CONSOLIDATED FINANCIAL STATEMENTS OF THE F.I.L.A. GROUP AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017

SEPARATE FINANCIAL STATEMENTS OF F.I.L.A. S.p.A. AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017

F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A.

Via XXV Aprile 5 Pero (MI)

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I - General Information

Corporate Bodies

Board of Directors

Chairman	Gianni Mion
Chief Executive Officer	Massimo Candela
Executive Director	Luca Pelosin
Director & Honorary Chairman	Alberto Candela
Director (**)	Fabio Zucchetti
Director (**)	Annalisa Barbera
Director (*)	Sergio Ravagli
Director (*)(***)	Gerolamo Caccia Dominioni
Director (*)	Francesca Prandstraller

(*) Independent director in accordance with Article 148 of the CFA and Article 3 of the Self-Governance Code.
(**) Non-Executive Director.
(***) Lead Independent Director.

Control and Risks Committee

Gerolamo Caccia Dominioni
Fabio Zucchetti
Sergio Ravagli

Board of Statutory Auditors

Chairman	Claudia Mezzabotta
Standing Auditor	Stefano Amoroso
Standing Auditor	Pietro Villa
Alternate Auditor	Sonia Ferrero

Independent Auditors

KPMG S.p.A.

Overview of the F.I.L.A. Group

The F.I.L.A. Group operates in the creativity tools market, producing colouring, design, modelling, writing and painting objects, such as pencils, crayons, modelling clay, chalk, oil colours, acrylics, watercolours, paints and paper for the fine arts, school and leisure.
The F.I.L.A. Group at December 31, 2017 operates through 19 production facilities and 35 subsidiaries across the globe and employs approx. 8,000, becoming a pinnacle for creative solutions in many countries with brands such as GIOTTO, DAS, LYRA, CANSON, MAIMERI, DALER & ROWNEY LUKAS and TICONDEROGA.

Founded in Florence in 1920, F.I.L.A. has achieved strong growth over the last twenty years, supported by a series of strategic acquisitions: the Italian Company Adica Pongo in 1994, the US Group Dixon Ticonderoga in 2005, the German Group LYRA in 2008, the Mexican Company Lapiceria Mexicana in 2010 and the Maimeri business unit in 2014. In addition to these operations, on the conclusion of an initiative which began with the acquisition of a minority stake in 2011, control was acquired in 2015 of the Indian company DOMS Industries Pvt Ltd.

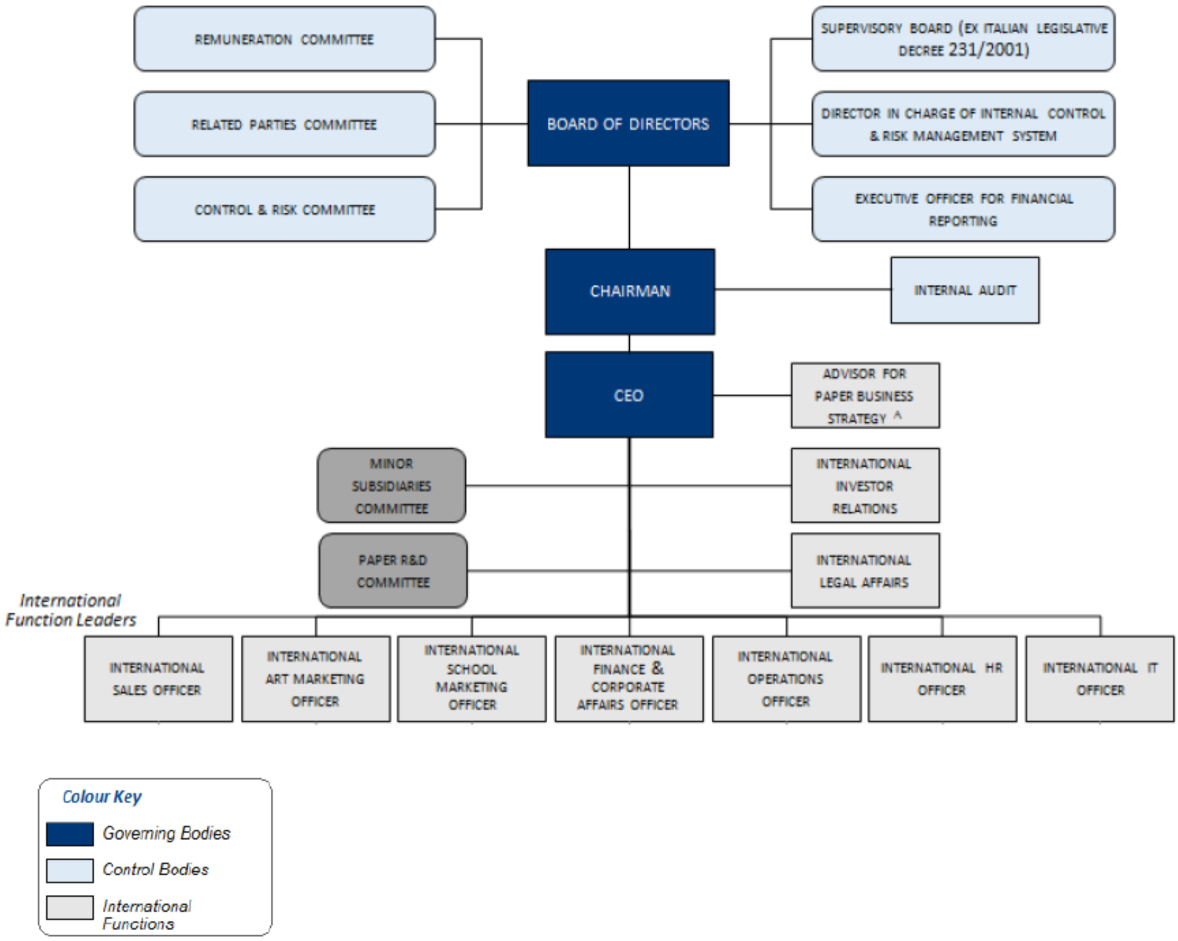
In 2016, the F.I.L.A. Group has focused upon development on strategic art & craft sector acquisitions, seeking to become the leading market player. On February 3, 2016, F.I.L.A. S.p.A. acquired control of the Daler-Rowney Lukas Group, an illustrious brand producing and distributing since 1783 materials and accessories on the arts & crafts market, with a direct presence in the United Kingdom, the Dominican Republic, Germany and the USA.

In September 2016, the F.I.L.A. Group acquired St. Cuthberts, a highly-renowned English paper mill, founded in 1907, located in the south-west of England and involved in the production of high quality artist’s papers.

In October 2016, F.I.L.A. S.p.A. acquired the Canson Group, founded in 1557 by the Montgolfier family, with headquarters in Annonay in France, production facilities in France and conversion and distribution centres 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.

Organisational structure

The F.I.L.A. S.p.A. organisational model is reported below.



DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE F.I.L.A. GROUP AND THE SEPARATE FINANCIAL STATEMENTS OF F.I.L.A. S.p.A. AT DECEMBER 31, 2017

II - Directors' Report

Economic overview

The sustained growth of the BRICS was reconfirmed in 2017, while signs of recovery were apparent in North America and, to a lesser extent, also in Europe.

The F.I.L.A. Group markets saw strong growth in Asia (particularly India and in South America), while the North American market performed well. Management focused closely on the integration of the recently acquired entities (Daler-Rowney Lukas Group and Canson), both in production and commercial terms.

The inflation and GDP figures for the main countries in which the F.I.L.A. Group companies operate are reported below:

		December 31, 2017		December 31, 2016	
	Country	Inflation	GDP	Inflation	GDP
Euro zone	Italia	1.40%	1.50%	-0.10%	0.80%
	Spagna	2.00%	3.10%	-0.30%	3.10%
	Portogallo	1.60%	2.50%	0.70%	1.00%
	Grecia	1.20%	1.80%	-0.10%	0.10%
	Francia	1.20%	1.60%	0.30%	1.30%
	Turchia	10.90%	5.10%	8.40%	3.30%
	Germania	1.60%	2.00%	0.40%	1.70%
	Polonia	1.90%	3.80%	-0.60%	3.10%
	Svezia	1.60%	3.10%	1.10%	3.60%
North America	USA	2.10%	2.20%	1.20%	1.60%
	Canada	1.60%	3.00%	1.60%	1.20%
Latin America	Mexico	5.90%	2.10%	2.80%	2.10%
	Cile	2.30%	1.40%	4.00%	1.70%
	Argentina	26.90%	2.50%	n.a.	-1.80%
BRICs	Cina	1.80%	6.80%	2.10%	6.60%
	India	3.80%	6.70%	5.50%	7.60%
	Brasile	3.70%	0.70%	9.00%	-3.30%
	Russia	4.20%	1.80%	7.20%	-0.80%
Others	Sud Africa	5.40%	0.70%	6.40%	0.10%
	Australia	2.00%	2.20%	1.30%	2,90%

Source: International Monetary Fund, October 2017

Key Financial Highlights

The F.I.L.A. Group 2017 Key Financial Highlights are reported below.

Euro thousands		December 2017	% core business revenue	December 2016	% core business revenue	Change 2017 - 2016	
Core Business Revenue		510,354	*100.0%*	422,609	*100.0%*	87,745	*20.8%*
EBITDA [1]		73,124	*14.3%*	56,824	*13.4%*	16,300	*28.7%*
EBIT		53,268	*10.4%*	41,086	*9.7%*	12,182	*29.6%*
Net financial expense		(22,359)	*-4.4%*	(5,780)	*-1.4%*	(16,579)	*-286.8%*
Total income taxes		(13,542)	*-2.7%*	(13,334)	*-3.2%*	(208)	*-1.6%*
F.I.L.A. Group Net Profit/(loss)		15,767	*3.1%*	20,993	*5.0%*	(5,226)	*-24.9%*
Earnings per share (€ cents)							
	basic	*0.38*		*0.51*			
	diluted	*0.38*		*0.50*			

***NORMALISED** - Euro thousands*		December 2017	% core business revenue	December 2016	% core business revenue	Change 2017 - 2016	
Core Business Revenue		510,354	*100.0%*	422,609	*100.0%*	87,745	*20.8%*
EBITDA [1]		80,605	*15.8%*	67,222	*15.9%*	13,383	*19.9%*
EBIT		60,820	*11.9%*	51,484	*12.2%*	9,336	*18.1%*
Net financial expense		(15,849)	*-3.1%*	(6,062)	*-1.4%*	(9,787)	*-161.4%*
Total income taxes		(14,277)	*-2.8%*	(16,211)	*-3.8%*	1,934	*11.9%*
F.I.L.A. Group Net Profit		29,105	*5.7%*	28,225	*6.7%*	880	*3.1%*
Earnings per share (€ cents)							
	basic	*0.70*		*0.69*			
	diluted	*0.69*		*0.67*			

Euro thousands	December 31, 2017	December 31, 2016	Change 2017 - 2016
Cash Flows from operating activities	23,643	41,696	(18,053)
Investments	23,899	12,446	11,453
% core business revenue	*4.7%*	*2.9%*	

Euro thousands	December 31, 2017	December 31, 2016	Change 2017 - 2016
Net capital employed	479,191	462,407	16,784
Net Financial debt [4]	(239,614)	(223,437)	(16,177)
Equity	(239,577)	(238,970)	(607)

[1] The Gross Operating Profit (EBITDA) corresponds to the operating result before amortisation and depreciation and write-down;

[2] Indicator of the net financial structure, calculated as the aggregate of the current and non-current financial debt, net of cash and cash equivalents and current financial assets and loans provided to third parties classified as non-current asset. The net financial position as per CONSOB Communication DEM/6064293 of July 28, 2006 excludes non-current financial assets. The non-current financial assets of the F.I.L.A. Group at December 31, 2017 amount to Euro 3,918 thousand, of which Euro 6 thousand included in the calculation of the net financial position; therefore the F.I.L.A. Group financial indicator does not equate, for this amount, with the net financial position as defined in the above-mentioned Consob communication. For further details, see paragraph 'Financial Overview" of the Report below.

2017 Adjustments:

- the adjustments of the 2017 EBITDA relate to non-recurring operating costs of approx. Euro 7.5 million, principally for Group reorganisation plans and the Stock Grant Plan for specific Group employees;

- the financial management adjustment was Euro 6.5 million and concerned the financial charge recognised by F.I.L.A. S.p.A. in application of the Canson Group purchase price adjustment mechanism (Euro 7.5 million). This amount was partly offset by the financial income of the company Lyra KG (Germany) and deriving from the sale of the 30% stake held in FILA Nordic AB (Sweden) amounting to approx. Euro 1 million;

- the adjustment of the 2017 Group Result concerns the above-stated adjustments, net of the tax effect.

2016 Adjustments:

- the adjustments of the 2016 EBITDA relate to non-recurring operating costs of approx. Euro 10.4 million, principally for consultancy in support of M&A transactions carried out by the Group, in addition to reorganisation charges;

- the adjustments of Net financial expense regard the elimination of net financial income of Euro 0.3 million, principally related to the GB Pound hedge undertaken for the acquisition of the Daler-Rowney Lukas Group;

- the asjustments of the 2016 Profit attributable to the owners of the parent concerns the above-stated normalisations, net of the tax effect.

F.I.L.A Group Key Financial Highlights

The F.I.L.A. Group 2017 Key Financial Highlights are reported below.

Adjusted operating results

The 2017 F.I.L.A. Group results report an increased EBITDA of 19.9% on 2016 (+3.31%, excluding the M&A[1] effect).

***NORMALISED** - Euro thousands*	**2017**	*% core business revenue*	**2016**	*% core business revenue*	**Change 2017 - 2016**	
Core Business Revenue	510,354	*100%*	422,609	*100%*	87,745	*20.8%*
Other Revenue and Income	18,300		19,652		(1,352)	*-6.9%*
Total Revenue	**528,654**		**442,261**		**86,393**	***19.5%***
Total operating costs	(448,049)	*-87.8%*	(375,039)	*-88.7%*	(73,010)	*-19.5%*
EBITDA	**80,605**	***15.8%***	**67,222**	***15.9%***	**13,383**	***19.9%***
Amortisation, depreciation and write-down	(19,785)	*-3.9%*	(15,738)	*-3.7%*	(4,047)	*-25.7%*
EBIT	**60,820**	***11.9%***	**51,484**	***12.2%***	**9,336**	***18.1%***
Net financial expense	(15,849)	*-3.1%*	(6,062)	*-1.4%*	(9,787)	*-161.4%*
Pre-tax profit	**44,971**	***8.8%***	**45,422**	***10.7%***	**(451)**	***-1.0%***
Total income taxes	(14,277)	*-2.8%*	(16,211)	*-3.8%*	1,934	*11.9%*
NET PROFIT FOR THE YEAR - CONTINUING OPERATIONS	**30,694**	***6.0%***	**29,211**	***6.9%***	**1,483**	***5.1%***
Net Profit	**30,694**	***6.0%***	**29,211**	***6.9%***	**1,483**	***5.1%***
Non-controlling interest profit	1,589	*0.3%*	986	*0.2%*	603	*61.2%*
F.I.L.A. Group Net Profit	**29,105**	***5.7%***	**28,225**	***6.7%***	**880**	***3.1%***

The principal changes compared to 2016 are illustrated below.

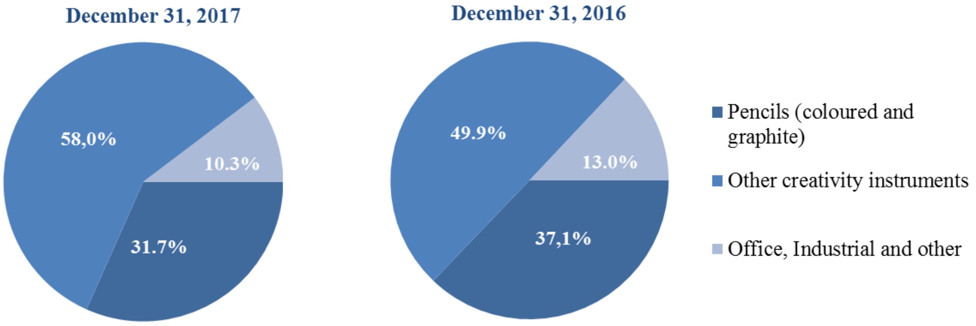
"Core Business Revenue" of Euro 510,354 thousand increased on the previous year Euro 87,745 thousand (+20.8%).

Organic growth was Euro 19,883 thousand (+4.7% on 2016), calculated net of negative currency effects of approx. Euro 5,986 thousand (mainly due to the weakening of GB Pound and the Mexican Peso, only in part offset by the strengthening of the Indian Rupee) and the M&A effect of approx. Euro 73,848 thousand (of which principally: Euro 4,582 thousand relating to a month of Daler-Rowney Lukas transactions, consolidated from February 2016, Euro 66,358 thousand relating to the Canson Group, consolidated from October 2016, Euro 3,034 thousand concerning St. Cuthberts Mill, consolidated from September 2016). This expansion principally relates to Central-South American for Euro 8,943 thousand, up +15.7% (principally thanks to the Mexican company), Asia for Euro 7,750 thousand, +15.1% (mainly due to DOMS Industries Pvt Ltd) and North America for Euro 3,239

[1] *M&A effect from companies acquired in 2016: Daler-Rowney Lukas Group, St. Cuthberts Holding Limited and Canson Group.*

thousand (+2.4%). European revenues remain substantially stable (increasing Euro 378 thousand, +0.2%).

