid delays in production schedules), as well as finding the best quality/price ratio and avoiding any form of favouritism or discrimination. Selected suppliers are subject to a constant monitoring of their production capacities, average delivery time, financial solvency and compliance with quality standards.

In order to manage the risk of any interruption in the production chain, the Group has adopted a practice of supplier diversification, according to which the main production raw materials are sourced from one main supplier and at least one or two alternatives, except for calcium carbonate (used in chalk production) and paraffin (used in wax crayon production), to date sourced from only one supplier.

Although FILA Group has long-standing business relations with its suppliers, they are generally not governed by fixed-term contracts. Raw materials and semi-finished products are therefore mainly procured via individual purchase orders, and any issues concerning their quality, quantity or specifications are raised on delivery.

Although environmental and social criteria have not yet been explicitly integrated into the supplier selection process, the Parent Company's management is developing an initiative for 2019 to engage its main suppliers in confirming their commitment to principles such as fairness, respect for the environment, product quality and the protection of human rights.

During the period reviewed, no cases of negative impacts on the supply chain were reported.

5.4. PROTECTION OF DIVERSITY

The FILA Group's approach in relation to its own stakeholders is based on the respect of the dignity of every individual, the respect of cultural, ethnic and gender diversity, and correctness and loyalty as established under the company's Ethics Code. Given its own presence across the various continents, the Group's operations interact with, and impact on local communities, including ethnic and cultural minorities.

The Group has identified discrimination of minorities to be the **main risk** within its own operations. In order to mitigate this risk, the Group issued a **Diversity Policy** on the issue, which is distributed on a Group-wide basis and annual monitoring is carried out for any incidents.

Finally, we wish to reiterate that the FILA Group has always believed in the importance of developing relationships with its own stakeholders and local communities, opposing discrimination based on race, gender, sexual orientation, and on religious, personal or political persuasions, and has now formalised this in the **Group's Policy on Corporate Social Responsibility**.

5.5 OTHER SOCIAL TOPICS

As the Group operates in many countries, it seeks, within the scope of its own operations, to promote relationships with the local communities and to contribute to local development.

As reported through the non-financial reporting system, Group operations in 2018 did not have any significant negative impacts on local communities in terms of environmental or employment impact.

Below are summarised some of the cultural support activities and supports to the local communities where the Group operates.

FILA S.p.A. in Italy:

- supports “GOLD FOR KIDS” since 2014, the Umberto Veronesi Foundation for child and adolescent cancer care; an initiative to fund treatment procedures, providing young patients instant access to the best treatments available internationally. This support takes the form of research grant funding, and, on the occasion of International Childhood Cancer Day on February 15, of the supply of creative kits to all children admitted to paediatric oncology departments. In 2018, the company also supported the tenth “Science for Peace” global conference, held in Milan on November 15-16, 2018. This a project of the Umberto Veronesi Foundation strongly desired by its founder, Prof. Umberto Veronesi, which aims to promote a culture of peace through science
- sponsors the La Scala Theatre project named “Grandi Spettacoli per Piccoli”, (Big Shows for Little ones), a special project showcasing the works of the greatest Italian authors, revisiting them in terms of their language and adapting them to modern times. It also supports all the educational and laboratory activities proposed by the “Teatro alla Scala” Museum
- It also participates, as an educational partner, in activities aimed at schools, children and families, in collaboration with institutions, sharing its values of creative and colourful development. The most significant and established partnerships regard projects with the Children’s Museum of Milan (MUBA), the “Istituto degli Innocenti” in Florence, which has been dedicated to children for over 600 years, the Educational division of the Biennale di Venezia, and MUS.e, an association promoting Florence’s Civic Museums.

Industria Maineri, through the Maineri Foundation in Italy:

- The prison of San Vittore has opened its doors to several cultural projects of the Maineri Foundation. The projects aim to build a culture of beauty and respect, first and foremost to help those living in San Vittore take a new approach to the complex experience of imprisonment and punishment, and rethink their relations with people, rules, the law, institutions and society. At the same time, they aim to bring ordinary citizens into contact with the prison, promoting the importance and complexity of paths to rehabilitation, the challenging work of prison staff, and the need for civic reintegration. Culture and art are dominant factors in the Maineri Foundation’s activities within various contexts
- Milan’s Pavilion of Contemporary Art (PAC) hosted the eighth edition of “Scusate il disturbo”, or “Sorry for the trouble”, an all-encompassing charity evening involving the worlds of art, design, fashion, haute cuisine, entertainment and general culture. With a performance by the Italian operatic pop trio Il Volo, it was a lively opportunity to raise awareness and funds to support therapeutic, rehabilitation and re-employment initiatives for the young. Another highlight of the evening was the auctioning of works of art and design by Sotheby’s
- A permanent art installation by the Cracking Art collective, promoted the Maineri Foundation and donated to ASST Fatebenefratelli Sacco, was inaugurated at the paediatric hospital “Casa Pediatrica Fatebenefratelli” in Milan. The hospital is a colourful and cheerful place designed to eliminate psychological barriers between the infrastructure and its users, and to transmit joy even in the most difficult circumstances, to the benefit of families, schools and the city. All this has been made possible by the contribution, over the years, of artists participating in the “Art as Therapy” initiative to create a permanent gallery of contemporary art within the Fatebenefratelli hospital
- The Maineri Foundation also presented the book, “La Voce nel Silenzio” (A Voice in the Silence) by Maria Grazia Cilio and Cristiano Depalmas, which aims to raise awareness and understanding of the phenomenon of violence, urging public institutions to investigate, collaborate and engage in training, and shine a spotlight on the difficult issue
- Support for emerging young artists and the development of contemporary art continued with several exhibition-events organized at Milano Musica Arte Cultura (MAC). In 2018, these involved Air Dayral, Ali Hassoun, Giovanni Maranghi, Silvio Porzionato, Simone Fugazzotto, Vonjako, and Beat Kurt