In order to better illustrate F.I.L.A. Group developments, reference should be made to the table below highlighting revenue compared with the previous period by "*Strategic Segments":*



Other Revenues and Income of Euro 18,300 thousand decreased Euro 1,352 thousand on the previous year, of which Euro 922 thousand due to realised and unrealised exchange movements on commercial transactions.

"Operating Costs" in 2017 of Euro 448,049 thousand increased Euro 73,010 thousand on 2016, almost exclusively as a result of the M&A effect and residually the increase in commercial, marketing and transport costs in support of the higher revenues.

"EBITDA" amounted to Euro 80,605 thousand, increasing Euro 13,383 thousand on 2016 (+19.9%, of which +3.31% organic).

Amortisation, depreciation & write-downs increased Euro 4,047 thousand, due to the amortisation of "*Trademarks*" and "*Other Intangible assets*", valued according to the "Purchase Price Allocation" under the corporate transactions executed in 2016 and the increase in depreciation concerning the new companies acquired.

Adjusted "Net Financial Expense" increased on 2016 Euro 9,787 thousand, principally due to higher interest charges incurred by F.I.L.A. S.p.A. on the loan contracted in 2016 for the acquisitions, in addition to currency differences on inter-company loans granted in Euro to companies in the United States, Brazil, Russia and South Africa.

Adjusted Group "Income taxes" amounted to Euro 14,277 thousand, reducing on 2016 Euro 1,934 thousand; the reduction in the tax charge principally follows lower parent company income taxes and the release of deferred taxes at Canson SAS following the reduction in the expected tax rate.

Excluding the profit attributable to non-controllinginterest, the F.I.L.A. Group adjusted profit for 2017 was Euro 29,105 thousand, compared to Euro 28,225 thousand in the previous year.

Business seasonality

The Group's operations are affected by business seasonality, as reflected in the consolidated results.

The breakdown of the income statement by quarter highlights the concentration of sales in the second and third quarters for the "schools' campaign". Specifically, in June significant sales are made through the "*school suppliers*" traditional channel and in August through the "*retailers*" channel.

The key financial highlights for 2017 and 2016 are reported below.

	2016				2017			
Euro thousands	First 3 mth. 2016	First 6 mth. 2016	First 9 mth. 2016	FY 2016	First 3 mth. 2017	First 6 mth. 2017	First 9 mth. 2017	FY 2017
Core Business Revenue	**82,896**	**201,514**	**309,312**	**422,609**	**117,613**	**260,543**	**391,548**	**510,354**
Full year portion	*19.62%*	*47.68%*	*73.19%*	*100.00%*	*23.05%*	*51.05%*	*76.72%*	*100.00%*
EBITDA	**10,143**	**31,222**	**49,016**	**56,824**	**16,072**	**38,988**	**62,018**	**73,124**
% core business revenue	*12.24%*	*15.49%*	*15.85%*	*13.45%*	*13.67%*	*14.96%*	*15.84%*	*14.33%*
Full year portion	*17.85%*	*54.94%*	*86.26%*	*100.00%*	*21.98%*	*53.32%*	*84.81%*	*100.00%*
Normalised EBITDA	**11,870**	**36,572**	**55,169**	**67,222**	**17,106**	**43,846**	**67,959**	**80,605**
% core business revenue	*14.32%*	*18.15%*	*17.84%*	*15.91%*	*14.54%*	*16.83%*	*17.36%*	*15.79%*
Full year portion	*17.66%*	*54.41%*	*82.07%*	*100.00%*	*21.22%*	*54.40%*	*84.31%*	*100.00%*
Net Financial Debt	**(166,344)**	**(188,895)**	**(175,798)**	**(223,437)**	**(255,852)**	**(285,584)**	**(276,466)**	**(239,614)**

Statement of Financial Position

The F.I.L.A. Group Key Statement of Financial Position accounts at December 31, 2017 are reported below.

Euro thousands	December 2017	December 2016	Change 2017 - 2016
Intangible Assets	208,091	218,440	(10,349)
Property, plant & equipment	88,355	81,321	7,034
Financial Assets	4,725	3,656	1,069
Net Fixed Assets	**301,171**	**303,416**	**(2,245)**
Other Assets/Non-Current Liabilities	**15,564**	**20,737**	**(5,173)**
Inventories	178,699	177,406	1,293
Trade and Other Receivables	132,768	113,582	19,186
Trade and Other Payables	(96,263)	(90,445)	(5,818)
Other Current Assets and Liabilities	241	154	87
Net Working Capital	**215,445**	**200,697**	**14,748**
Provisions	**(52,989)**	**(62,444)**	**9,455**
Net Capital Employed	**479,191**	**462,407**	**16,784**
Equity	**(239,577)**	**(238,970)**	**(607)**
Net Financial Debt	**(239,614)**	**(223,437)**	**(16,177)**
Net Funding Sources	**(479,191)**	**(462,407)**	**(16,784)**

The “Net Capital Employed” of the F.I.L.A. Group at December 31, 2017 of Euro 479,191 thousand is principally comprised of “Net Fixed Assets” of Euro 301,171 thousand (decreasing on December 31, 2016 Euro 2,245 thousand) and the “Net Working Capital” totalling Euro 215,445 (increasing on December 31, 2016 Euro 14,748 thousand).

The decrease in “Intangible Assets” on December 31, 2016 of Euro 10,349 thousand substantially relates to exchange rate losses of Euro 5,485 thousand and the amortisation of intangible assets (Euro 6,714 thousand), particularly with regards to *“Trademarks”* and *“Development Technology”* by the Group companies Daler-Rowney Lukas, St. Cuthberts Mill (United Kingdom), the Canson Group and DOMS Industries Pvt Ltd (India), valued during their respective acquisitions.

The increase in “Property, plant and equipment” on December 31, 2016 of Euro 7.034 thousand mainly relates to investments in “Plant and machinery” and “Buildings” (in use or under construction) by Group companies in support of production volume growth and business development, in particular in the “Art & Craft” sector. Overall net investments of Euro 21,917 thousand (including divestments) principally concerned Canson SAS (France), DOMS Industries Pvt Ltd (India), Daler Rowney Ltd (United Kingdom), Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico), St. Cuthberts Mill Ltd (United Kingdom) and F.I.L.A. S.p.A. Investments were rolled out to develop the existing production facilities and for the creation of a European logistics Hub at Annonay (France). The overall movement also stems from exchange rate losses for Euro 2,827 thousand and depreciation of Euro 11,045 thousand.

Financial assets increased Euro 1.1 million compared to December 31, 2016, principally due to the Fair Value adjustment of the Carrying amount of the hedging derivatives of F.I.L.A. S.p.A. (Euro 591 thousand and movements in investments in associates held by the Indian subsidiary DOMS Industries Pvt Ltd (Euro 511 thousand).

The increase in "Net Working Capital" on December 31, 2016 of Euro 14,748 thousand relates to the following:

- "Inventories" - increasing Euro 1,293 thousand, principally due to higher stock levels at the companies Dixon Ticonderoga Company (USA) and Daler Rowney Ltd (United Kingdom) in support of the sales strategies and expected turnover in the initial months of the subsequent year.
- "Trade and Other Assets" - increasing Euro 19,186 thousand, principally due to higher revenues in the final part of the year in Central-South America and in North America, associated with a partial extension of collection times.
- "Trade and Other Liabilities" - increasing Euro 5,818 thousand, principally relating to Dixon Ticonderoga Company (USA) and Daler Rowney Ltd (United Kingdom) due to stock purchases for meeting orders in the initial months of the subsequent year. In addition, the movement is in part due to payables deriving from the acquisition of tangible assets by DOMS Industries Pvt Ltd (India) against investments undertaken in the final part of the year for the development of the local production sites.

The decrease in "Provisions" on December 31, 2016 of Euro 9,455 thousand is principally due to the gradual release of deferred taxes on amortisation and depreciation of tangible and intangible assets valued according to the "Purchase Price Allocation" (Euro 7,793 thousand) and the reduction in "Employee Benefits" (Euro 2,607 thousand) due to the actuarial gains recognised in 2017 and particularly at the company Daler Rowney Ltd (United Kingdom). Partially offsetting the decrease in the Provisions for Risks and Charges was Euro 0.9 million for the provision for the year regarding the senior management medium/long-term variable remuneration plan of F.I.L.A. S.p.A. and the restructuring provisions accrued by a number of Group companies for the execution of Group reorganisation plans.

The "Equity" attributable to the owner of the Parent, amounting to Euro 239,577 thousand, increased on December 31, 2016 Euro 607 thousand. Net of the income for the year of Euro 17,367 thousand (of which Euro 1,600 thousand concerning non-controlling interests), the residual movement principally concerns exchange rate losses of Euro 17,529 thousand, the payment of dividends for Euro 3,877 thousand (of which Euro 3,771 thousand concerning F.I.L.A. S.p.A. and Euro 166 thousand minorities), the positive "Fair Value" adjustment of derivative instruments held by F.I.L.A. S.p.A. and Canson SAS designated as hedges (Euro 556 thousand), the establishment of the "Share Based Premium" reserve for Euro 2,309 thousand and the increase in the IAS 19 reserve of Euro 1,782 thousand.

The F.I.L.A. Group "Net Financial Debt" at December 31, 2017 was a net debt of Euro 239,614 thousand, increasing Euro 16,177 thousand on December 31, 2016. For greater details, reference should be made to the "Financial Overview" paragraph.

Financial Overview

The overview of the 2017 Group operating and financial performance is completed by the Group Net Financial Debt and Statement of Cash Flow reported below.

The **Net Financial Debt** at December 31, 2017 reports a debt of Euro 239,614 thousand.

	Euro thousands	December 31, 2017	December 31, 2016	Change
A	Cash	67	73	(6)
B	Other cash equivalents	38,491	59,446	(20,955)
C	Securities held-for-trading	-	-	-
D	**Liquidity (A + B + C)**	**38,558**	**59,519**	**(20,961)**
E	**Current financial receivables**	**419**	**275**	**144**
F	Current bank loans and borrowings	(72,724)	(52,879)	(19,845)
G	Current portion of non-current debt	(18,710)	(24,158)	5,448
H	Other current loans and borrowings	(8,239)	(16,497)	8,258
I	**Current financial debt (F + G + H)**	**(99,673)**	**(93,534)**	**(6,139)**
J	**Net current financial debt (I + E+ D)**	**(60,696)**	**(33,740)**	**(26,956)**
K	Non-current bank loans and borrowings	(178,420)	(189,902)	11,482
L	Bonds issued	-	-	-
M	Other non-current loans and borrowings	(504)	(150)	(354)
N	**Non-current financial debt (K + L + M)**	**(178,924)**	**(190,052)**	**11,128**
O	**Net financial debt (J+N)**	**(239,620)**	**(223,792)**	**(15,828)**
P	**Loans issued to third parties**	**6**	**355**	**(349)**
Q	**Net financial debt (O + P) - F.I.L.A. Group**	**(239,614)**	**(223,437)**	**(16,177)**

Note:

1) The net financial debt calculated at point "O" complies with Consob Communication DEM/6064293 of July 28, 2006, which excludes non-current financial assets. The net financial debt of the F.I.L.A. Group differs from the above communication by Euro 6 thousand in relation to the non-current loans granted to third parties by Omyacolor S.A. (Euro 6 thousand)

2) At December 31, 2017 there were no transactions with related parties which impacted the net financial debt.

Compared to December 31, 2016 (debt of Euro 223,437 thousand), net financial debt increased Euro 16,177 thousand, as outlined below in the Statement of Cash Flows.

Euro thousands	December 2017	December 2016
EBIT	53,268	41,086
Adjustments for non-cash items	22,758	17,865
Integrations for income taxes	(14,849)	(11,987)
Cash Flow from Operating Activities Before Changes in NWC	**61,177**	**46,964**
Change in NWC	**(33,069)**	**(6,437)**
Change in Inventories	(10,818)	(16,470)
Change in Trade and Other Receivables	(28,495)	(4,607)
Change in Trade and Other Payables	9,906	15,409
Change in Other Current Assets/Liabilities	(3,662)	(769)
Net cash Flow from Operating Activities	**28,108**	**40,527**
Investments in tangible and intangible assets	(23,899)	(12,446)
Other Investments	139	105
Equity Investments	793	(84,938)
Cash Flow used in Investing Activities	**(22,967)**	**(97,280)**
Change in Equity	(3,833)	(4,461)
Interest Expense	(8,425)	(5,761)
Cash Flow used in Financing Activities	**(12,258)**	**(10,223)**
Other changes	156	28
Total Net Cash Flow	**(6,961)**	**(66,948)**
Effect from exchange rate changes	(2,452)	2,194
NFP from M&A operations (Change in Consolidation Scope)	(6,764)	(119,939)
Change in Net Financial Debt	**(16,177)**	**(184,693)**

The net cash flow absorbed in 2017 from “Operating Activities” of Euro 28,108 thousand (absorption of operating cash at December 31, 2016 of Euro 40,527 thousand) concerns:

- generation of Euro 61,177 thousand (Euro 46,964 thousand in 2016) from “EBIT”, based on the difference of the “Value” and the “Costs of Cash Generation” and the remaining ordinary income components, excluding financial management;
- absorption of Euro 33,069 thousand (Euro -6,437 thousand at December 31, 2016) concerning “Working Capital Management” and principally the increase in “Trade and Other Assets”, in large part due to the significant increase in sales in the final part of the year in Central-South America and in North America, associated with a partial extension of collection times.

“Investing Activities” absorbed liquidity of Euro 22,967 thousand (Euro 97,280 thousand in 2016), of which:

- liquidity of Euro 23,899 thousand (Euro 12,446 thousand in 2016), concerning net investments in new plant and machinery and for the new Group ERP, principally concerning Canson SAS (France), DOMS Industries Pvt Ltd (India), Daler Rowney Ltd (United Kingdom), Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico), St. Cuthberts Mill Ltd (United Kingdom) and F.I.L.A. S.p.A.;
- for Euro 793 thousand (-Euro 84,938 thousand in 2016) investments and divestments in holdings, principally relating to the generation of cash from the disposal of the minority stake (31%) held in FILA Nordic AB (Sweden) by the German subsidiary Lyra KG.

“Financing Activities” absorbed liquidity of Euro 12,258 thousand (Euro 10,223 thousand in 2016), of which:

- Euro 8,425 thousand (Euro 5,761 thousand in 2016) from interest paid on loans and credit lines granted to Group companies, principally concerning the loan granted to F.I.L.A. S.p.A. in support of the acquisitions in 2016;
- Euro 3,833 thousand (Euro 4,461 thousand in 2016) from the distribution of dividends to F.I.L.A. S.p.A. shareholders and Group non-controlling interests, net of those paid to non-controlling interests of the company FILA Art Products AG (Switzerland), currently in the incorporation phase.

Excluding the currency effect from the translation of the net financial debt in currencies other than the Euro (absorbing cash of Euro 2,452 thousand) and from corporate operations, the increase in the net debt was therefore Euro 16,177 thousand (Euro 184,693 thousand at December 31, 2016).

“Net Liquidity” movements are reported below.

Euro thousands	December 2017	December 2016
Opening Cash and Cash Equivalents	**53,973**	**17,542**
Cash and cash equivalents	59,519	30,683
Bank overdrafts	(5,546)	(13,141)
Closing Cash and Cash Equivalents	**20,425**	**53,973**
Cash and cash equivalents	38,558	59,519
Bank overdrafts	(18,133)	(5,546)

Operating segments

In terms of segment reporting, the F.I.L.A. Group has adopted IFRS 8, obligatory from January 1, 2009.

IFRS 8 requires an entity to base segment reporting on internal reporting, which is constantly reviewed by the highest level of management in order to allocate resources to the various segments and to analyse performance.

Geographical segmentats are the primary basis of analysis and of decision-making by F.I.L.A. Group Management, therefore fully in line with the internal reporting prepared for these purposes.

The products of the F.I.L.A. Group are similar in terms of quality and production, target market, margins, sales network and clients, even with reference to the different brands which the Group markets. No diversification is therefore deemed to be present within the Segment, in consideration of the substantial uniformity of the risks and benefits relating to the products produced by the F.I.L.A. Group.

The segment disclosure accounting standards are in line with those utilised for the separate financial statements.

Segment disclosure was therefore based on the location of operations (“Entity Locations”), broken down as follows: “Europe”, “North America”, “Central and South America” and “Rest of the World”. The “Rest of the World” includes the subsidiaries in South Africa and Australia.

The “Business Segment Reporting” of the F.I.L.A. Group aggregates companies by region on the basis of the *“operating location”.*

For disclosure upon the association between the geographical segments and F.I.L.A. group companies, reference should be made to the attachments to the report in the “List of companies included in the consolidation scope and other equity investments” paragraph.

The segment reporting required in accordance with IFRS 8 is presented below.

Geographical Segments – Statement of Financial Position

The key statement of financial position figures for the F.I.L.A. Group by geographical segment, at December 31, 2017 and December 31, 2016, are reported below:

December 2017 *Euro thousands*	**Europe**	**North America**	**Central & South America**	**Asia**	**Rest of the World**	**Consolidation**	**F.I.L.A. Group**
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 Intangible and Tangible Assets	**177,828**	**19,512**	**10,084**	**88,733**	**365**	**(76)**	**296,446**
of which Intercompany	*(76)*						-
Inventories	76,251	48,103	31,761	26,074	3,166	(6,656)	178,699
Trade and Other Receivables	78,285	44,305	55,515	11,595	1,189	(58,121)	132,768
Trade and Other Payables	(89,969)	(24,226)	(21,166)	(16,324)	(2,858)	58,280	(96,263)
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**
of which Intercompany	*(2,461)*	*(2,720)*	*(631)*	*(449)*	*(234)*		
Net Financial Debt	**(181,937)**	**(22,207)**	**(28,537)**	**(2,571)**	**(4,479)**	**117**	**(239,614)**
of which Intercompany	*117*						

December 2016 *Euro thousands*	**Europe**	**North America**	**Central - South America**	**Asia**	**Rest of the World**	**Consolidation**	**F.I.L.A. Group**
Intangible Assets	140,368	6,085	4,976	66,980	107	(76)	218,440
Property, plant & equipment	44,788	3,035	6,820	26,323	355		81,321
Total Intangible and Tangible Assets	**185,156**	**9,120**	**11,796**	**93,303**	**463**	**(76)**	**299,761**
of which Intercompany	*(76)*						-
Inventories	77,053	47,859	33,391	25,147	2,690	(8,734)	177,406
Trade and Other Receivables	91,382	32,166	62,315	8,431	1,979	(82,691)	113,582
Trade and Other Payables	(98,518)	(24,623)	(33,283)	(13,056)	(3,656)	82,691	(90,445)
Other Current Assets and Liabilities	(907)	1,524	(356)	(107)			154
Net Working Capital	**69,010**	**56,926**	**62,067**	**20,415**	**1,013**	**(8,734)**	**200,697**
of which Intercompany	*(3,677)*	*(3,892)*	*(689)*	*(290)*	*(185)*		
Net Financial Debt	**(184,961)**	**(14,052)**	**(20,923)**	**(776)**	**(2,725)**		**(223,437)**

Geographical Segments – Income Statement

The income statement for the F.I.L.A. Group by geographical segment for 2017 and 2016 is reported below:

December 2017 *Euro thousands*	**Europe**	**North America**	**Central - South America**	**Asia**	**Rest of the World**	**Consolidation**	**F.I.L.A. Group**
Core Business Revenue	294,357	174,845	101,481	100,690	5,200	(166,219)	510,354
of which Intercompany	*(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)
of which Intercompany	*16,308*	*(2,578)*	*296*	*-*	*107*		
Net Profit/(loss)	(14,893)	15,462	472	2,758	(916)	14,484	17,367
Non-controlling interest profit	499	-	-	1,080	21		1,600
F.I.L.A. Group Net Profit	(15,392)	15,462	472	1,678	(937)	14,484	15,767

December 2016 *Euro thousands*	**Europe**	**North America**	**Central - South America**	**Asia**	**Rest of the World**	**Consolidation**	**F.I.L.A. Group**
Core Business Revenue	247,063	135,588	96,159	89,942	2,621	(148,764)	422,609
of which Intercompany	*(68,904)*	*(2,064)*	*(39,173)*	*(38,593)*	*(29)*		
EBITDA	20,717	17,623	13,641	10,162	305	(5,624)	56,824
Net financial expense	6,666	3,328	(1,575)	(487)	145	(13,857)	(5,780)
of which Intercompany	*(11,064)*	*(2,949)*	*112*	*-*	*44*		
Net Profit/(loss)	15,432	13,225	8,437	3,192	396	(18,709)	21,972
Non-controlling interest profit/(loss)	268	-	-	693	18		979
F.I.L.A. Group Net Profit/(loss)	15,164	13,225	8,437	2,499	378	(18,709)	20,993

Geographical Segments – Other Information

The "other information", concerning property, plant and equipment and intangible fixed asset investments of Group companies by geographical segment for December 31, 2017 and December 31, 2016 is reported below:

December 2017 *Euro thousands*	**Europe**	**North America**	**Central - South America**	**Asia**	**Rest of the World**	**F.I.L.A. Group**
Intangible Assets	2,014	-	18	11	8	2,050
Property, Plant and Equipment	14,585	477	1,440	5,318	28	21,848
Net Investments	**16,599**	**477**	**1,458**	**5,329**	**36**	**23,899**

** Allocation by "Entity Location"*

December 2016 *Euro thousands*	**Europe**	**North America**	**Central - South America**	**Asia**	**Rest of the World**	**F.I.L.A. Group**
Intangible Assets	756	-	-	75	-	831
Property, Plant and Equipment	5,257	755	1,173	4,311	119	11,615
Net Investments	**6,013**	**755**	**1,173**	**4,386**	**119**	**12,446**

** Allocation by "Entity Location"*

Investments

Group investments for the year totalled Euro 24,079 thousand, broken down between “Intangible Assets” for Euro 2,051 thousand and “Property, Plant and Equipment” for Euro 22,028 thousand, undertaken both to achieve leaner production and to support sales volume growth.

The main intangible investments concerned F.I.L.A. S.p.A. for the installation of the new ERP and residually “Concessions, Licenses, Trademarks and Similar Rights”.

Investments in “Land” entirely concerned DOMS Industries Pvt Ltd (India) which rolled out the Umargaon production site expansion, acquiring land for a total of Euro 565 thousand.

With regards to “Buildings”, Group investments totalled Euro 1,677 thousand and particularly concerned Daler Rowney Ltd (Euro 879 thousand concerning the construction of a new warehouse) and DOMS Industries PVT Ltd (Euro 485 thousand).

Investments in “Plant and Machinery” by the F.I.L.A. Group concerned the ongoing production facility expansion and production process streamlining. Particularly significant investments were made in 2017 by DOMS Industries Pvt Ltd (Euro 2,869 thousand for the upgrading of the Art Division production plant and the Jammu production facility), St. Cuthberts Mill Ltd (Euro 863 thousand), F.I.L.A. S.p.A. (Euro 534 thousand) and the two Daler Rowney Ltd companies (Euro 3,439 thousand) and Canson SAS (Euro 927 thousand) involved in the start-up of the new warehouses and the extension of the local production sites.

Investments in “Industrial and Commercial Equipment” in 2017 amounted to Euro 819 thousand, of which Euro 240 thousand by the Parent F.I.L.A. S.p.A., Euro 281 thousand by Lyra KG (Germany) and Euro 161 thousand by Daler Rowney Ltd (United Kingdom).

“Assets under Construction” include internal constructions undertaken by the individual companies of the Group which are not yet operational. The increase in the net carrying amount at December 31, 2017 was Euro 5,367 thousand, principally concerning the French company Canson SAS (Euro 6,361 thousand) for investments readying the new European logistics “Hub” at Annonay.

Other Information

Management and control

The Company is not considered under the management and control of the parent Pencil S.p.A. in accordance with Article 2497-bis of the Italian Civil Code.

Treasury shares

At December 31, 2017, the Company did not hold any treasury shares.

Research and development and Quality Control

The R&D and Quality Control functions are carried out by local teams at the various Group production companies.

These departments avails of, where necessary, the support of technicians and production staff for the execution and verification of specific projects.

Specifically, research and development is carried out principally in Europe, Central-South America and Asia, where the main production facilities are located.

These operations are performed by expert technicians, who receive ongoing upskilling through targeted training.

Research and development focuses essentially on the following:

- research and design of new materials and new technical solutions for product and packaging innovations;
- product quality testing;
- comparative analyses with competitor products in order to improve product efficiency;
- research and design for production process innovation in order to improve efficiency.

Over recent years, the projects created by the dedicated research and development team have led to the creation of innovative products, such as new formulas for modelling clay, new plastic materials, new designs for paint and watercolour boxes, new industrial segment products and the polymer ("woodfree") pencil. The team, in order to guarantee compliance with physical and chemical specification rules, constantly monitors the development of product regulations (such as, for example purposes, those concerning the use of preservatives), amending the formulas or developing new formulas for altered products.

Research and development and Quality Control costs are broken down in the following table, indicating also the dedicated teams by Group regions.

Euro thousands	R&D			Quality Assurance		
Geo Area	**Workers**	**Personnel Cost**	**Other related Costs**	**Workers**	**Personnel Cost**	**Other related Costs**
Europe	14	912	78	24	951	35
North America	-	-	-	2	95	65
Central-South America	10	152	120	42	275	123
Asia	22	116	62	71	283	95
Total	**46**	**1,179**	**261**	**139**	**1,603**	**318**

Transactions with Related Parties

For the procedures adopted in relation to transactions with related parties, also in accordance with Article 2391-bis of the Italian Civil Code, reference should be made to the procedure adopted by the parent pursuant to the Regulation approved by Consob with motion No. 17221 of March 12, 2010 and subsequent amendments, published on the website of the company www.filagroup.it in the "Governance" section.

Reference should be made to Annex 1 - Related Party Transactions of the Explanatory Notes to the Consolidated Financial Statements of the F.I.L.A. Group

Significant Events in the year

- On January 20, 2017, 52% of the share capital of FILA Art Products AG (Switzerland) was acquired, a company involved in the sale of F.I.L.A. Group writing, art and design products in Switzerland;

- on February 8, 2017, Lyra KG (Germany), a F.I.L.A. Group company controlled directly by F.I.L.A. S.p.A., sold 30% of its investment in Fila Nordic AB to non-controlling interests. The holding of Lyra KG (Germany) was 50% and therefore is considered a F.I.L.A. Group subsidiary as per the definition of control in IFRS 10;

- on April 20, 2017, the Indian company DOMS Industries Pvt Ltd subscribed a portion of the share capital increase of Pioneer Stationery Pvt Ltd (India) for a total of INR 5.1 million (approx. Euro 65 thousand). The transaction resulted in changes in the ownership of Pioneer Stationery Pvt Ltd (India), now held 51% by DOMS Industries Pvt Ltd (India);

- on July 21, 2017, the Indian subsidiary DOMS Industries Pvt Ltd acquired an additional 25% of Uniwrite Pens and Plastics Pvt Ltd, an Indian company specialised in writing tools and in particular ballpoint pens, previously held 35%. Consideration was approx. INR 9 million (approx. Euro 121 thousand), increasing the investment held by DOMS Industries Pvt Ltd in Uniwrite Pens and Plastics Pvt Ltd to 60%;

- on July 24, Canson SAS (France) signed with Mediocredito Italiano S.p.A. a long-term loan contract for a total of Euro 6.350 million to fund the construction of a warehouse located in Annonay, close to the city of Lyon. This loan is guaranteed by a mortgage on buildings owned by Canson and by a corporate surety issued by F.I.L.A. S.p.A. in guarantee of the payment obligations undertaken by Canson SAS in accordance with the loan contract;

- On July 26, 2017, F.I.L.A. S.p.A. announced the new composition of its share capital following the full execution of the share capital increase approved on April 27, 2017 by the Extraordinary Shareholders' Meeting, in accordance with Article 2349 of the Civil Code, for a nominal value of Euro 90.314, through the issue of 100,181 new ordinary shares, without nominal value, to be released through the use of a corresponding part of the existing retained earnings, allocated free of charge to employees of F.I.L.A. S.p.A. and its subsidiaries, beneficiaries of the extraordinary bonus approved by the ordinary shareholders' meeting of the same date;

- on August 31, 2017, the company Licyn Mercantil Industrial Ltda (Brazil) was merged by incorporation into Canson Brasil I.P.E. Ltda (Brazil), effective from September 1, 2017.

Subsequent events

On January 18, 2018, F.I.L.A. S.p.A., on the basis of strong operating and financial developments both at company and Group level, negotiated with the lending banks a number of amendments to the medium/long-term loan, contracted on May 12, 2016 for a total maximum amount of Euro 236,900 thousand and agreed with Intesa Sanpaolo S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A., Banca Nazionale del Lavoro S.p.A. and UniCredit S.p.A..

The amendments and supplements to the Loan Contract currently under negotiation with the lending banks related to the approval of improved conditions and terms for the company and the other Group companies, both in terms of reducing the financial charges on the loan and with regards to lessening the commitments in terms of the associated financial documentation and covenants. In addition, these amendments included the undertaking by the company F.I.L.A. S.p.A. of an additional debt of a total maximum amount of Euro 30 million from Banca Popolare di Milano, maturing on February 2, 2022, increasing the total amount set out under the loan contract to Euro 266.9 million.

Outlook

The Indian and Central-South American markets are expected to see sustained growth for the remainder of 2018, with substantially stable revenue growth in Europe and North America.
The commercial and strategic focus will centre both on school and office and Fine Art products, with the latter expected to see stronger growth.

Management will continue to target the production and commercial integration of the recently acquired entities, while as always ensuring satisfactory customer service. In particular focus will be placed on the initial roll out of the SAP system as the common Group ERP and the launch of the Annonay France warehouse as the main logistics hub for continental Europe.

Scheduled investments for 2018 concern new production plant and machinery and industrial equipment at the main Group production entities.

Going Concern

The Directors of F.I.L.A. S.p.A. reasonably expect that F.I.L.A. S.p.A. and all of the other Group companies will continue operations into the foreseeable future and have prepared the consolidated financial statements of F.I.L.A. S.p.A. on a going concern basis and in line with the long-term economic and financial plan, which forecasts improving results.

Risk Management

The principal F.I.L.A. Group financial instruments include financial assets such as current accounts and on demand deposits, loans and short and long-term bank loans and borrowings. The objective is to finance the recurring and non-recurring transactions of F.I.L.A. Group.
In addition, the F.I.L.A. Group has in place trade receivables and payables arising from "core business" operations.

The management of funding needs and the relative risks is undertaken by the individual F.I.L.A. Group companies on the basis of the guidelines drawn up by the CFO of the parent F.I.L.A. S.p.A. and approved by the Chief Executive Officer.
The principal objective of these guidelines is the ability to ensure a balanced equity structure in order to maintain a solid capital base.
The main funding instruments used by the F.I.L.A. Group are:

- medium/long-term loans, in order to fund capital expenditure (principally the acquisition of controlling investments and plant and machinery) and working capital;
- short-term loans and client advances subject to collection.

The average cost of debt was in line with the Euribor/Libor at 3 and 6 months, with the addition of a spread which depends on the type of financial instrument utilised.
Loans issued in favour of subsidiaries may be accompanied by guarantees such as sureties and patronage letters issued by the parent F.I.L.A. S.p.A..

Loans obtained by the parent F.I.L.A. S.p.A. provide for financial "covenants". In relation to these latter paragraphs reference should be made to: "Note 13 - Financial Liabilities" of the Explanatory Notes to the Consolidated Financial Statements.

The main financial risks, identified and managed by the F.I.L.A. Group are the following:

Market risks

Risk may be broken down into two categories:

Currency risk

The currency used for the F.I.LA. Group consolidated financial statements is the Euro. However, the F.I.LA. group undertakes and will continue to undertake transactions in currencies other than the Euro, particularly as the geographic distribution of the various Group industrial activities differs from the location of the group's markets, with an exposure therefore to exchange rate fluctuation risk. For this reason, the operating results of the F.I.L.A. Group may be impacted by currency movements, both as a result of the conversion into Euro on consolidation and changes in the exchange rates on trade payables and receivables in currencies other than the functional currency of the various F.I.L.A. Group companies.

In addition, in limited cases, where financially beneficial or where local market conditions require such, the company may undertake debt or use funds in currencies other than the functional currency. The change in the exchange rate may result in the realisation or the recording of exchange gains or losses.

The F.I.LA. Group is exposed to risks deriving from exchange rate fluctuations, which may impact on the profit for the year and on the net equity.

The principal exchange rates to which all F.I.L.A. Group companies are exposed concern the individual local currencies and:

- the Euro as the consolidation currency;
- the US Dollar, as the base currency for international trade.

The Group has decided not to undertake derivative financial instruments to offset currency risk arising from commercial transactions within a prospective twelve-month period (or also subsequently, where considered beneficial according to the business's characteristics).

The F.I.LA. Group incurs part of its costs and realises part of its revenues in currencies other than the Euro and, in particular, in US Dollars, Mexican Pesos and GB Pound.

The F.I.LA. Group generally adopts an implied hedging policy to protect against this risk through the offsetting of costs and revenue in the same currency, in addition to acquiring funding in the local currency.