- Industria Maineri fully funded the research project on “Colour: a challenge for aesthetics” by the University of Florence Department of Letters and Philosophy. (Person responsible: The research, under Professor Fabrizio Desideri, sought to explore the theme of colour and its experience from a philosophical perspective. Colour constitutes a significant challenge for philosophy due to the fact that its experience lies across the border between perception and language, involving perceptive and individual dynamics, historical and cultural contexts and symbolic themes of human life.

Canson in France:

- since 2006, sponsor of the Louvre Museum in Paris, with whom has collaborated also on the restoration of works of art. The sponsorship of goods in kind (artist notebooks with high quality paper) are part of the educational and social support programmes for artistic learning
- since 2010 it has supported the Department of Graphic Arts in the restoration of works of art, as well as supporting scientific projects, to help in the conservation and dissemination of works of art
- Donates paper and drawing products to the Musée en Herbe for educational programmes for schools and individuals
- It provides paper products to the Picasso Museum to support activities for schools and families
- It donates products for fine arts educational programmes organized by the Réunion des Musées Nationaux - Grand Palais.

Dixon Mexico in Mexico:

- It sponsors the Papalote Children’s Museum, which stimulates children’s interest in science, nature, technology and ecology and receives 615,000 visitors a year
- It sponsors the Fundación Dibujando un Mañana, which socially invests in promoting children’s interests in positively transforming their communities
- It sponsors the Sanando Heridas Foundation, which contributes to health care and health education in poor communities
- Organizes workshops and sponsors events in the following museums and public institutions:
 - The National Watercolour Museum “Museo de la Acuarela”
 - The Franz Mayer Museum
 - Mexico City Department of Culture
 - The National School of Fine Arts “Escuela Nacional de Artes Plásticas”
 - The School of Architecture “Escuela Superior de Arquitectos”
 - Universidad Autónoma Metropolitana
 - The National Centre of the Arts “Centro Nacional de las Artes”
 - The San Carlo Museum “Museo Nacional de San Carlos”
 - Consejo Nacional de Población
- It sponsors events with the FUCAM foundation for the prevention and treatment of breast cancer
- It sponsors the Fundación Azteca-Jugueteón Initiative, which distributes toys and educational tools in less affluent communities.

Dixon US in the USA:

- supports the "Kids in Need Foundation" set up in 1995 in Chicago to support the neediest students by providing them with educational materials and active across the US in 40 Resource Centres. Dixon Ticonderoga represents the National Pencil Sponsor and supports the Foundation both financially (USD 70,000 p.a.) and in kind through supplies of materials. In 2018, KINF supported close to 6 million students and 200,000 teachers



- funds the Junior Achievement project and is involved in preparing students in managing their educational and career choices. In 2017, it reached out to almost 5 million students in over 200,000 classes
- supports the Orlando Magic Youth Foundation, the most important support programme partnering with the state of Florida to help primary and secondary schools. Through weekly lessons in the schools, the Orlando Youth Foundation is the main communication channel for public school in Florida
- produces pencils (Ticonderoga Renew Pencils) from timber production rejects (finger joints)
- supports the “BackPack Program” in Ohio, providing schoolchildren with food
- donates a portion of its pencil sales - Ticonderoga Breast Cancer Awareness Pencils - to support breast cancer research
- supports the Terracycle Recycle Program allowing consumers to take part in recycling programmes for used writing materials which are collected at recycling centres in the school districts.

Lyra in Germany:

- supports young Italian talent by using their work on the some of its products’ packaging
- supports local institutions through donations; mainly to nurseries, kindergartens, day care centres and to the Nuremberg family centre
- supports the “Gift with Heart project”, through the donation of materials, a project promoted by Humedica, an NGO founded in Kaufbeuren in 1979 (Bavaria) which provides humanitarian assistance across 90 countries worldwide. The mission of the Humedica projects is assisting people in crisis due to natural disasters or structural poverty
- provides technical material to the student art studio at the University of Nuremeberg’s Faculty of Design.

Pacon in the United States:

- For years, it has supported a project of monthly donations to art programmes and schools in the United States that do not have the resources to provide quality materials to their students. Donation requests sent to Strathmore are assessed and donation contributions defined on a monthly basis
- Every year, it supports local art projects through the “Create More, Share More” programme, which donates thousands of dollars to local children and artists, while raising the profile of Pacon in the community
- It supports “Feed the Children”, a 39-year-old organization, which, in 2018, helped over 6.5 million children and their families across the US and in 10 countries around the world. In 2018, Pacon donated USD 6.3 million worth of school materials for teachers and students to the “Feed the Children” project.



MATERIAL TOPICS CONCERNING HUMAN RIGHTS

6. Material topics concerning human rights

6.1 RESPECT FOR HUMAN RIGHTS

Respecting human rights is essential for the Group's long-term sustainability, just as it is for the communities where it operates. Our operations are founded on the respect of human rights as non-negotiable and fundamental values.

From the analyses of the content and from the process of collecting non-financial data and information, topics of relevance regarding human rights for the FILA Group are the following:

- respect for human rights
- freedom of association and collective bargaining agreements

Paragraph 5.4 discusses topics related to discrimination, protecting and valuing diversity in relations with the Group's external stakeholders, whilst paragraph 2.4 "*Corporate governance*" deals with the corporate bodies and paragraph 4.2 "*Equal opportunities*" with employees.

In its **Policy on Human Rights and Work Practices**, issued in 2017, the Group reiterates the importance of human rights and the commitment towards treating everyone with dignity and respect. The main principles stated therein are the respect of human rights, valuing diversity, ensuring non-discrimination, providing suitable working conditions, combating forced labour and human trafficking, compliance with working times, salaries and child labour regulations, the provision of safe and secure workplaces, the freedom of association and entitlement to collective-bargaining agreements, the respect of integrity, privacy, and the correctness of relations with local communities and stakeholders.

Furthermore, the **Policy on Corporate Social Responsibility** underlines the prevention and banning of forced labour or child labour, as well as re-iterating the respect of working conditions and salaries, and prohibiting discriminatory behaviours.

Employees make an indispensable contribution to FILA Group's success. This is why FILA protects its human resources and promotes their satisfaction in the workplace by ensuring responsibilities and management are exercised with equality and fairness, and by sanctioning any conduct that may in any way harm the personal or professional dignity of subordinate workers. FILA confirms its commitment to guaranteeing relations between colleagues built on the principles of loyalty, fairness, collaboration, honesty, respect and mutual trust, as well as the physical and moral integrity of individuals, working conditions that respect individual dignity, and safe and healthy work environments.

The **main risks** identified by the Group within this scope are risks of forced labour, child labour (pursuant to local and applicable legislative regulations), the presence of discriminatory behaviours (based on gender, sexual orientation, religious and political beliefs) or sexual harassment. The Group is also committed to preventing acts of violence or psychological or physical coercion, as well as any attitude or behaviour that may damage individual dignity.

Finally, aware of the direct and indirect influences its activities may have on the communities in which it operates, the Group conducts its activities in compliance with universal human rights and respect for local and national communities.

According to the information available at the Group's headquarters, as of December 31, 2018, no areas at risk of human rights violations were identified. As explained more in detail below, reports of alleged cases of discrimination or violation of such rights were promptly managed in compliance with applicable regulations. In 2018, there were no Group operations or relations with suppliers with an identified high risk of forced labour.



During 2018, 13 cases of alleged discrimination or harassment were managed, all of which in North America, and, in particular, within the Pacon Group, in consideration of the fact that the company has formally recorded staff complaints and reports for a number of years. No case has had any legal consequences. All cases received prompt attention from managers, who initiated internal procedures for assessing the individual situations and applied opportune disciplinary measures according to seriousness, ranging from verbal warnings to dismissal.

To date, the Group has not implemented formal procedures for assessing suppliers or business partners for human rights violations. As anticipated in the previous paragraph 5.3 “*Relations with suppliers*”, the Group is currently studying the introduction of tools to formally require correct working practices from main suppliers and business partners.

In 2018, the FILA Group executed a business combination with the Pacon Group. The related contractual agreements did not provide any specific clauses on human rights, since, in light of due diligence, no specific risk elements emerged in this regard.

2018’s significant investments, including implementation of the Group’s new Enterprise Resource Planning system and the start of expansion works to the Annonay warehouse, did not make specific references to clauses on human rights in contractual relations with counterparties.

6.2 FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING CONTRACTS

The **Policy on Human Rights and Work Practices** reiterates the importance of disseminating and promoting the Group’s core ethical values which also relates to the employees’ choice to join collective bargaining associations or trade unions without fear of intimidation or reprisal.