The policy adopted by the Group is considered adequate to contain currency risk. However, it must be considered that in the future currently unpredictable movements in the Euro may impact the financial positions, financial performance and cash flows of the Group companies, in addition to the comparability between periods.

Also in relation to the commercial activities, the companies of the Group may hold trade receivables or payables in currencies other than the operational currency of the entity. This is appropriately monitored by the F.I.L.A. Group, both in relation to the potential economic impact and in terms of financial and liquidity risk.

A number of F.I.L.A. Group subsidiaries are based in countries not within the Eurozone, in particular the United States, Canada, Australia, Mexico, the United Kingdom, Scandinavia, China, Argentina, Chile, Brazil, Indonesia, South Africa, Russia and India. As the Group's functional currency is the Euro, the income statements of these companies are translated into Euro at the average exchange rate and, at like-for-like revenue and margin in the local currency, changes in the exchange rate may result in effects on the value in Euro of revenues, costs and results recognised in consolidation directly to equity in the account "Translation Differences" (See Note 12).

In 2017, the nature and the structure of the exchange risk exposures and the Group monitoring policies did not change substantially compared to the previous year.

Liquidity risk

The liquidity risk to which the F.I.L.A. Group is exposed may arise from an incapacity or difficulty to source, at beneficial conditions, the financing necessary to support operations in an appropriate timeframe.
The cash flows, financing requirements and the liquidity of the Group companies are constantly monitored centrally in order to guarantee the efficient management of financial resources.

The above-stated risks are monitored according to internal procedures and periodic commercial and financial reporting, which allows management to assess and offset any impacts from these risks through appropriate and timely policies.

The Group continually monitors financial risks in order to offset any impacts and undertake appropriate corrective actions.
It has adopted at the same time the following policies and processes aimed at optimising the management of financial resources, reducing the liquidity risk:

- maintenance of an adequate level of liquidity;
- diversification of funding instruments and a continual and active presence on the capital markets;
- obtaining of adequate credit lines;
- monitoring of the liquidity position, in relation to business planning.

Financial transactions are carried out with leading highly rated Italian and international institutions.
Management believes that the funds and credit lines currently available, in addition to those that will be generated from operating and financing activities, will permit the Group to satisfy its requirements deriving from investing activities, working capital management and the repayment of debt in accordance with maturities.
The capacity to generate liquidity through operations enables the Group to reduce liquidity risk to the minimum, which concerns the difficulty in sourcing funding to ensure the on-time discharge of financial liabilities.

Interest rate risk

The F.I.L.A. Group companies utilise external funding in the form of debt and use the liquidity available in financial assets. Changes in the market interest rates impact on the cost and return of the various forms of loans, with an effect therefore on the net financial expense of the Group.

The parent F.I.L.A. S.p.A. issues loans almost exclusively to Group companies, directly on own funds.

Bank debt exposes the F.I.L.A. Group to interest rate risk. In particular, variable rate loans result in cash flow risk.

The F.I.L.A. Group chose to hedge the interest rate on the strategic loans issued to F.I.L.A. S.p.A. and Canson SAS (France) through derivative hedges (Interest Rate Swaps) recognised as per IAS 39 concerning hedge accounting.

Credit risk

The credit risk represents the exposure to potential losses following the non-fulfilment of obligations by counterparties.

The maximum theoretical exposure to the credit risk for the Group at December 31, 2017 is the carrying amount of the commercial assets recorded in the accounts, and the nominal amount of the guarantees given on debts and commitments to third parties.

The F.I.L.A. Group strives to reduce the risk relating to the insolvency of its customers through rules which ensure that sales are made to customers who are reliable and solvent. These rules, based on available solvency information and considering historical data, linked to exposure limits by individual clients, in addition to insurance coverage on overseas clients (at Group level), ensure a good level of credit control and therefore minimise the relative risk.

According to the F.I.L.A. Group policy, customers that request extensions of payment are subject to a credit rate check. In addition, the maturity of trade receivables is monitored on an ongoing basis throughout the year in order to anticipate and promptly intervene on credit positions which present greater risk levels.

The credit risk is therefore offset by the fact that the credit concentration is low, with receivables divided among a large number of counterparties and clients.

The individual positions are written down, if individually significant, with an allowance which reflects the partial or total non-recovery of the receivable. The amount of the write-down takes into account the estimate of the recoverable cash flows and the relative date of collection, charges and future recovery costs, in addition to the Fair Value of guarantees. Against the receivables which are not individually written down, an individual and general provision is made, taking into account historical experience and statistical data.

As previously illustrated, the principal F.I.L.A. Group financial instruments include financial assets such as current accounts and on demand deposits, loans and short and long-term bank loans and borrowings. The objective is to finance the recurring and non-recurring activities of the F.I.L.A. Group.

In addition, the F.I.L.A. Group has in place trade receivables and payables arising from "core business" operations.

Disclosure in accordance with IFRS 7

The table below reports the carrying amounts for each category identified by IAS 39, as required by IFRS 7, with regard to the years ended December 31, 2017 and 2016.

Euro thousands		December 31, 2017	Bank Loan and Receivables	Asset available for sales	Asset Measured at Equity	Asset and liabilities measurement at FV booked in OCI	Amortized Cost	Fair Value
Non-Current financial assets								
Financial assets	Nota 3	**3,918**	2,865			1,053		**3,918**
Investments Measured at Equity	Nota 4	**782**			782			**782**
Investments Measured at Cost	Nota 5	**31**		31				**31**
Current financial assets								
Current financial assets	Nota 3	**419**	419					**419**
Trade and Other Receivables	Nota 9	**132,768**	132,768					**132,768**
Cash and Cash Equivalents	Nota 10	**38,558**	38,558					**38,558**
Non current financial liabilities								
Non current financial liabilities	Nota 13	**(178,889)**					(178,889)	**(178,889)**
Financial Instruments	Nota 17	**(35)**				(35)		**(35)**
Current financial libilities								
Current financial libilities	Nota 13	**(99,673)**					(99,673)	**(99,673)**
Trade and Other Payables	Nota 19	**(96,263)**					(96,263)	**(96,263)**

Euro thousands		December 31, 2016	Bank Loan and Receivables	Asset available for sales	Asset Measured at Equity	Asset and liabilities measurement at FV booked in OCI	Amortized Cost	Fair Value
Non-Current financial assets								
Financial assets	Nota 3	**3.709**	3.247			462		**3.709**
Investments Measured at Equity	Nota 4	**271**			271			**271**
Investments Measured at Cost	Nota 5	**31**		31				**31**
Current financial assets								
Current financial assets	Nota 3	**275**	275					**275**
Trade and Other Receivables	Nota 9	**113,582**	113,582					**113,582**
Cash and Cash Equivalents	Nota 10	**59.519**	59.519					**59.519**
Non current financial liabilities								
Non current financial liabilities	Nota 13	**(190,052)**					(190,052)	**(190,052)**
Financial Instruments	Nota 17	-						-
Current financial libilities								
Current financial libilities	Nota 13	**(93,534)**					(93,534)	**(93,534)**
Trade and Other Payables	Nota 19	**(90,445)**					(90,445)	**(90,445)**

Financial liabilities measured at amortised cost principally concern the loan undertaken by F.I.L.A. S.p.A. in 2016, issued by a banking syndicate comprising UniCredit S.p.A. as "Global coordinator -

Mandated Lead Arranger", Intesa Sanpaolo S.p.A. – Banca IMI, Mediobanca Banca di Credito Finanziario S.p.A. and Banca Nazionale del Lavoro S.p.A. as "Mandated Lead Arranger". The loan was disbursed in February 2016 for Euro 109,357 thousand, against the total granting of Euro 130,000 thousand, including a "Revolving Credit Facility" of Euro 10,000 thousand in support of the acquisition of the Daler-Rowney Lukas Group. In May 2016, the company obtained an extension to the loan for a total nominal amount of Euro 236,900 thousand, following the acquisition of the Canson Group (hereafter "Facility A2" and "Facility B").

F.I.L.A. S.p.A. and Canson SAS (France) undertook derivative hedges against movements in the interest rates of the structured loans contracted. The Interest Rate Swaps, structured with fixed rate payments against variable payments, qualified as derivative hedges and were considered as per the hedge accounting provisions of IAS 39. The fair value at December 31, 2017 amounts to Euro 1,053 thousand ("Non-current financial assets" in F.I.L.A. S.p.A.) and Euro 35 thousand ("Financial instruments" liabilities in Canson SAS), with the fair value adjustment recognised as an equity reserve.

In accordance with IFRS 7, the effects on the profit or loss and equity in relation to each category of financial instruments of the Group in the years 2017 and 2016 are shown below, which mainly includes the gains and losses deriving from the purchase and sale of financial assets or liabilities, as well as the changes in the value of the financial instruments measured at fair value and the interest expense/income matured on the financial assets/liabilities measured at amortised cost.

Financial gains and losses are recognised to the profit or loss:

Euro thousands	**December 31, 2017**	**December 31, 2016**
Interest Income from Bank Deposits	39	141
Total financial income	**39**	**141**
Financial Assets and Liabilities at Amortised Cost	(960)	(488)
Exchange Gains/(Losses) on Financial transations	1,081	1,169
Total financial expenses	**121**	**681**
Total net financial expenses	**160**	**823**

Non-current loans are broken down below; the F.I.L.A. Group financial statement classification is based on the settlement time criterion, as expressed by the contracts underlying each liability.

For greater detail on the breakdown of financial liabilities, reference should be made to "Note 13.A - Financial Liabilities".

Euro thousands	December 31, 2017	December 31, 2016
Non-current financial payables	**178,924**	**190,052**
Banks - Principal third parties	181,820	194,768
Banks - Interest third parties	(3,400)	(4,866)
Banks	**178,420**	**189,902**
Other Lenders - Principal third parties	513	164
Other Lenders - Interest third parties	(44)	(14)
Other lenders	**469**	**150**
Loans and borrowings - beyond one year	**178,889**	**190,052**
Financial Instruments - Principal	35	-
Financial instruments	**35**	**-**

The account "Other lenders" includes the non-current portion of loans issued by banks and other lenders or the non-current portion of finance leases.

The balance at December 31, 2017 was Euro 178,924 thousand, of which Euro 178,420 thousand concerning bank loans and borrowings, Euro 469 thousand loans from other lenders and Euro 35 thousand concerning the Interest Rate Swap undertaken by Canson SAS.

Euro thousands	December 31, 2017	December 31, 2016
Current financial payables	**99,673**	**93,534**
Banks - Principal third parties	72,875	71,252
Banks - Interest third parties	254	205
Banks	**73,129**	**71,458**
Other Lenders - Principal third parties	8,249	16,485
Other Lenders - Interest third parties	(10)	12
Other lenders	**8,239**	**16,497**
Bank Overdrafts - Principal third parties	18,133	5,546
Bank Overdrafts - Interest third parties	172	34
Bank overdrafts	**18,305**	**5,580**
Loans and borrowings - due within one year	**99,673**	**93,534**

The balance at December 31, 2017 was Euro 99,673 thousand, of which Euro 73,129 thousand concerning bank loans and borrowings, Euro 8,239 thousand concerning loans issued by other lenders and Euro 18,305 thousand bank overdrafts.

Financial liabilities to “Other lenders” principally concern the price adjustment contractual mechanism, based on profitability indicators, adopted for the acquisition of the Canson Group, with F.I.L.A. S.p.A. recognising Euro7,500 thousand to the counterparties involved in the business combination.

Receivables at December 31, 2017 were as follows:

Euro thousands	December 31, 2017	December 31, 2016	Variazione
Trade Receivables	118,701	102,689	16,012
Tax Receivables	5,198	4,070	1,128
Other Receivables	5,560	4,314	1,246
Prepayments and Accrued Income	3,309	2,509	800
Total	**132,768**	**113,582**	**19,186**

Payables at December 31, 2017 were as follows:

Euro thousands	December 31, 2017	December 31, 2016	Variazione
Trade Payables	68,374	63,170	5,204
Tax Payables	7,096	5,291	1,805
Other Payables	19,416	20,490	(1,074)
Accrued Liabilities & Def.Income	1,377	1,494	(117)
Total	**96,263**	**90,445**	**5,818**

In relation to “Trade and Other Liabilities” and “Trade and Other Assets”, reference should be made to “Note 9.A - Trade and Other Assets” and “Note 19.A - Trade and Other Liabilities”.

Sensitivity Analysis

In accordance with IFRS 7 and further to that outlined in the "Directors' Report – Financial Risks", the following is reported:

Currency risk

Net exposure of the main currencies:

	December 31, 2017			December 31, 2016		
(in Euro thousands)	USD	MXN	CNY	USD	MXN	CNY
Trade Receivables	41,392	677,105	2,427	25,309	519,389	7,960
Financial Assets	912	7,080	533	60,285	7,378	1,761
Financial Liabilities	(21,671)	(505,139)	(37,204)	(15,037)	(389,424)	(29,913)
Trade Payables	(16,426)	(138,360)	(27,308)	(10,430)	(147,461)	(22,756)
Net Balance sheet Exposure	**4,207**	**40,686**	**(61,551)**	**60,126**	**(10,118)**	**(42,949)**

The impact on the profit or loss and the statement of financial position, both negative, following an increase of 10% in the exchange rate of the main foreign currencies against the Euro, would be approx. negative Euro 242 thousand (Euro 4,610 thousand at December 31, 2016).

Closing exchange rates applied:

Closing Exchange Rate		
Currency	December 31, 2017	December 31, 2016
USD /€	1.199	1.054
MXN /€	23.661	21.772
CNY /€	7.804	7.320

Effect of a 10% increase against the Euro exchange rate:

Change in Equity		
Currency	December 31, 2017	December 31, 2016
USD /€	319	5,185
MXN /€	156	(42)
CNY /€	(717)	(533)
Total	**(242)**	**4,610**

Interest rate risk

The current F.I.L.A. Group policy is to maintain variable interest rates, monitoring the interest rate curve.

The financial assets and liabilities at variable rates are reported below:

Euro thousands	December 31, 2017	December 31, 2016
Financial Liabilities	278,598	283,586
Financial assets/liabilities at variable rate	**278,598**	**283,586**

The financial instruments at variable rates typically include cash and cash equivalents, loans granted to a number of Group companies and part of the loans and borrowings.

A change of 100 "basis points" in the interest rates applicable to financial assets and liabilities at variable rates in place at December 31, 2017 would result in the following impacts on the financial position and financial performance on an annual basis.

Euro thousands	Equity	
	+ 100 bps	**- 100 bps**
December 31, 2017		
Financial Assets/Liabilities at Variable Rate	2,786	(2,786)
December 31, 2016		
Financial Assets/Liabilities at Variable Rate	2,836	(2,836)

The same variables are maintained to establish the profit or loss and the statement of financial position at December 31, 2017.

The capital portions of financial assets and liabilities of the F.I.L.A. Group are broken down by contractual maturity for 2017 and 2016, in line with "Note 13.A – Financial Liabilities":

December 31, 2017 *Euro thousands*	**Within 12 months**	**Within 1-2 years**	**Within 2-3 years**	**Within 3-4 years**	**Within 4-5 years**	**Total**
Financial assets						
Cash and Cash Equivalents	38,558	-	-	-	-	38,558
Loans and Receivables	352	-	-	-	6	358
Financial liabilities						
Financial loan and borrowing - Banks (1)	72,875	30,501	36,970	20,500	90,449	251,295
Other Lenders	8,239	109	118	82	160	8,708
Expected cash flow	**(42,204)**	**(30,610)**	**(37,088)**	**(20,582)**	**(90,603)**	**(221,086)**

(1) The principal of bank loan amounts to 254,695 thousand euro, the medium-long term part has been adjusted considering an amortized cost of 3,400 thousand Euro. The net value is 251,296 thousand Euro.

December 31, 2016 *Euro thousands*	**Within 12 months**	**Within 1-2 years**	**Within 2-3 years**	**Within 3-4 years**	**Within 4-5 years**	**Total**
Financial assets						
Cash and Cash Equivalents	59,519	-	-	-	-	59,519
Loans and Receivables	-	355	-	-	-	355
Financial liabilities						
Financial loan and borrowing - Banks	71,252	18,836	29,449	36,123	105,494	261,154
Other Lenders	16,485	123	20	15	6	16,650
Expected cash flow	**(28,219)**	**(18,604)**	**(29,469)**	**(36,138)**	**(105,500)**	**(217,930)**

(1) The principal of bank loan amounts to 266,020 thousand euro, the medium-long term part has been adjusted considering an amortized cost of 4,866 thousand Euro. The net value is 261.154 thousand Euro.

Credit Risk

At December 31, 2017, the account "Trade and Other Assets" totalling Euro 132,768 thousand (Euro 113,582 thousand at December 31, 2016) is reported net of the relative allowance for impairment of Euro 5,262 thousand (Euro 4,794 thousand at December 31, 2016).