The **main risk** identified in relation to this aspect was of a lack of freedom of association and collective bargaining in compliance with applicable regulations. In order to manage this risk, in addition to issuing the above policy, the Group regularly monitors for any incidences of non-compliance in this regard. On the basis of the information currently available, it is not believed that the Group operates or interacts with suppliers where the freedom of association may be at risk. The project, detailed in paragraph 5.3 “*Relations with suppliers*”, to be launched during 2019, also aims to confirm main suppliers’ commitments to such issues.



MATERIAL TOPICS IN ACTIVE AND PASSIVE CORRUPTION

7. Material topics in active and passive corruption

7.1 MATERIAL ANTI-CORRUPTION TOPICS

Corruption is a widely diffused phenomenon, more or less widespread in many countries around the world. Active corruption is an offence whereby another party is persuaded, through promises, money or other benefits to act in breach of their duties. Passive corruption is an offence whereby an individual accepts promises, money or other benefits not due to them to carry out or not carry out their duties.

The FILA Group bases its own operations on the respect of the values defined in its Ethics Code, with the understanding that the business cannot remove itself from ethics in business affairs. The respect of human rights is essential for the Group's long-term sustainability as it is for the communities wherein it operates, also considering that our operations are based on the respect for human rights, as considered a non-negotiable and fundamental value.

From the materiality analysis (paragraph 1.3 above) and the comparison of the Group companies, the topic of combatting corruption is of increasing relevance for the FILA Group and includes measures to combat both active and passive corruption.

7.2 MEASURES TO COMBAT ACTIVE AND PASSIVE CORRUPTION

Compliance with the laws and the values defined in its Ethics Code, including correctness in business relations and combatting corruption, are the fundamental elements of the Group's modus operandi.

In particular, the Ethics Code explicitly refers to relations with the public administration and with the Oversight Authorities.

In particular:

Relations with the Public Administration (P.A.)

“The relations of the company and of the FILA Group, in Italy or in other countries, with public officials, those employed in the public service, public employees and outsourcers providing public services, are held to comply with the principles of legality, transparency, integrity and correctness. The management of relations, of any type, with the P.A. and/or of a public nature are reserved exclusively for the proposed and authorised company departments.

In the management of relations with the P.A., any person acting in the name of and/or on behalf of the company, is prohibited from aiding and abetting, applying pressure or engaging in other conduct to attain favourable provisions or other decisions for the company, in an illegal manner or against the principles of the present Code.

The Addressees of the Code are not authorised to offer, accept or promise to any party (public or private), on their own behalf or on behalf of others, any form of donation, compensation, benefit or service, of any nature, also of a non-financial nature, provided to influence, or, however, to gain from favourable treatment in the course of their duties. Acts of commercial courtesy are permitted, as long as concerning gifts of a moderate value and which may not be interpreted as provided to obtain improper or illegitimate advantage.

In the course of operations, the company and the FILA Group – where fulfilling the necessary requirements – may request and employ loans, subsidies and grants, of any type, issued by national or EU public bodies, restricted to the specific use for which they were granted and/or requested. For these purposes, in each case transparent and correct documentation on the company and on the project and/or service subject to the disbursement must be provided.”

Relations with inspecting and supervisory authorities

“The company actively works with the judicial and tax supervisory, the police departments and public officials in the exercise of their duties in terms of inspections, controls, investigations or legal proceedings and its members must refrain from offering donations, money and other benefits, or from exercising undue pressure on the representatives of these authorities, who materially carry out inspections and controls, in addition to those persons called to testify in legal proceedings, with a view to influencing conduct or acting in a manner which seeks to impede the legal process.”

Furthermore, the **Group's Anti-Corruption Policy** issued in 2017 establishes the general principles of behaviour in the conduct of the company's operations particularly in areas at high risk of corruption, gifts and entertainment expenses for external parties, gifts and entertainment expenses for employees or Management, events and sponsorships, donations, consultancies, brokerage, business relations with business partners and suppliers, joint-ventures and other miscellaneous elements, including facilitation payments.

With reference to this scope of activity, the **main risks** identified are reputational risk (in terms of damage to the FILA image) linked to subsequent sanctions and/or the interruption of commercial relations with the relevant partners of the Group, the application of disqualification sanctions (for offences within the scope of the application of Legislative Decree 231 of 2001). In order to manage these risks, FILA implements Group-level monitoring and the analysis of any reports, as well as an annual audit carried out by the Supervisory Board, with the support of the Internal Audit department, and according to a plan agreed with the Board of Directors of the Parent Company.

7.3 OTHER TOPICS OF RELEVANCE IN COMBATING CORRUPTION

The Ethics Code which outlines the Group's key principles and its values was distributed to all employees and was included in training programmes in accordance with each individual company's procedures. Specifically, at Parent level, all employees based at the headquarters and in the facilities received classroom training on Legislative decree No. 231/01.

The Italian companies who adopted the organisational, management and control Model pursuant to Legislative Decree 231/1 delivered ad hoc training programmes.

In 2018, 131 personnel - including members of the corporate bodies - of the Group received training on active and passive anti-corruption topics and related procedures, significantly increasing on 2017 (27). Of these, 43% were clerical employees (44% in 2017) and 44% were manual workers (none in 2017). Anti-corruption training was mainly focused on branches in Asia, South America and Europe.

Of particular note were anti-corruption training activities for members of management bodies, involving various companies (in Spain, Chile, France and the UK), for white-collar employees, in mainly Spain and China (Qingdao and Yixing), and for blue-collar workers, substantially in China (Yixing).

In 2018 (as in 2017), there were no recorded incidents of active or passive corruption.

8. Annex – GRI Content Index

NFS Consolidated Non-Financial Statement
 AFR 2018 Annual Financial Report
 CGR 2019 Corporate Governance Report (2018 Financial Year)

GRI Standards			
DISCLOSURE		Document	Reference to paragraph/ /Note
ORGANISATIONAL PROFILE			
102-1	Name of the organization		Fabbrica Italiana Lapis e Affini S.p.A. - FILA S.p.A.
102-2	Activities, brands, products, and services	NFS	2.3.1
102-3	Headquarters	NFS	2.3.1
102-4	Factories - Location	NFS	2.2.3
102-5	Ownership structure and legal form	NFS	2.2.2
102-6	Markets served	NFS	2.3.1
102-7	Group size	NFS	2.2.2
102-8	Information on employees and other workers	NFS	4.1
102-9	Supply chain	NFS	1.2
102-10	Significant changes	NFS	2.2.1
		AFR	“Significant events in the year”
102-11	Principle or precautionary approach	NFS	3.1
102-12	External initiatives	NFS	2.1.3, 2.4.1
102-13	Membership of associations	NFS	2.1.5
STRATEGY			
102-14	Declaration by the author of the report	NFS	“Chairman’s letter”
102-15	Key impacts, risks and opportunities	NFS	3.2, 3.3, 3.4, 3.5, 4.1, 4.2, 5.1, 5.2, 5.3, 5.4, 6.1, 6.2, 7.2
ETHICS AND INTEGRITY			
102-16	Values, principles, standards and norms of behaviour	NFS	2.1
			Ethics Code
102-17	Consultation and communication mechanisms related to ethical topics	NFS	2.5
GOVERNANCE			
102-18	Governance structure	NFS	2.4.1
		CGR	“4. Board of Directors”, “6. Internal Committees to the Board of Directors”, “7. Remuneration Committee”, “9. Control, Risks and Related Parties Committee”, “13. Appointment of Statutory Auditors”
102-21	Consultation with stakeholders on financial, social and environmental topics	NFS	1.3
102-22	Composition of the Board and Committees	NFS	2.4.1
		CGR	“4. Board of Directors”, “6. Internal Committees to the Board of Directors”, “7. Remuneration Committee”, “9. Control, Risks and Related Parties Committee”,
102-23	Chair of the highest governing body	NFS	2.4.1
102-24	Appointment and selection of the highest governing body	NFS	2.4.1
		CGR	“2. Information on ownership structure”
102-26	Role of the highest governing body in defining objectives, values and strategies	NFS	2.4.1
102-32	Role of the highest governing body in reporting on sustainability	NFS	1.2
102-37	Stakeholder involvement in remuneration		As set out by the applicable regulation, the Shareholders’ Meeting of FILA is called to express a consultative vote on the Remuneration Report
STAKEHOLDER ENGAGEMENT			