The aging of trade receivables at December 31, 2017 (Euro 118,701 thousand) compared with December 31, 2016 is reported below:

GROSS TRADE RECEIVABLES: AGEING			
Euro thousands	**December 31, 2017**	**December 31, 2016**	**Change**
Not yet due	79,320	69,045	10,275
Overdue between 0-60 days	23,238	20,448	2,790
Overdue between 60-120 days	7,295	7,267	28
Overdue beyond 120 days	8,848	5,930	2,918
Total amount	**118,701**	**102,689**	**16,011**

Trade receivables classified by type of creditor are also presented below:

TRADE RECEIVABLES THIRD PARTIES - DISTRIBUTION CHANNEL

Euro thousands	December 31, 2017	December 31, 2016	Change
Wholesalers	39,192	33,230	5,962
School/Office Suppliers	12,130	11,861	270
Supermarkets	36,214	36,414	(200)
Retailers	19,743	7,722	12,021
Distributors	6,056	5,668	388
Promotional & B2B	3,385	4,713	(1,328)
Other	1,981	3,081	(1,100)
Third parties	**118,701**	**102,689**	**16,012**

In conclusion, the breakdown of trade receivables by geographical segment is presented below:

TRADE RECEIVABLES: BY GEOGRAPHICAL SEGMENT

Euro thousands	December 31, 2017	December 31, 2016	Change
Europe	36,603	34,162	2,441
North America	36,136	26,156	9,980
Central/South America	38,643	33,785	4,858
Asia	5,000	4,278	722
Rest of the world	2,319	4,308	(1,989)
Total	**118,701**	**102,689**	**16,012**

Environment and Safety

“Environment and Safety” issues are managed at local level by the F.I.L.A. Group companies under the applicable regulations and in accordance with the “Group policy”.

Within the F.I.L.A. Group a manager-in-charge of “Environment and Safety” is appointed by each local entity, reporting to the respective General Managers, who in turn report to the parent F.I.L.A. S.p.A..

“Environment and Safety” for F.I.L.A. S.p.A. has been managed with the support of a specialised consultancy firm for a number of years. The actions implemented by F.I.L.A. S.p.A. are in line with the environmental and workplace safety regulation (Legislative Decree Nos. 626 and No. 81 of April 9, 2008). Waste is appropriately disposed of and its movement is properly recorded in approved registers. F.I.L.A. S.p.A. is OHSAS 18001: 2007 certified with validity until 2019, and the last Audit concluded positively without any issues arising in December 2017. All employees are assigned a competent workplace doctor (under Legislative Decree No. 81/08) and obligatory visits are provided for.

During the year no significant problems emerged in relation to the environment and safety area. The ongoing environmental reclamation at the lands owned by the US subsidiary relates to previous industrial activity before the acquisition by F.I.L.A. S.p.A..

The company, in accordance with Article 5, paragraph 3, letter b of Legislative Decree 254/2016 has drawn up the consolidated non-financial disclosure as a separate report. The 2017 consolidated non-financial disclosure, drawn up as per the “GRI Standards” and subject to limited audit by KPMG S.p.A. is available on the Group website.

Personnel

The FILA Group at the end of 2017 had 8,439 employees (7,724 at December 31, 2016), of which over 99% on full-time contracts. The workforce is 47% female and who represent over 80% of part-time contracts.

The increase of 715 was mainly in Asia and, particularly, at the Indian company DOMS Industries Pvt Ltd which launched major plant expansion projects during the year.

Two tables breaking down the F.I.L.A. Group workforce at December 31, 2017 and December 31, 2016 respectively by geographical segment and category are presented below:

	Europe	North America	Central - South America	Asia	Rest of the World	Total
December 31, 2016	**1,114**	**171**	**1,768**	**4,636**	**35**	**7,724**
December 31, 2017	**1,099**	**206**	**1,836**	**5,263**	**35**	**8,439**
Change	**(15)**	**35**	**68**	**627**	**0**	**715**

Globally, the majority of F.I.L.A. Group personnel are located in Asia (with over 60% of Group personnel at the end of 2017), followed by Central and South America (over 20%), Europe (over 12%), North America and the Rest of the World. The majority of the workforce in fact are based in the countries in which the main production facilities are located (India, China and Mexico).

	Manager	White-collar	Blue-collar	Total
December 31, 2016	**168**	**1,698**	**5,858**	**7,724**
Increase	36	554	4,000	4,590
Decrease	23	433	3,419	3,875
December 31, 2017	**181**	**1,819**	**6,439**	**8,439**

The 2017 average workforce of the F.I.L.A. Group was 8,082, increasing 534 on December 31, 2016.

	Europe	North America	Central/South America	Asia	Rest of the World	Total
Executives	70	30	13	19	9	141
Manager/White-collar	429	87	384	741	13	1,654
Blue-collar	602	69	1,402	3,667	13	5,753
Total at December 31, 2016	**1,101**	**186**	**1,799**	**4,427**	**35**	**7,548**
	Europe	**North America**	**Central/South America**	**Asia**	**Rest of the World**	**Total**
Executives	97	32	16	23	6	174
Manager/White-collar	434	66	400	842	17	1,759
Blue-collar	576	91	1,386	4,084	12	6,149
Total at December 31, 2017	**1,107**	**189**	**1,802**	**4,949**	**35**	**8,082**
Change	**6**	**3**	**3**	**522**	**-**	**534**

The bonuses received by F.I.L.A. Group Managers in the year were as follows:

BENEFITS AND OTHER INCENTIVES FOR MANAGERS

Euro thousands	December 2017	December 2016	Nature
Bonus	1,888	1,851	Perfomance Bonus
Total amount	**1,888**	**1,851**	

In 2017, as in previous years, F.I.L.A. Group personnel undertook training and upskilling courses, particularly in the administrative areas in order to maintain appropriate professional standards, in line with the “Group policy”.

Corporate Governance

For further information on corporate governance, reference should be made to the Corporate Governance and Ownership Structure Report, prepared in accordance with Article 123-bis of the Consolidated Financial Act (TUF), approved by the Board of Directors of the parent, together with the Directors' Report made available by the parent at the registered office of the parent, as well as on the Group website (www.filagroup.it - Governance section).

The disclosure pursuant to paragraphs 1 and 2 of Article 123-bis of Legislative Decree No. 58/1998 is contained in the "Corporate Governance and Ownership Structure Report" and the "Remuneration Report", prepared in accordance with Article 123-ter of Legislative Decree No. 58/1998; both these reports, approved by the Board of Directors, are published in accordance with the terms required by regulations on the website of the parent www.filagroup.it.

Disclosures pursuant to Articles 70 and 71 of the Consob Regulation no. 11971/1999.

With effect from October 21, 2013, the Board of Directors of Space S.p.A. (now F.I.L.A. S.p.A.), in relation to the provisions of Articles 70, paragraph 8 and 71 and paragraph 1-*bis* of Consob Regulation No. 11971/1999 and subsequent amendments, opted for the exemption from publication of disclosure documents established under the above-stated Consob Regulation in the case of significant mergers, demergers, share capital increases through conferment of assets in kind, acquisitions and sales.

The following table outlines the total emoluments recognised to members of the Board of Directors and the Board of Statutory Auditors for offices held at F.I.L.A. S.p.A., in addition to remuneration of any nature, in the case of "performance bonuses and one-off remuneration" received in 2017.

Euro thousands	**Emoluments for Office**	**Other Remuneration (Bonus)**
Directors	1,525	1,735
Statutory Auditors	76	-
Total amount	**1,601**	**1,735**

For further information, reference should be made to the Remuneration Report published on the website of the company www.filagroup.it.

The Shareholders' Meeting of F.I.L.A. S.p.A. approved on February 20, 2015 the appointment of KPMG S.p.A. for the years 2015-2023 for the audit services as per Article 2409-ter of the Italian Civil Code and the audit of the separate financial statements of F.I.L.A. S.p.A. and the consolidated financial statements of the F.I.L.A. Group.

Reconciliation between Parent and Consolidated Equity and Profit for the Year

Euro thousands	Equity December 31, 2016	Equity changes	Net Result 2017	Equity December 31, 2017
F.I.L.A. S.p.A. Financial Statements	**161,840**	**(491)**	**6,933**	**168,282**
Consolidation effect of the financial statements of subsidiarie	63,544	1,126	8,834	73,503
Translation Reserve	(10,904)	(15,932)	0	(26,836)
F.I.L.A. Group Consolidated Financial Statements	**214,480**	**(15,298)**	**15,767**	**214,949**
Non-controlling interest equity	24,489	(1,461)	1,600	24,628
Consolidated Financial Statements	**238,970**	**(16,759)**	**17,367**	**239,577**

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Dear F.I.L.A. S.p.A. Shareholders,

We submit for Your approval the Separate and Consolidated Financial Statements as at and for the year ended December 31, 2017, comprising the statement of financial position, the statement of comprehensive income, the statement of change in equity and the statement of cash flow and the notes, with the relative attachments, which report a profit of Euro 6,933,129.92 and we propose:

1. to allocate the profit for the year to “Retained Earnings” for Euro 3,213,206.92;
2. to distribute the residual “Profit for the year” of Euro 3,719,923 as dividend and, therefore, to distribute a dividend of Euro 0.09 for each of the 41,332,477 ordinary shares currently in circulation, while it should be noted that in the case where the total number of shares of the Company currently in circulation should increase, the total amount of dividend will remain unchanged and the unit amount will be automatically adjusted to the new number of shares; the dividend will be issued with coupon, record and payment dates respectively of May 21, 22 and 23, 2018.

The Board of Directors
THE CHAIRMAN
GIANNI MION
(signed on the original)

CONSOLIDATED FINANCIAL STATEMENTS OF THE F.I.L.A. GROUP AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017

III Consolidated Financial Statements F.I.L.A. Group at December 31, 2017

Consolidated Financial Statements

Statement of Financial Position

Euro thousands		December 31, 2017	December 31, 2016
Assets		**675,970**	**680,501**
Non-Current Assets		**316,837**	**324,614**
Intangible Assets	Note 1	208,091	218,440
Property, Plant and Equipment	Note 2	88,355	81,321
Non-Current Financial Assets	Note 3	3,918	3,709
Investments Measured at Equity	Note 4	782	271
Investments Measured at Cost	Note 5	31	31
Deferred Tax Assets	Note 6	15,660	20,842
Current Assets		**359,133**	**355,887**
Current Tax Receivables	Note 3	419	275
Deferred Tax Assets	Note 7	8,689	5,105
Inventories	Note 8	178,699	177,406
Trade and Other Receivables	Note 9	132,768	113,582
Cash and Cash Equivalents	Note 10	38,558	59,519
LIABILITIES AND EQUITY		**675,970**	**680,501**
Equity	Note 12	**239,577**	**238,970**
Share Capital		37,261	37,171
Reserves		23,872	35,550
Retained Earnings		138,049	120,767
Net Profit for the period		15,767	20,993
Group Equity		**214,949**	**214,481**
Non-controlling interest equity		**24,628**	**24,489**
Non-Current Liabilities		**229,092**	**250,152**
Non-Current Financial Liabilities	Note 13	178,889	190,052
Financial Instruments	Note 17	35	-
Employee Benefits	Note 14	8,736	11,343
Provisions for Risks and Charges	Note 15	2,095	1,618
Deferred Tax Liabilities	Note 16	39,241	47,034
Other Payables	Note 19	96	105
Current Liabilities		**207,301**	**191,379**
Current Financial Liabilities	Note 13	99,673	93,534
Provisions for Risks and Charges	Note 15	2,917	2,449
Current Tax Payables	Note 18	8,448	4,951
Trade and Other Payables	Note 19	96,263	90,445

Statement of Comprehensive Income

Euro thousands		December 31, 2017	December 31, 2016
Revenue from Sales and Services	Note 20	510,354	422,609
Other Revenue and Income	Note 21	18,300	19,652
Total Revenue		**528,654**	**442,261**
Raw Materials, Ancillary, Consumables and Goods	Note 22	(227,453)	(196,991)
Services and Rent, Leases and Similar Costs	Note 23	(115,701)	(101,731)
Other Operating Costs	Note 24	(19,338)	(20,313)
Change in Raw Materials, Semi-Finished, Work-in-progress & Finished Prod.	Note 22	13,245	15,997
Personnel expense	Note 25	(106,283)	(82,399)
Amortisation & Depreciation	Note 26	(17,759)	(14,910)
Write-downs	Note 27	(2,097)	(828)
Total Operating Costs		**(475,386)**	**(401,175)**
EBIT		**53,268**	**41,086**
Financial Income	Note 28	3,118	4,470
Financial Expense	Note 29	(25,543)	(10,231)
Income/Expense from Investments at Equity	Note 31	66	(19)
NET FINANCIAL CHARGES		**(22,359)**	**(5,780)**
Pre-Tax Profit/(loss)		**30,909**	**35,306**
Income Taxes		(15,719)	(14,385)
Deferred Tax Income and Expense		2,177	1,051
Total Income Taxes	Note 32	**(13,542)**	**(13,334)**
NET PROFIT/(LOSS) - CONTINUING OPERATIONS		**17,367**	**21,972**
NET PROFIT - DISCONTINUED OPERATIONS		**-**	**-**
Net Profit/(Loss) for the Period		**17,367**	**21,972**
Attributable to:			
Profit attributable to non-controlling interests		**1,600**	**979**
Profit/(loss) attributable to shareholders of the parent		**15,767**	**20,993**
Other Comprehensive Income Items which may be reclassified subsequently in the profit or loss account		**(16,973)**	**(9,922)**
Translation Difference recorded in Equity		(17,529)	(10,384)
Adjustment Fair value of Hedges		556	462
Other Comprehensive Income Items which may not be reclassified subsequently in the profit or loss account		**1,782**	**(1,961)**
Actuarial Gains/(Losses) for Employee Benefits recorded directly in Equity		2,387	(2,216)
Income Taxes on income and charges recorded directly to Equity		(605)	255
Other Comprehensive Income Items (net of tax effect)		**(15,191)**	**(11,883)**
Total Comprehensive Income		**2,176**	**10,089**
Attributable to:			
Profit attributable to non-controlling interests		**154**	**1,100**
Profit/(loss) attributable to shareholders of the parent		**2,022**	**8,989**
Earnings per share:			
	basic	*0.38*	*0.51*
	diluted	*0.38*	*0.50*

Statement of changes in Equity

Euro thousands	Share capital	Legal Reserve	Share Premium Reserve	IAS 19 Reserve	Other Reserves	Translation Difference	Retained Earnings	Group Profit/(loss)	Group Equity	Non-Control. Int. Capital and Reserves	Non-Control. Int. Profit/Loss	Non-Control. Int. Equity	Total Equity
December 31, 2016	**37,171**	**7,434**	**65,349**	**(3,303)**	**(23,026)**	**(10,904)**	**120,767**	**20,993**	**214,481**	**23,510**	**979**	**24,489**	**238,970**
Net Profit								15,767	15,767		1,600	1,600	17,367
Other Changes in the period	90			1,632	2,622	(15,932)			(11,588)	(1,295)		(1,295)	(12,883)
Gains/(losses) recorded directly to equity	**90**	**-**	**-**	**1,632**	**2,622**	**(15,932)**	**-**	**15,767**	**4,179**	**(1,295)**	**1,600**	**305**	**4,484**
Allocation of the 2016 result							20,993	(20,993)	-	979	(979)	-	-
Allocation to reserves									-			-	-
Dividends							(3,711)		(3,711)	(166)		(166)	(3,877)
December 31, 2017	**37,261**	**7,434**	**65,349**	**(1,671)**	**(20,404)**	**(26,836)**	**138,049**	**15,767**	**214,949**	**23,028**	**1,600**	**24,628**	**239,577**

Note:
1) The figures at December 31, 2017 correspond to the consolidated financial statements of F.I.L.A.Group as at and. for the year ended December 31, 2017, as approved by the Shareholders' Meeting of F.I.L.A. S.p.A. on April 27, 2018.
2) For information on the changes in the equity account, reference should be made to Note 12 of the Notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