GRI Standards

DISCLOSURE		Document	Reference to paragraph/ /Note
102-40	List of the Group's stakeholders	NFS	2.1.4
102-41	Collective bargaining contract	NFS	2.1.5
102-42	Identification and selection of stakeholders	NFS	2.1.4
102-43	Approach to stakeholder engagement	NFS	2.1.5
102-44	Key topics and main concerns	NFS	2.1.5
REPORTING PROCESS			
102-45	Entities involved	NFS	1.4 Annex - Details of the group companies included in the scope of the audit per audit topic
		AFR	"Consolidation scope"
102-46	Definition of the reporting content and limits related to the topics	NFS	1.4
102-47	List of topics	NFS	1.3
102-48	Redefinition of the information	NFS	1.4, 3.1
102-49	Changes to the audit	NFS	1.2
102-50	Reporting period	NFS	31.12.2018
102-51	Data from the most recent reports	NFS	2017 Consolidated Non-Financial Statement
102-52	Reporting cycle	NFS	Annually
102-53	Contacts for report queries	NFS	1.6
102-54	Declaration of compliance with GRI Standards	NFS	1.1
102-55	GRI Index	NFS	1.4 and GRI Index Annex
102-56	External assurance	NFS	Annex Independent Auditors' Report
GRI 205 ANTI-CORRUPTION			
103-1/2/3	Management approach	NFS	1.3, 7.2
205-3	Data collected on confirmed communications and actions undertaken	NFS	7.3
GRI 301 MATERIALS			
103-1/2/3	Management approach	NFS	1.3, 3.1, 3.2
301-1	Materials used in weight and volume	NFS	3.2. The NFS does not report the division of used materials in terms of renewable and non-renewable sources. The Group commits to report this information for 2019
GRI 302 ENERGY			
103-1/2/3	Management approach	NFS	1.3, 3.1, 3.3
302-1	Energy consumption	NFS	3.3
302-4	Reduction of energy consumption	NFS	3.3
GRI 303 WATER			
103-1/2/3	Management approach	NFS	1.3, 3.1, 3.5
303-1	Water withdrawn per source	NFS	3.5
GRI 305 EMISSIONS			
103-1/2/3	Management approach	NFS	1.3, 3.1, 3.4
305-1	Direct emissions (scope 1)	NFS	3.4
305-2	Indirect emissions (scope 2)	NFS	3.4
305-6	Emissions of Ozone-Depleting Substances (ODS)	NFS	3.4
305-7	Other significant emissions	NFS	3.4
GRI 306 WASTE AND WASTE PRODUCTS			
103-1/2/3	Management approach	NFS	3.5, 3.6.1
306-1	Total water discharge by quality and destination	NFS	3.5
306-2	Waste by type and disposal method	NFS	3.6.1. In the 2018 NFS, this product waste disposal method was not reported. The Group undertakes to report such information in 2019.
306-3	Significant spillages	NFS	3.5
GRI 307 ENVIRONMENTAL COMPLIANCE			
103-1/2/3	Management approach	NFS	3.6.3

GRI Standards			
DISCLOSURE		Document	Reference to paragraph/ /Note
307-1	Non-compliance with environmental laws and regulations	NFS	3.6.3
<u>GRI 308 ENVIRONMENTAL SCREENING OF SUPPLIERS</u>			
103-1/2/3	Management approach	NFS	5.3
308-1	New suppliers assessed based on environmental criteria	NFS	5.3 At the moment, environmental and social criteria are not integrated into the supplier screening process. A project is under consideration for the main suppliers for the integration into the selection process of sustainability related elements
<u>GRI 401 EMPLOYMENT</u>			
103-1/2/3	Management approach	NFS	4.1
401-1	Entry of new employees and turnover	NFS	4.1
<u>WORKPLACE HEALTH AND SAFETY GRI 403</u>			
103-1/2/3	Management approach	NFS	1.3, 4.3
403-2	Category and incidence of workplace accidents in terms of illness, lost days, absenteeism and total fatalities	NFS	4.3 Accident and occupational disease rates for employees and non-employees are not available at this time. The Group commits to report this information for 2019
<u>GRI 404 EDUCATION AND TRAINING</u>			
103-1/2/3	Management approach	NFS	4.1
404-1	Average training hours per employee per annum	NFS	4.1 Average training hours per employee by gender in 2018 were: men - 5.7 hours, women - 6.3 hours. Average training hours per employee by professional category were: white-collar - 4.9 hours, blue-collar - 9.2 hours, managers - 12.1 hours.
<u>GRI 405 DIVERSITY AND EQUAL OPPORTUNITIES</u>			
103-1/2/3	Management approach	NFS	1.3, 2.4.1, 4.2
405-1	Diversity in the governance body and employees	NFS	2.4.1, 4.2
<u>GRI 406 NON-DISCRIMINATION</u>			
103-1/2/3	Management approach	NFS	1.3, 5.4, 6.1
406-1	Cases of discrimination and corrective action taken	NFS	5.4, 6.1
<u>GRI 407 FREEDOM OF ASSOCIATION AND COLLECTIVE CONTRACTS</u>			
103-1/2/3	Management approach	NFS	1.3, 6.1, 6.2
407-1	Group operations where freedom of association may be at risk	NFS	6.2
<u>GRI 409 FORCED OR COERCED LABOUR</u>			
103-1/2/3	Management approach	NFS	6.1, 6.2
409-1	Group operations and suppliers at risk of coerced or forced labour	NFS	6.1
<u>GRI 412 HUMAN RIGHTS REVIEW</u>			
103-1/2/3	Management approach	NFS	1.3, 6.1
412-3	Significant investment agreements and contracts with human rights clauses or with a human rights review	NFS	6.1 The Group undertakes to report the percentage and total number of investment agreements and significant contracts including clauses on human rights or subject to relative screening for the financial year 2019
<u>GRI 413 LOCAL COMMUNITIES</u>			
103-1/2/3	Management approach	NFS	5.5
413-2	Group operations with a current negative impact or with potential negative impacts on local communities	NFS	5.5
<u>GRI 414 SOCIAL SCREENING OF SUPPLIERS</u>			
103-1/2/3	Management approach	NFS	5.3
414-1	New supplier screening using social criteria	NFS	5.3 At the moment, environmental and social criteria are not integrated into the supplier screening process. During 2019, a project will be launched to assess the main new suppliers according to social criteria
<u>GRI 416 CONSUMER HEALTH AND SAFETY</u>			

GRI Standards				
DISCLOSURE		Document		Reference to paragraph/ /Note
103-1/2/3	Management approach	NFS		1.3, 5.2
416-2	Cases of health and safety non-compliance of products and services	NFS		5.2
GRI 417 MARKETING AND LABELLING				
103-1/2/3	Management approach	NFS		5.2
417-1	Information and labelling requirements for products and services	NFS		5.2
417-2	Cases of labelling non-compliance	NFS		5.2
417-3	Cases of non-compliance in commercial communications	NFS		5.2

9. Annex - Details of the group companies included in the reporting scope per reporting matter

COMPANIES OF THE FILA GROUP	COUNTRY	REPORTING SCOPE				
		ENVIRONMENT	SOCIAL	PERSONNEL	HUMAN RIGHTS	ANTI-CORR OPTION
FILA Benelux SA	Belgium	NO	YES	YES	NO	YES
Canson SAS	France	YES	YES	YES	YES	YES
Lodi 12 SAS	France	NO	NO	NO	NO	YES
Omyacolor S.A.	France	YES	YES	YES	YES	YES
Daler Rowney GmbH	Germany	NO	YES	YES	NO	YES
Johann Froescheis Lyra Bleistift-Fabrik GmbH&Co.	Germany	YES	YES	YES	YES	YES
Lyra Bleistift-Fabrik Verwaltungs GmbH	Germany	NO	NO	NO	NO	YES
Lukas-Nerchau GmbH	Germany	NO	YES	YES	NO	YES
Nerchauer Malfarben GmbH	Germany	NO	YES	YES	NO	YES
FILA Hellas SA	Greece	NO	YES	YES	NO	YES
Canson Italy	Italy	NO	YES	NO	NO	YES
FILA S.p.A.	Italy	YES	YES	YES	YES	YES
Industria Maimeri S.p.A.	Italy	YES	YES	YES	YES	YES
FILA Polska Sp.Z.o.o	Poland	NO	YES	YES	NO	YES
Fila Stationary O.O.O.	Russia	NO	YES	YES	NO	YES
FILA Hiberia S.L.	Spain	NO	YES	NO	NO	YES
FILA Hispania S.A.	Spain	NO	YES	YES	NO	YES
Fila Nordic AB	Sweden	NO	YES	YES	NO	YES
FILA Stationary & Office Equipment Industry Ltd.	Turkey	NO	YES	YES	NO	YES
Daler Rowney Ltd	UK	YES	YES	YES	YES	YES
St.Cuthberts Mill Limited Paper	UK	YES	YES	YES	YES	YES
St.Cuthberts Holding Limited	UK	NO	NO	NO	NO	NO
Renoir Topco Ltd	UK	NO	NO	NO	NO	YES
Renoir Midco Ltd	UK	NO	NO	NO	NO	YES
Renoir Bidco Ltd	UK	NO	NO	NO	NO	YES
Daler Rowney Group Ltd	UK	NO	NO	NO	NO	YES
Longbeach Arts Ltd	UK	NO	NO	NO	NO	YES
Daler Holdings Ltd	UK	NO	NO	NO	NO	YES
Daler Board Company Ltd	UK	NO	NO	NO	NO	NO
Rowney (Artist Brushes) Ltd	UK	NO	NO	NO	NO	NO
Daler Designs Ltd	UK	NO	NO	NO	NO	NO
Lastmill Ltd	UK	NO	NO	NO	NO	NO
Rowney &Company Pencils	UK	NO	NO	NO	NO	NO
FILA Art Products AG	Switzerland	NO	NO	YES	NO	YES
Dixon Ticonderoga Inc.	Canada	YES	YES	YES	NO	YES
Grupo F.I.L.A.-Dixon, S.A. de C.V.	Mexico	YES	YES	YES	YES	YES
Brideshore srl	Dominican Rep.	YES	YES	YES	YES	YES
Canson Inc.	USA	YES	YES	YES	YES	YES
Dixon Ticonderoga Company	USA	YES	YES	YES	YES	YES
Eurholdham USA Inc.	USA	NO	NO	NO	NO	YES
FILA Argentina S.A.	Argentina	NO	YES	YES	YES	YES
Canson Brasil I.P.E. LTDA	Brazil	YES	YES	YES	YES	YES
F.I.L.A. Chile Ltda	Chile	NO	YES	YES	YES	YES
Canson Qingdao Ltd	China	NO	YES	YES	YES	YES