Euro thousands		December 31, 2017	December 31, 2016
EBIT		**53,268**	**41,086**
Adjustments for non-cash and other items:		**24,822**	**18,948**
Amortisation & Depreciation	Note 1 - 2	17,759	14,910
Write-down and Recovery in Value	Note 1 - 2	135	10
Doubtful Debt Provision	Note 9	(379)	819
Cost for Staff Living Indemnities		5,310	2,175
Exch. effect on Assets and Liabilities in Foreign Curr. of Commercial Transactions	Note 24	2,065	1,083
Gain/Losses of non-current assets Disposals	Note 21	(68)	(49)
Integrations for:		**(21,378)**	**(11,901)**
Income Taxes Paid	Note 7 - 18	(14,849)	(11,987)
Unrealised Exchange Rate Differences on Assets and Liabilities in Foreign Currencies	Note 28 - 29	(2,832)	3,871
Realised Exchange Rate Differences on Assets and Liabilities in Foreign Currencies	Note 28 - 29	(3,697)	(3,785)
Cash Flow from Operating Activities Before Changes in NWC		**56,712**	**48,133**
Changes in Net Working Capital:		**(33,069)**	**(6,437)**
Change in Inventories	Note 8	(10,818)	(16,470)
Change in Trade and Other Receivables	Note 9	(28,495)	(4,607)
Change in Trade and Other Payables	Note 19	9,906	15,409
Change in Other Assets/Liabilities	Note 15 - 16 - 6	(863)	348
Change in Post-Employment and Employee Benefits	Note 14	(2,799)	(1,117)
Cash Flow from Operating Activities		**23,643**	**41,696**
Total Investment/Divestment in Intangible Assets	Note 1	(2,051)	(831)
Total Investment/Divestment in Property, Plant and Equipment	Note 2	(21,848)	(11,615)
Total Investment/Divestment of Investments measured at Equity, net of Income/Expense & Adjustments (Uniwrite Pens and Plastics Pvt Ltd)		(197)	(290)
Totale Investimenti/Disinvestimenti in Partecipazioni valutate al Costo	Note 5	990	-
Total Investment/Divestment in Other Financial Assets	Note 3	137	1,799
Acquisition of investment in Daler & Rowney Lukas Group		-	(16,875)
Acquisition of investment in Pioneer Stationary Pvt Ltd		-	(13)
Acquisition of investment in St Cuthberts		-	(6,727)
Acquisition of investment in Canson		-	(61,034)
Interest Received		139	105
Cash Flow used in Investing Activities		**(22,830)**	**(95,481)**
Total Change in Equity	Note 12	(3,833)	(4,461)
Interest paid	Note 29	(8,425)	(5,761)
Total Increase/Decrease Loans and Other Financial Liabilities	Note 13	(23,951)	226,566
Cash Flow used in Financing Activities		**(36,209)**	**216,343**
Translation difference	Note 12	(17,529)	(10,384)
Other non-cash equity changes		19,416	4,157
NET CASH FLOW IN THE YEAR		**(33,509)**	**156,331**
Cash and Cash Equivalents net of Bank Overdrafts at beginning of the period		53,973	17,542
Cash and Cash Equivalents net of Bank Overdrafts at beginning of the period (change in consolidation scope)		(39)	(119,901)
Cash and Cash Equivalents net of Bank Overdrafts at end of the year		**20,425**	**53,973**

1) *Cash and cash equivalents at December 31, 2017 totalled Euro 38,558 thousand; current account overdrafts amounted to Euro 18,133 thousand net of relative interest.*
2) *Cash and cash equivalents at December 31, 2016 totalled Euro 59,519 thousand; current account overdrafts amounted to Euro 5,546 thousand net of relative interest.*
3) *The cash flows are presented using the indirect method. In order to provide a more complete and accurate presentation of the individual cash flows, the effects from non-cash transactions were eliminated (including the translation of statement of financial position items in currencies other than the Euro), where significant. These effects were aggregated and included in the account "Other non-cash changes".*

Euro thousands	December 2017	December 2016
Opening Cash and Cash Equivalents	**53,973**	**17,542**
Cash and cash equivalents	59,519	30,683
Bank overdrafts	(5,546)	(13,141)
Closing Cash and Cash Equivalents	**20,425**	**53,973**
Cash and cash equivalents	38,558	59,519
Bank overdrafts	(18,133)	(5,546)

Statement of financial position with indication of transactions with related parties pursuant to CONSOB Resolution No. 15519 of July 27, 2006

Euro thousands		December 31, 2017	*of which:* Related Parties	December 31, 2016	*of which:* Related Parties
Assets		**675,970**	**-**	**680,501**	**12**
Non-Current Assets		**316,837**	**-**	**324,614**	**12**
Intangible Assets	Note 1	208,091		218,440	
Property, Plant and Equipment	Note 2	88,355		81,321	12
Non-Current Financial Assets	Note 3	3,918		3,709	
Investments Measured at Equity	Note 4	782		271	
Investments Measured at Cost	Note 5	31		31	
Deferred Tax Assets	Note 6	15,660		20,842	
Current Assets		**359,133**	**-**	**355,887**	**-**
Current Tax Receivables	Note 3	419		275	
Deferred Tax Assets	Note 7	8,689		5,105	
Inventories	Note 8	178,699		177,406	
Trade and Other Receivables	Note 9	132,768		113,582	
Cash and Cash Equivalents	Note 10	38,558		59,519	
Liabilities and Equity		**675,970**	**1,191**	**680,501**	**802**
Equity	Note 12	**239,577**	**-**	**238,970**	**-**
Share Capital		37,261		37,171	
Reserves		23,872		35,550	
Retained Earnings		138,049		120,767	
Net Profit for the period		15,767		20,993	
Group Equity		**214,949**		**214,481**	
Non-Control. Int. Equity		**24,628**		**24,489**	
Non-Current Liabilities		**229,092**	**-**	**250,152**	**-**
Non-Current Financial Liabilities	Note 13	178,889		190,052	
Financial Instruments	Note 17	35		-	
Employee Benefits	Note 14	8,736		11,343	
Provisions for Risks and Charges	Note 15	2,095		1,618	
Deferred Tax Liabilities	Note 16	39,241		47,034	
Other Payables	Note 19	96		105	
Current Liabilities		**207,301**	**1,191**	**191,379**	**802**
Current Financial Liabilities	Note 13	99,673		93,534	
Provisions for Risks and Charges	Note 15	2,917		2,449	
Current Tax Payables	Note 18	8,448		4,951	
Trade and Other Payables	Note 19	96,263	1,191	90,445	802

Statement of Comprehensive Income with indication of transactions with related parties pursuant to CONSOB Resolution No. 15519 of July 27, 2006

Euro thousands		December 31, 2017	*of which:* Related Parties	*of which:* Non-Recurring Charges	December 31, 2016	*of which:* Related Parties	*of which:* Non-Recurring Charges
Revenue from Sales and Service	Note 20	510,354	2		422,609	14	
Other Revenue and Income	Note 21	18,300			19,652		
Total Revenue		**528,654**			**442,261**		
Raw Materials, Ancillary, Consumables and Goods	Note 22	(227,453)	(2,863)	(66)	(196,991)	(2,379)	
Services and Rent, Leases and Similar Costs	Note 23	(115,701)	(745)	(2,541)	(101,731)	(601)	(7,519)
Other Operating Costs	Note 24	(19,338)		(44)	(20,313)		(983)
Change in Raw Materials, Semi-Finished, Work-in-progress & Finished Prod.	Note 22	13,245			15,997		
Labour Costs	Note 25	(106,283)		(4,830)	(82,399)		(1,897)
Amortisation & Depreciation	Note 26	(17,759)			(14,910)		
Write-downs	Note 27	(2,097)		(71)	(828)		
Total Operating Costs		**(475,386)**			**(401,175)**		
EBIT		**53,268**			**41,086**		
Financial Income	Note 28	3,118		990	4,470		282
Financial Expense	Note 29	(25,543)		(7,500)	(10,231)		
Income/Expense from Investments at Equity	Note 31	66			(19)		
Net financial expense		**(22,359)**			**(5,780)**		
Pre-Tax Profit/(loss)		**30,909**			**35,306**		
Income Taxes		(15,719)		735	(14,385)		2,877
Deferred Tax Income and expense		2,177			1,051		
Total Income Taxes Expenses	Note 32	**(13,542)**			**(13,334)**		
Net Profit/(loss) for the year - Continuing Operations		**17,367**			**21,972**		
Net Profit for the year- Discontinued Operations		-			-		
Net Profit/(loss) for the period		**17,367**			**21,972**		
Attributable to:							
Profit attributable to non-controlling interests		**1,600**			**979**		
Profit/(loss) attributable to shareholders of the parent		**15,767**			**20,993**		
Other Comprehensive Income Items which may be reclassified subsequently in the Profit or Loss account		**(16,973)**			**(9,922)**		
Translation Difference recorded in Equity		(17,529)			(10,384)		
Adjustment Fair value of Hedges		556			462		
Other Comprehensive Income Items which may not be reclassified subsequently in the Profit or Loss account		**1,782**			**(1,961)**		
Actuarial Gains/(Losses) for Employee Benefits recorded directly in Equity		2,387			(2,216)		
Income Taxes on income and charges recorded directly to Equity		(605)			255		
Other Comprehensive Income Items (net of tax effect)		**(15,191)**			**(11,883)**		
Total Comprehensive Income		**2,176**			**10,089**		
Attributable to:							
Profit attributable to non-controlling interests		**154**			**1,100**		
Profit/(loss) attributable to shareholders of the parent		**2,022**			**8,989**		
Earnings per share:							
basic		*0.38*			*0.51*		
diluted		*0.38*			*0.50*		

Notes to the Consolidated Financial Statements of the F.I.L.A. Group

Introduction

The F.I.L.A. Group operates in the creativity tools market, producing colouring, design, modelling, writing and painting objects, such as pencils, crayons, modelling clay, chalk, oil colours, acrylics, watercolours, paints and paper for the fine arts, school and leisure.

The Parent F.I.L.A. S.p.A., Fabbrica Italiana Lapis ed Affini (hereafter "the Company") is a limited liability company with registered office in Pero (Italy), Via XXV April, 5. The ordinary shares of the Company were admitted for trading on the MTA, STAR Segment, organised and managed by Borsa Italiana S.p.A. from November 12, 2015.

The consolidated financial statements of the F.I.L.A. Group were prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. They include the financial statements of F.I.L.A. S.p.A. and its subsidiaries. For the subsidiaries the financial statements are reported upon in specific financial reporting packages, for the purposes of the Group consolidated financial statements, in order to comply with IFRS.

The present consolidated financial statements are presented in Euro, as the functional currency in which the Group operates and comprise the Statement of Financial Position, in which assets and liabilities are classified under current and non-current, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity, the Notes and are accompanied by the Directors' Report.
All amounts reported in the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and in the Notes are in thousands of Euro, except where otherwise stated.

With reference to Consob Resolution No. 15519 of July 27, 2006 in relation to the format of the financial statements, significant transactions with related parties and non-recurring items are indicated separately.

Accounting Policies and Measurement Criteria

The consolidated financial statements of F.I.L.A. Group and of the parent F.I.L.A. S.p.A. (hereafter also “Parent”, “Company”) at December 31, 2017, prepared by the Board of Directors of F.I.L.A. S.p.A., were drawn up in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

The IFRS were applied consistently for all the periods presented in the present document.

For the consolidated financial statements of the F.I.L.A. Group, the first year of application of IFRS was 2006, while for the separate financial statements of F.I.L.A. S.p.A. the first year of application of IFRS was 2007.

Accounting standards, amendments and interpretations applied from January 1, 2017

Amendment to IAS 12 - Recognition of deferred tax assets for unrealised losses

The document provides clarification on the recognition of deferred tax assets on unrealised losses if certain events occur based on on estimates of assessable income for future years. The adoption of these amendments, applicable from January 1, 2017, did not impact the information contained in the Annual Financial Report.

Amendment to IAS 7 - Statement of Cash Flows: *Disclosure Initiative*

The document improves the disclosure on financial liabilities. In particular, the amendments require to provide a disclosure allowing readers of the financial statements to understand the changes in liabilities following funding operations. The adoption of these amendments, applicable from January 1, 2017, did not significantly impact the information contained in the Annual Financial Report.

Improvements to IFRS: 2014-2016 Cycle

In December 2016, the IASB published the “Annual Improvements to IFRS Standards: *2014-2016 Cycle*”; the main amendments, applicable from periods beginning on or after January 1, 2017, concern:

IFRS 12 - Disclosure of interests in other entities

The amendment clarifies the scope of application of IFRS 12, specifying that the disclosure required by the standard apply also to investments classified as held for sale, held for distribution to

shareholders or as discontinued operations as per IFRS 5. The amendment standardises the disclosure required by IFRS 5 and IFRS 12.
The adoption of these amendments, applicable from January 1, 2017, did not impact the information contained in the Annual Financial Report.

Accounting standards, amendments and interpretations endorsed by the EU and applicable from January 1, 2018

IFRS 15 Revenue from Contracts with Customers

The standard, issued by the IASB in May 2014, amended in April 2016 and approved by the European Commission in September 2016, introduces a framework which establishes whether, when and to what extent revenue will be recognised. IFRS 15 is applicable from January 1, 2018; early application is permitted. The standard introduces a single general model to establish whether, when and to what extent to recognise revenue. IFRS 15 replaces the criteria for the recognition of revenue under IAS 18 Revenue, IAS 11 Construction contracts and IFRS 13 Customer loyalty programmes.
On first application, IFRS 15 must be applied retroactively. A number of simplifications are however permitted in addition to an alternative approach which avoids the restatement of periods presented for comparative disclosure; in this latter case, the effects from the application of the new standard must be recognised to the initial equity of the period of first application of IFRS 15. With the amendment of April 2016, the IASB clarified a number of provisions and at the same time additional simplifications, in order to reduce costs and the complexity for those applying the new standard for the first time.
The F.I.L.A. Group, which will adopt IFRS from January 1, 2018, has estimated the effects of applying initially the standard to the consolidated financial statements. The estimate of these effects on Group equity at January 1, 2018 is based on the assessments made to date and summarised below.
In particular, the Group initiated a project broken down into separate phases to assess the potential impacts on the financial statements from application of the new standard and to introduce the relative IT system and financial disclosure internal control system measures required. The initial phase of the project involved the mapping of the revenue flows, the recognition methods, the internal organisation of asset cycle administrative processes and a sample analysis of contracts producing the main revenue flows. On conclusion of this phase, a number of issues which may be impacted by the new IFRS 15 were highlighted.
At December 31, 2017, the application of IFRS 15 at F.I.L.A. Group level resulted in the reclassification of revenues for an estimated amount of Euro 4.4 million, with an impact on EBITDA of Euro 0.5 million. There were no adjustments to the net result in the year. The effect at F.I.L.A.

S.p.A. separate financial statement level was a reclassification to revenue for an amount of Euro 3.6 million, with an impact on EBITDA of Euro 0.3 million.

The real effects from the adoption of the standard at January 1, 2018 may change as:

- The Group has not yet completed the verification and assessment of the controls on the new IT systems; and
- The new calculation criteria may change until the presentation of the first Group consolidated financial statements which include the date of initial application.

IFRS 9 – Financial instruments

The standard, issued by the IASB in July 2014 endorsed by the European Commission in November 2016, replaces IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 introduces new provisions for the classification and measurement of financial instruments, including a new model for expected impairment losses on financial assets, and new general provisions for hedges. In addition, the standard includes provisions for the recognition and derecognition of financial instruments in line with the current IAS 39. The new standard is applicable from January 1, 2018 and early application is permitted. IFRS 9 indicates as a general rule that application should take place prospectively, although a number of exceptions are permitted.

The F.I.L.A. Group, which will adopt IFRS from January 1, 2018, has estimated the effects of applying the standard on the consolidated financial statements. The estimate of these effects on Group equity at January 1, 2018 is based on the assessments made to date and summarised below.

At December 31, 2017, the application of IFRS 9 at F.I.L.A. Group level translated into an operating result impact of approx. Euro 2.1 million, with an impact on the net result of approx. Euro 1.2 million.

At December 31, 2017, the application of the same standard at F.I.L.A. S.p.A. level translated into an operating result impact of approx. Euro 0.6 million, with an impact on the net result of approx. Euro 0.5 million.

The real effects from the adoption of the standard at January 1, 2018 may change as:

- The Group has not yet completed the verification and assessment of the controls on the new IT systems; and
- The new calculation criteria may change until the presentation of the first Group consolidated financial statements which include the date of initial application.

Amendment to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"

On September 12, 2016, the IASB published "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". The amendments clarify the considerations deriving from application of the new IFRS 9, before the replacement by the IASB of the current IFRS 4 with the new standard currently under discussion.

IFRS 16 – Leases

The standard, published by the IASB in January 2016, proposes substantial changes to the accounting treatment of lease arrangements in the lessee's financial statements, which must recognise the assets and liabilities deriving from contracts, without distinction between operating and finance leases, in the statement of financial position. The new standard provides a new definition of leases and introduces a criterion based on control (right of use) of an asset to distinguish leasing contracts from service contracts, identifying essential differences: the identification of the asset, the right of replacement of the asset, the right to obtain substantially all the economic benefits from the use of the asset and the right to use the asset underlying the contract.
The IASB expects that the standard will be applied for years commencing from January 1, 2019. Early application is permitted for entities applying IFRS 15 Revenue from Contracts with Customers.

The Group is undertaking analysis to define and assess the potential effects from application of IFRS 16 on the consolidated financial statements.

Amendment to IFRS 2 - Classification and Measurement of Share-based Payment Transactions

In June 2016, the IASB published the amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions, which clarify the recognition of some types of share-based payment transactions. These changes will be applied from January 1, 2018. Early application is however permitted.

Amendments to IAS 40 Investment Property: Transfers to Investment Properties

In December 2016, the IASB published the document "Amendments to IAS 40 Transfer of Investment Property". These amendments clarify the transfers of an asset to, or from, investment property.
Based on these amendments, an entity must reclassify an asset to, or from, investment property only when the asset complies with or ceases to comply with the definition of "investment property" and there has been a clear change in the utilisation of the asset. This change must be attributable to a specific event and shall not therefore be limited to only a change in intention by management of the entity.

The amendments apply from January 1, 2018, although early application is permitted only where the amounts may be estimated.

Accounting standards, amendments and interpretations not yet endorsed by the EU and applicable from January 1, 2018

IFRS 14 Regulatory Deferral Accounts

IFRS 14, issued by the IASB in January 2014 permits only those adopting IFRS for the first time to continue to recognise amounts concerning Rate Regulation Activities in accordance with the previous accounting standards adopted. In order to improve comparability with entities which already apply IFRS and who do not recognise these amounts, the standard requires that amounts recognised for rate regulation be presented separately from the other accounts. Currently the approval process by the European Union is suspended.

Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures

The standard issued by the IASB in September 2014 includes amendments which eliminate an inconsistency in the treatment of the sale or conferment of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a profit or loss is fully recognised when the transaction refers to a business. The IASB, with a further amendment in December 2015, cancelled the previous first application date planned for January 1, 2016 to be determined at a future date.

Improvements to IFRS: 2014-2016 Cycle

In December 2016, the IASB published the “Annual Improvements to IFRS Standards: 2014-2016 Cycle” document. The main amendments relate to:

IFRS 1 First-time adoption of International Financial Reporting Standards - The amendments eliminate some exemptions within IFRS 1, as the benefit from these exemptions are no longer applicable. The amendments apply from January 1, 2018.

IAS 28 - IAS 28 - Investments in Associates and Joint Ventures - The amendment clarifies that the option for risk capital investment companies or other similar companies to measure investments in associates and joint ventures valued at fair value through profit or loss (rather than through application of the equity method) is applied for each individual investment on initial recognition. The amendments apply from January 1, 2018.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB published "IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration" in order to provide indications on how an entity should determine the date of a transaction, and consequently, the exchange rate to be utilised concerning operations in foreign currencies concerning payments made or received in advance. The amendments apply from January 1, 2018.

IFRS 17 Insurance Contracts

In May 2017, the IASB published IFRS 17 Insurance Contracts which replaces IFRS 4, issued in 2004. The standard has the objective to improve investors' understanding of the exposure to risk, earnings and the financial position of insurers, requiring that all insurance contracts are recorded on a uniform basis, overcoming the problems created within IFRS 4.

The standard is applicable from January 1, 2021, however early application is permitted.

IFRIC 23 – Uncertainty over income tax treatments

In June 2017, the IASB published interpretation IFRIC 23 – Uncertainty over Income Tax Treatments.

The interpretation clarifies the application of the requirements for recognition and measurement established in IAS 12 Income Taxes when uncertainties exist on tax treatment. The amendments will be applicable from periods beginning on January 1, 2019.

Amendment to IFRS 9 - Financial Instruments: Prepayment Features with Negative Compensation

On October 2017, the IASB published the amendments to IFRS 9 Prepayment Features with Negative Compensation to enable measurement at amortised cost or at fair value through other comprehensive income (OCI) of financial assets with an early settlement option through "negative compensation". The amendments will be applicable from periods beginning on January 1, 2019.

Amendment to IAS 28 Investments in associates: Long-term Interests in Associates and Joint Ventures

The amendments to IAS 28 Long-term Interests in Associates and Joint Ventures, published by the IASB in October 2017 clarify that IFRS 9 is applied also to long-term receivables from an associate or joint venture substantially involved in the net investment in the associate or joint venture.

The IASB also published an example which outlines how the provisions of IFRS 9 and IAS 28 apply to long-term receivables in an associate or joint venture. The amendments will be applicable from periods beginning on January 1, 2019.

Improvements to IFRS: 2015-2017 Cycle

In December 2017, the IASB published the "Improvements to IFRS: Cycle 2015-2017" document, with the main amendments concerning:

- IFRS 3 - Business Combination and IFRS 11 – Joint Arrangements - The amendments to IFRS 3 clarify that when an entity obtains control of a joint operation, it should restate the fair value of the interest that it previously held in this joint operation. The amendments to IFRS 11 clarify that when an entity obtains joint control of a joint operation, the entity does not restate the fair value of the interest previously held in the joint operation.
- IAS 12 - Income tax consequences of payments on financial instruments classified as equity - The proposed amendments clarify that the entity should recognise any tax effects from the distribution of dividends.
- IAS 23 - Borrowing costs eligible for capitalisation - The amendments clarify that where loans specifically undertaken for the acquisition and/or construction of an asset remain in place even after the asset is ready for use or sale, these loans cease to be considered specific and therefore are included in the generic loans of the entity for the calculation of the capitalisation rate of the loans.

The amendments will be applicable from periods beginning on January 1, 2019. Early application is permitted.

Besis of onsolidation

These financial statements are prepared under the historical cost convention, modified where applicable for the measurement of certain financial instruments or for the application of the acquisition method under IFRS 3, as well as on a going concern basis.

Subsidiaries

The subsidiaries, reported in "Attachment 2 - List of companies included in the consolidation scope and equity", are companies where the Group, as per IFRS 10, is exposed to variable income streams, possesses rights to such variable returns, based on the relationship with the entity, and at the same time has the capacity to affect such returns through the exercise of its power over such entities.
The subsidiaries are consolidated line-by-line from the acquisition date, or rather the date in which the Group acquires control and until such control is relinquished. The carrying amount of the subsidiaries is eliminated against the share of equity held, net of the share of the result for the year. The share of equity and result for the year relating to non-controlling interests are recorded separately in the statement of financial position and in profit or loss.

Equity-Accounted Investments

Associates are entities in which the Group exercises a significant influence on the financial and operating policies, although not having direct or joint control. Significant influence is the power to participate in the financial and operating policy decisions of an investee, however not exercising control or joint control.
Joint Ventures are entities in which the Group exercises, with one or more parties, joint control of their economic activities based on a contractual agreement. Joint control assumes that the strategic, financial and operating decisions are taken unanimously by the parties that exercise control.
The investments in associates and joint ventures are recorded in the separate financial statements at cost and in the consolidated financial statements under the equity method. Based on this method, equity investments are initially recognised at cost, subsequently adjusted according to the changes in the value of the share of the Group in the equity of the associate. The Group's share in the result of associates and joint ventures is recorded in a separate income statement account from the date in which significant influence is exercised and until such ceases to be exercised. Where necessary, the accounting policies of associates and joint ventures are modified in line with the accounting policies adopted by the Group.

Business combinations

Business combinations are recognised utilising the acquisition method, based on which the identifiable assets, liabilities and contingent liabilities of the company acquired, which are in compliance with the requirements of IFRS 3, are recognised at their fair value at the acquisition date.

Deferred taxes are recorded on adjustments made to carrying ammount in line with present values.

The application of the acquisition method due to its complexity provides for a first phase which provisionally determines the fair values of the assets, liabilities and contingent liabilities acquired, to permit a recording of the transaction in the consolidated financial statements in the year in which the business combination occurred. The initial recording is completed and adjusted within 12 months from the acquisition date. Amendments to initial payments which derive from events or circumstances subsequent to the acquisition date are recognised in profit or loss.

Goodwill is recognised as the difference between:

a) the sum of:

- the payment transferred;
- the non-controlling interest, measured combination by combination or at Fair Value (full goodwill) or the share of the net assets identifiable attributable to non-controlling interests;
- and, in a business combination realised in several phases, of the fair value of the interest previously held in the acquisition, recogning any resulting profit or loss;

b) the carrying amount of the identifiable assets acquired and liabilities assumed.

The costs related to the business combination are not part of the payment transferred and are therefore recorded in the profit or loss for the year.

If the Group’s interest in the fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost of the business combination, the excess is immediately recognised in the profit or loss. Goodwill is periodically reviewed to verify recovery through comparison with the fair value or the future cash flows generated from the underlying investment.

Fot the sake of congruity analysis, the goodwill acquired in a business combination is allocated, at the acquisition date, to the individual Group cash-generating units, or to the group of cash-generating units which should benefit from the synergies of the business combination, independently of the fact that other assets or liabilities of the Group are allocated to this unit or group of units. Each unit or group of units to which the goodwill is allocated:

- Represents the smallest identifiable group of assets that generates cash flows largely independent of the cash flows from other assets or groups of assets;
- Is not greater than the operating segments identified based on IFRS 8 operating segments.

When the goodwill constitutes part of a cash generating unit and part of the internal activities of this unit are sold, the goodwill associated with the activity sold is included in the carrying amount of the activity to determine the gain or loss deriving from the sale. The goodwill sold in these circumstances is measured on the basis of the relative values of the activities sold and of the portion of the unit maintained.

When the sale relates to a subsidiary, the difference between the sales price and the net assets plus the accumulated translation differences and the residual goodwill is recognised in profit or loss.

On first-time adoption of IFRS, the Group chose not to apply IFRS 3 in a retrospective manner for acquisitions carried out prior to the transition date to IFRS; consequently, the goodwill resulting from the acquisitions prior to this date was maintained at the previous value determined in accordance with Italian GAAP and is periodically tested for impairment.

In the event of purchase and sale of non-controlling interests, the difference between the acquisition cost, as determined above and the share of equity acquired from third parties or sold is directly attributed to the reduction/increase in the consolidated equity.

Infragroup transactions

Profits arising from transactions between fully consolidated companies, not yet realised with third parties, are eliminated.

The losses deriving from transactions between fully consolidated companies are eliminated except when they represent an impairment loss. The effects deriving from reciprocal payables and receivables, costs and revenue, as well as financial income and expenses between consolidated companies are eliminated.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each Group entity at the exchange rate at the date of the transaction. The monetary accounts in foreign currencies at the reporting date are translated into the functional currency using the exchange rate at the same date. The non-monetary accounts measured at fair value in foreign currencies are translated using the exchange rate when the fair value was determined. The exchange rate differences are generally recognised in profit or loss. The non-monetary accounts measured at historical cost in foreign currencies are not translated.

Foreign operations

The assets and liabilities of foreign operations, including the goodwill and adjustments to Fair Value deriving from the acquisition, are translated into Euro utilising the exchange rate at the reporting date.

The revenue and costs of foreign entities are translated into Euro utilising the exchange rate at the transaction date. The exchange rate differences are recorded under other comprehensive income and included in the translation reserve, with the exemption of exchange rate differences attributable to non-controlling interests.

The exchange rates adopted for the translation of local currencies into Euro are as follows (source: Official Italian Exchange Rates):

EXCHANGE RATES

	Average Exchange Rate December 31, 2017	Average Exchange Rate December 31, 2016
Argentinean Peso	18.726	22.931
Canadian Dollar	1.464	1.504
Chilean Peso	732.188	737.290
Renminbi Yuan	7.626	7.804
Euro	1.000	1.000
Pound	0.876	0.887
Mexican Peso	21.328	23.661
US Dollar	1.129	1.199
Indonesian Rupiah	15,113.197	16,239.120
Swedish Krona	9.637	9.844
Singapore Dollar	1.558	1.602
Turkish Lira	4.121	4.546
Brazilian Real	3.604	3.973
Indian Rupee	73.498	76.606
Russian Ruble	65.888	69.392
South Africa Rand	15.043	14.805
Polish Zloty	4.256	4.177
Dominican Peso	53.614	57.793
Australian Dollar	1.473	1.535
Swiss Franc	1.112	1.170

Source: Bank of Italy

Accounting policies of the Consolidated Financial Statements

Intangible fixed assets

An intangible asset is a clearly identifiable non-monetary asset without physical substance, subject to control and capable of generating future economic benefits. They are recognised at acquisition cost where acquired separately and are capitalised at Fair Value at the acquisition date where acquired through business combinations.
The interest expense on loans for the purchase and the development of intangible assets, which would not have been incurred if the investment had been not made, are not capitalised.

Intangible assets with indefinite useful life

Intangible assets with indefinite useful lives mainly consist of assets which do not have limitations in terms of useful life as per contractual, legal, economic and competitive conditions. This category includes only "goodwill". Goodwill is represented by the excess of the purchase cost incurred compared to the net Fair Value at the acquisition date of assets and liabilities or business units. The goodwill relating to equity investments measured at equity is included in the carrying amount of the investments.

The principal assumptions adopted in the determination of the value in use of the "cash generating units", or rather the present value of the estimated future cash flows which is expected to derive from the continuing use of the activities, relates to the discount rate and the growth rate.
In particular, the F.I.L.A. Group utilised the discount rate which it considers correctly expresses the market valuations, at the date of the estimate, of the time value of money and the specific risks related to the individual cash generating units.
The operating cash flow forecasts derive from the most recent budgets and long-term plans prepared by the F.I.L.A. Group.
The cash flow forecasts refer to current business conditions, therefore they do not include cash flows related to events of non-recurring nature.
The forecasts are based on reasonableness and consistency relating to future general expenses, expected capital investments, financial conditions, as well as macro-economic assumptions, with particular reference to increases in product prices, which take into account expected inflation rates. The results of the "impairment tests" did not generate any impairment losses in the previous year.

The impairment loss on goodwill may not be restated.

Reference should be made to Note 1 to the separate and consolidated financial statements of the Group for further information on the indicators utilised for the impairment test at December 31, 2017.

Intangible assets with finite useful lives

Intangible assets with finite useful lives are amortised on a straight-line basis over their useful life to take account of the residual possibility of utilisation. Amortisation commences when the asset is available for use.

The amortisation policies adopted by the Group provide for:

- Trademarks: based on the useful life;
- Concessions, Licences and Patents: based on the duration of the right under concession or license and based on the duration of the patent;
- Other intangible assets: 3 years.

Research and development costs

Research and development costs are recognised in the profit or loss in the year they are incurred, with the exception of development costs recorded under "Intangible assets", when they satisfy the following conditions:

- the project is clearly identified and the related costs are reliably identifiable and measurable;
- the technical feasibility of the project is demonstrated;
- the intention to complete the project and sell the assets generated from the project are demonstrated;
- a potential market exists or, in the case of internal use, the use of the intangible asset is demonstrated for the production of the intangible assets generated by the project;
- the technical and financial resources necessary for the completion of the project are available;
- the intangible asset will generate probable future economic benefits.

Amortisation of development costs recorded under intangible assets begins from the date in which the result generated from the project is commercialised. Amortisation is calculated, on a straight-line basis, over the useful life of the project.

Property, plant and equipment

Property, plant and equipment are measured at purchase cost, net of accumulated depreciation and any impairment loss. The cost includes all charges directly incurred for purchase and/or production. The interest charge on loans for the purchase and the construction of property, plant and equipment, which would not have been incurred if the investment had been not made, are not capitalised but expensed in profit or loss based on the accruals of the costs. Where an asset relating to property, plant and equipment is composed of various components with differing useful lives, these components are recorded separately (significant components) and depreciated separately. Property, plant and equipment acquired through business combinations are recognised in the financial statements at fair value at the acquisition date.

The expense incurred for maintenance and repairs are directly charged to the profit or loss in the year in which they are incurred. The costs for improvements, modernisation and transformation of an incremental nature of tangible property, plant and equipment are allocated as an asset.

The purchase price or construction cost is net of public grants which are recognised when the conditions for their concession are confirmed. At the date of the present financial statements there are no public grants recorded as a reduction within "Property, Plant and Equipment".

The initial value of property, plant and equipment is adjusted for depreciation on a systematic basis, calculated on a straight-line basis monthly, when the asset is available and ready for use, based on the estimated useful life.

The estimated useful lives for the current and previous years are as follows:

- Buildings 25 years
- Plant and machinery 8.7 years
- Equipment 2.5 years
- Other assets:
  - Office equipment: 8.3 years
  - Furniture and electronic office equipment: 5 years
  - Transport vehicles: 5years
  - Motor vehicles: 4 years
  - Other: 4 years

Finance leases

The assets held through finance leases, where the majority of the risks and rewards related to the ownership of an asset have been transferred to the F.I.L.A. Group, are recognised as assets at their fair value or, if lower, at the present value of the minimum lease payments, including any redemption amounts to be paid. The corresponding liability due to the lessor is recorded under “Financial Liabilities”. The assets are depreciated applying the criteria and rates previously indicated for the account “Property, Plant and Equipment”, except where the duration of the lease contract is lower than the useful life and there is not a reasonable certainty of the transfer of ownership of the asset at the normal expiry date of the contract; in this case, depreciation is over the duration of the lease contract.

The leased assets where the lessor bears the majority of the risks and rewards related to an asset are recorded as operating leases. Costs related to operating leases are recognised on a straight-line basis over the duration of the lease.