COMPANIES OF THE FILA GROUP	COUNTRY	REPORTING SCOPE				
		ENVIRONMENT	SOCIAL	PERSONNEL	HUMAN RIGHTS	ANTI-CORRUPTION
Beijing F.I.L.A.-Dixon Stationery Company Ltd.	China	NO	NO	YES	YES	YES
FILA Dixon Stationery (Kunshan) Co., Ltd.	China	YES	YES	YES	YES	YES
FILA Dixon Art & Craft Yixing Co. Ltd	China	YES	YES	YES	YES	YES
Xinjiang F.I.L.A.-Dixon Plantation Company Ltd.	China	YES	YES	YES	YES	YES
DOMS Industries Pvt Ltd	India	YES	YES	YES	YES	YES
PT. Lyra Akrelux	Indonesia	NO	YES	YES	YES	YES
FILA SA PTY LTD	Africa	NO	YES	YES	YES	YES
Canson Australia PTY LTD	Australia	YES	YES	YES	YES	YES
Pacon Holding Company	USA	NO	NO	NO	NO	YES
Pacon Corporation	USA	YES	YES	YES	YES	YES
Pacon Canadian Holding Co	USA	NO	NO	NO	NO	YES
Baywood Paper ULC	Canada	YES	YES	YES	YES	YES
Castle Hill Crafts	UK	NO	NO	NO	NO	YES
Creativity International	UK	NO	YES	YES	NO	YES
Princeton Hong Kong	Hong Kong	NO	YES	NO	NO	YES
FILA Art and Craft Ltd.	Israel	NO	YES	YES	YES	YES
FILALYRA GB Ltd.	UK	NO	NO	NO	NO	NO

10. Annex - Independent Auditors' Report

(Translation from the Italian original which remains the definitive version)

Independent auditors' report on the consolidated non-financial statement pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 and article 5 of the Consob Regulation adopted with Resolution no. 20267 of 18 January 2018

*To the board of directors of
F.I.L.A. S.p.A.*

Pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 (the "decree") and article 5 of the Consob (the Italian Commission for listed companies and the stock exchange) Regulation adopted with Resolution no. 20267 of 18 January 2018, we have been engaged to perform a limited assurance engagement on the 2018 consolidated non-financial statement of the F.I.L.A. Group (the "group") prepared in accordance with article 4 of the decree and approved by the board of directors on 20 March 2019 (the "NFS").

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of F.I.L.A. S.p.A. (the "parent") for the NFS

The directors are responsible for the preparation of a NFS in accordance with articles 3 and 4 of the decree and the "Global Reporting Initiative Sustainability Reporting Standards" issued in 2016 by GRI - Global Reporting Initiative (the "GRI Standards").

The directors are also responsible, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the directors are responsible for the identification of the content of the NFS, considering the aspects indicated in article 3.1 of the decree and the group's business and characteristics, to the extent necessary to enable an understanding of the group's business, performance, results and the impacts it generates.

The directors' responsibility also includes the design of an internal model for the management and organisation of the group's activities, as well as, with reference to the aspects identified and disclosed in the NFS, the group's policies for the identification and management of the risks generated or borne.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, compliance with the decree's provisions.

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditors' responsibility

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the NFS with the requirements of the decree and the GRI Standards. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the NFS are based on our professional judgement and include inquiries, primarily of the parent's personnel responsible for the preparation of the information presented in the NFS, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

1. Analysing the material aspects based on the group's business and characteristics disclosed in the NFS, in order to assess the reasonableness of the identification process adopted on the basis of the provisions of article 3 of the decree and taking into account the reporting standards applied.
2. Analysing and assessing the identification criteria for the reporting scope, in order to check their compliance with the decree.
3. Comparing the financial disclosures presented in the NFS with those included in the group's consolidated financial statements.
4. Gaining an understanding of the following:
 - the group's business management and organisational model, with reference to the management of the aspects set out in article 3 of the decree;
 - the entity's policies in connection with the aspects set out in article 3 of the decree, the achieved results and the related key performance indicators;
 - the main risks generated or borne in connection with the aspects set out in article 3 of the decree.

Moreover, we checked the above against the disclosures presented in the NFS and carried out the procedures described in point 5.a).

5. Understanding the processes underlying the generation, recording and management of the significant qualitative and quantitative information disclosed in the NFS.

Specifically, we held interviews and discussions with the parent's management personnel. We also performed selected procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit non-financial data and information to the office that prepares the NFS.

Furthermore, with respect to significant information, considering the group's business and characteristics:

- at parent and subsidiaries level
 - a) we held interviews and obtained supporting documentation to check the qualitative information presented in the NFS and, specifically, the business model, the policies applied and main risks for consistency with available evidence,
 - b) we carried out analytical and limited procedures to check the correct aggregation of data in the quantitative information;
- we visited Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico) and DOMS Industries Pvt Ltd (India) and their sites of Tultitlán (Mexico) and Umbergaon (India), which we have selected on the basis of their business, contribution to the key performance indicators at consolidated level and location, to meet their management and obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2018 consolidated non-financial statement of the F.I.L.A Group has not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the decree and the GRI Standards.

Milan, 28 March 2019

KPMG S.p.A.

(signed on the original)

Domenico Bellini
Director of Audit