Impairment losses on of non-financial assets

At each reporting date, the intangible assets, property, plan and equipment are analysed to identify the existence of any indicators, either internally or externally to the Group, of impairment. Where these indications exist, an estimate of the recoverable amount of the above-mentioned assets is made, recording any impairment loss in profit or loss. In the case of goodwill and other intangible assets with indefinite useful life, this estimate is made annually independently of the existence of such indicators. The recoverable amount of an asset is the higher between the fair value less costs to sell and its value in use. The fair value is estimated on the basis of the values in an active market, from recent transactions or on the basis of the best information available to reflect the amount which the entity could obtain from the sale of the asset. The value in use is the present value of the expected future cash flows to be derived from an asset. In defining the value in use, the expected future cash flows are discounted utilising a pre-tax discount rate that reflects the current market assessment of the time value of money, and the specific risks of the asset.

For an asset that does not generate sufficient independent cash flows, the realisable value is determined in relation to the cash-generating unit to which the asset belongs. A reduction in value is recognised in the profit or loss when the carrying amount of the asset, or of the cash-generating unit to which it is allocated, is higher than the recoverable amount.

Impairment loss on cash generating units are firstly attributed to the reduction in the carrying amount of any goodwill allocated to the cash generating unit and, thereafter, to a reduction of other assets, in proportion to their carrying amount. The losses relating to goodwill may not be restated. In relation to assets other than goodwill, where the reasons for the impairment loss no longer exist, the carrying amount of the asset is restated through the profit or loss, up to the value at which the asset would be recorded if no impairment loss had taken place and amortisation had been recorded.

Financial assets

Financial assets are initially recognised at Fair Value.

After initial recognition, financial assets are measured at Fair Value, without any deduction for transaction costs which may be incurred in the sale or other disposal, with the exception for the following "Financial Assets":

- "Loans and Receivables", as defined in paragraph 9 of IAS 39, which must be measured at amortised cost utilising the effective interest method;
- held-to-maturity investments, as defined in paragraph 9 of IAS 39, which must be measured at amortised cost utilising the effective interest method;
- investments in equity instruments which do not have a listed market price on an active market and whose Fair Value may not be reliably measured and related derivatives and which must be settled with the delivery of these non-listed equity instruments, which must be measured at cost.

Impairment of financial assets

Financial assets are measured at each reporting date to determine whether there is any indication that an asset may have incurred impairment loss. A financial asset has incurred a impairment loss if there is an objective indication that one or more events had a negative impact on the estimated future cash flows of the asset. The impairment loss of a financial asset measured at amortised cost corresponds to the difference between the carrying amount and the present value of the estimated cash flows discounted at the original effective interest rate. The impairment loss of an available-for-sale financial asset is calculated based on the Fair Value of the asset.

Financial assets individually recorded are measured separately to determine if they have incurred a impairment loss. The other financial assets are cumulatively measured, for groups with similar credit risk characteristics. All the losses are recognised in the profit or loss. Any accumulated loss of an available-for-sale financial asset previously recognised in equity is transferred to the profit or loss.

Impairment loss are restated if subsequently the increase in value can be objectively associated to an event which occurred after the impairment loss. For financial assets measured at amortised cost and financial assets available-for-sale corresponding to debt securities, the restated amount is recognised in the profit or loss. For financial assets available-for-sale corresponding to equity securities, the restated amount is recognised directly in equity.

Cash and cash equivalents

Cash and cash equivalents principally include cash, bank deposits on demand and other highly liquid short-term investments (converted into liquidity within ninety days). They are measured at fair value and the relative changes are recorded in the profit or loss. Bank overdrafts are classified under “Current Financial Liabilities”.

Trade and other assets

Trade receivables and other assets are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method. They are reduced by an appropriate impairment loss to reflect the estimate of impairments loss, which are recognised to the profit or loss. When, in subsequent periods, the reasons for the impairments loss no longer exist, the value of the assets is restated up to the value deriving from the application of the amortised cost where no impairments loss had been applied.

The allowance for impairment is recognised to state receivables at realisable value, including impairments loss for any indicators of a reduction in value of trade receivables. The impairments loss, which are based on the most recent information and on the best estimates of the Directors, are made so that the assets are reduced to the present value of the expected future cash in flows.

The allowance for impairment is recorded as a direct reduction of Trade and Other Assets. These provisions are classified in the profit or loss account “Impairment losses”; the same classification was used for any utilisations.

Inventories

Inventories of raw materials, semi-finished and finished products are measured at the lower of purchase or production price, including accessory charges, determined in accordance with the weighted average cost method, and the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated selling costs.

Obsolete and slow-moving inventories are written down in relation to their possible utilisation or realisable value.

The purchase cost is utilised for direct and indirect materials, purchased and utilised in the production cycle. The production cost is however used for the finished products or in work-in-progress.

For the determination of the purchase price, consideration is taken of the actual costs sustained net of commercial discounts.

Production costs include, in addition to the costs of the materials used, as defined above, the direct and indirect industrial costs allocated. The indirect costs were allocated based on the normal production capacity of the plant.
Distribution costs were excluded from purchase cost and production cost.

Provisions for risks and charges (current and non-current)

Provisions for risks and charges are recognised where the Group has a current obligation, legal or constructive, deriving from a past event and it is probable that compliance with the obligation will result in a charge and the amount of the obligation can be reasonably estimated.

Provisions are recorded at the value representing the best estimate of the amount that the company would pay to discharge the obligation or to transfer it to a third party. When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is discounted. The rate used in the determination of the present value of the liability reflects the current market values and includes the further effects relating to the specific risk associated to each liability. The increase in the provision due to the passage of time is recognised in the profit or loss account "Financial income/(expense)".
The provisions are periodically updated to reflect the changes in the estimate of the costs, of the time period and of the discount rate; the revision of estimates are recorded in the same profit or loss accounts in which the provision was recorded, or when the liability relates to an asset, against the asset account to which it refers.
The notes illustrate the contingent liabilities represented by: (i) possible obligations (but not probable) deriving from past events, whose existence will be confirmed only on the occurrence or otherwise of one or more uncertain future events not fully under the control of the entity; (ii) current obligations deriving from past events whose amount cannot be reliably estimated or whose fulfilment will likely not represent a charge.

Restructuring provisions

Restructuring provisions are recognised where a detailed formal programme has been approved which has raised a valid expectation among third parties that the company will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Employee benefits

All employee benefits are measured and reflected in the financial statements on an accruals basis.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions to a separate entity and will not have a legal or implied obligation to pay further contributions. The contributions to be paid to defined contribution plans are recognised as costs in the profit or loss when incurred. Contributions paid in advance are recognised under assets up to the advanced payment which will determine a reduction in future payments or a reimbursement.

Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The net obligation of the Group deriving from defined benefit plans is calculated separately for each plan estimating the amount of the future benefit which the employees matured in exchange for the services provided in the current and previous years; this benefit is discounted to calculate the present value, while any costs relating to past services not recorded in the financial statements and the Fair Value of any assets to service the plan are deducted from liabilities. The discount rate is the return, at the reporting date, of the primary obligations whose maturity date approximates the terms of the obligations of the Group and which are expressed in the same currency in which it is expected the benefits will be paid. The calculation is made by an independent actuary utilising the projected credit unit method. Where the calculation generates a benefit for the Group, the asset recognised is limited to the total, net of all costs relating to past services not recognised and the present value of all economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Where improvements are made to the plan benefits, the portion of increased benefits relating to past services is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits mature immediately, the cost is recognised immediately in the profit or loss.

The Group records all actuarial gains and losses from a defined benefit plan directly and immediately in equity.

In relation to the Post-Employment Benefits, following the amendments to Law No. 296 of December 27, 2006 and subsequent Decrees and Regulations (“Pension Reform”) issued in the first months of 2007, the Parent F.I.L.A. S.p.A. adopted the following accounting treatment:

- the Post-Employment Benefits matured at December 31, 2006 are considered a defined benefit plan as per IAS 19. The benefits guaranteed to employees, under the form of the Post-Employment Benefits, paid on the termination of employment, are recognised in the vesting period.
- the Post-Employment Benefits matured from January 1, 2007 are considered a defined contribution plan and therefore the contributions matured in the period were fully recognised as a cost and recorded as a payable in the account "Post-Employment Benefits", after deduction of any contributions already paid.

Other long-term employee benefits

The net obligation of the Group for long-term employee benefits, other than those deriving from pension plans, corresponds to the amount of the future benefits which employees matured for services in current and previous years. This benefit is discounted, while the Fair Value of any assets is deducted from the liabilities. The discount rate is the return, at the reporting date, of the primary obligations whose maturity date approximates the terms of the obligations of the Group. The obligation is calculated using the projected unit credit method. Any actuarial gains or losses are recorded in equity in the year in which they arise.

Short-term employee benefits

Short-term employee benefits are recorded as non-discounted expenses when the services to which they arise are provided.
The Group records a liability for the amount that it expects will be paid in the presence of a present obligation, legal or constructive, as a consequence of past events and for which the obligation can be reliably estimated.

Financial liabilities

Financial liabilities are initially recognised at Fair Value, including directly attributable transaction costs. Subsequently these liabilities are measured at amortised cost. In accordance with this method all the accessory charges relating to the provision of the loan are recorded as a direct change of the payable, recording any differences between cost and repayment amount in the profit or loss over the duration of the loan, in accordance with the effective interest rate method.

Financial instruments

Financial instruments are initially recognised at Fair Value and, subsequent to initial recognition, are measured on the basis of classification, as per IAS 39.
For financial assets, this is applied according to the following categories:

- *Financial assets at Fair Value through profit or loss;*
- *held to maturity investments;*
- *Loans and receivables;*
- *Available-for-sale financial assets.*

For financial liabilities however, only two categories are established:

- *Financial liabilities at Fair Value through profit or loss;*
- *Liabilities at amortised cost.*

In compliance with IAS 39, derivative financial instruments are recorded in accordance with the "hedge accounting" method only when: (i) at the beginning of the hedge, the formal designation and documentation relating to the hedge exists and it is presumed that the hedge is effective; (ii) such effectiveness can be reliably measured; (iii) the hedge is effective over the accounting periods for which it was designated.
The effectiveness of hedges is documented both at the beginning of the transaction and periodically (at least at the annual or interim reporting dates).

When the hedging derivatives cover the risk of change in the fair value of the instruments subject to the hedge (fair value hedge), the derivatives are recorded at fair value with the effects recorded through profit or loss.

When the derivatives hedge the risk of changes in the cash flows of the hedge instrument (cash flow hedge), the effective part of the changes in the fair value of the derivatives is recognised to the statement of comprehensive income and presented in the hedging reserve. The ineffective part of the changes in the fair value of the derivative instrument is immediately recognised to profit or loss.

All derivative financial instruments are initially measured at fair value, as per IFRS 13 and IAS 39, and the transaction and associated costs are recognised to the profit or loss when incurred. After initial recognition, the financial instruments are measured at fair value.

The methods for the calculation of the Fair Value of these financial instruments, for accounting or disclosure purposes, are summarised below with regards to the main categories of financial instruments:

- derivative financial instruments: the pricing models are adopted based on the market values of the interest rates;
- receivables and payables and non-listed financial assets: for the financial instruments with maturity greater than 1 year the discounted cash flow method was applied, therefore the discounting of expected cash flows in consideration of current interest rate conditions and credit ratings, for the determination of the Fair Value on first-time recognition. Further measurements are made based on the amortised cost method;
- listed financial instruments: the market value at the reporting date is utilised.

In relation to financial instruments measured at Fair Value, IFRS 13 requires the classification of these instruments according to the standard's hierarchy levels, which reflect the significance of the inputs utilised in establishing the fair value. The following levels are used:

- Level 1: unadjusted assets or liabilities subject to valuation on an active market;
- Level 2: inputs other than prices listed at the previous point, which are directly observable (prices) or indirectly (derivatives from the prices) on the market;
- Level 3 - input which is not based on observable market data.

Trade and other liabilities

Trade payables and other payables are initially recognised at fair value, normally equal to the nominal amount, net of discounts, returns or invoice adjustments, and are subsequently measured at amortised cost where the financial effect of extended payment terms is significant. When there is a change in the cash flows and it is possible to estimate them reliably, the payables is recalculated to reflect this change, based on the present value of the cash flows and on the internal rate of return initially determined.

Current, deferred and other taxes

Income taxes include all the taxes calculated on the taxable profit of the Group Companies applying the tax rates in force at the date of the present report.

Income taxes are recorded in the profit or loss, except those relating to accounts directly credited or debited to equity, in which case the tax effect is recognised directly to equity.

Other taxes not related to income, such as taxes on property and share capital, are included under other operating charges (“Service costs”, “Use of third party assets” and “Other charges”). The liabilities related to indirect taxes are classified under “Other Liabilities”.

Deferred tax assets and liabilities are determined in accordance with the global assets/liability method and are calculated on the basis of the temporary differences arising between the carrying amounts of the assets and liabilities and the corresponding values recognised for tax purposes, taking into account the tax rate within current fiscal legislation for the years in which the differences will reverse, with the exception of goodwill not fiscally deductible and those differences deriving from investments in subsidiaries for which it is not expected the cancellation in the foreseeable future, and on the tax losses carried forward.

“Deferred Tax Assets” are classified under non-current assets and are recognised only when there exists a high probability of future taxable income to recover the asset.

The recovery of the “Deferred Tax Assets” is reviewed at each reporting date and, for the part for which recovery is no longer probable, recorded in the profit or loss.

Revenue and costs

Revenue recognition

The revenue and income are recorded net of returns, discounts, rebates and premiums as well as direct taxes related to the sale of products and services. In particular, the revenue from the sale of products are recognised when the risks and rewards of ownership are transferred to the buyer. This, according to normal contractual conditions, occurs on shipping of the goods.

Recognition of costs

Costs are recorded when relating to goods and services acquired or consumed in the year or when there is no future utility.
The costs directly attributable to share capital transactions are recorded as a direct reduction of equity.
Commercial costs relating to the acquisition of new clients are expensed when incurred.

Financial income and expense

Financial income includes interest income on liquidity invested, dividends received and income from the sale of available-for-sale financial assets. Interest income is recorded in the profit or loss on an accruals basis utilising the effective interest method. Dividend income is recorded when the right of the Group to receive the payment is established which, in the case of listed securities, corresponds to the coupon date.

Financial expense include interest on loans, discounting of provisions, dividends distributed on preference shares reimbursable, changes in the fair value of financial assets recorded through profit or loss and impairment losses on financial assets. Finance expense are recorded in the profit or loss utilising the effective interest method. Currency transactions are recorded at the net amount.

Dividends

Dividends recognised to shareholders are recorded on the date of the Shareholders' Meeting resolution.

Earnings per share

The basic earnings/(loss) per share are calculated by dividing the result of the Company by the weighted average shares outstanding during the period.

In order to calculate the diluted earnings/(loss) per share, the average weighted number of shares outstanding is adjusted assuming the conversion of all shares with potential dilutive effect.

The net result is also adjusted to account for the effects of the conversion, net of taxes.

The diluted earnings/(loss) per share are calculated by dividing the profit for the year of the company by the weighted average number of ordinary shares in circulation during the period and those potentially arising from the conversion of all potential ordinary shares with dilutive effect.

Use of estimates

The preparation of the financial statements requires the Directors to apply accounting principles and methods that, in some circumstances, are based on difficulties and subjective valuations and estimates based on the historical experience and assumptions which are from time to time considered reasonable and realistic based on the relative circumstances. The application of these estimates and assumptions impact the value of the assets and liabilities of the costs and revenue recognised in the financial statements and the disclosure upon contingent assets and liabilities at the reporting date. Actual results may differ from these estimates.

The accounting principles which require greater judgement by the Directors in the preparation of the estimates and for which a change in the underlying conditions or the assumptions may have a significant impact on the combined financial figures are briefly described below.

- measurement of receivables: trade receivables are adjusted by the allowance for impairment, taking into account the effective recoverable amount. The calculation of the impairment losses requires the Directors to make valuations based on the documentation and the information available relating to the solvency of the clients, and from market and historical experience.
- measurement of goodwill and intangible assets with indefinite useful life: in accordance with the accounting principles applied by the Group, the goodwill and the intangible assets are subject to an annual verification (“impairment test”) in order to verify whether a reduction in value has taken place. This verification requires the Directors to make valuations based on the information available within the Group and from the market, as well as from historical experience; this depends in addition to factors which may change over time, affecting the valuations and estimates made by Directors. In addition, when it is determined that there may be a potential reduction in value, the Group determines this through using the most appropriate technical valuation methods available;

- risk provisions: the identification of the existence of a present obligation (legal or constructive) in some circumstances may be difficult to determine. The Directors evaluate these factors case-by-case, together with the estimate of the amount of the economic resources required to comply with the obligation. When the Directors consider that a liability is only possible, the risks are disclosed in the notes under the section on commitments and risks, without any provision;
- measurement of closing inventories: inventories of products which are obsolete or slow moving are periodically subject to valuation tests and written down where the recoverable amount is lower than the carrying amount. The write-downs are made based on assumptions and estimates of management deriving from experience and historic results;
- pension plans and other post-employment benefits: the companies of the Group participate in pension plans and other post-employment benefits in various countries; in particular in Italy, Germany, the United States, France, Canada and Mexico. Management utilises multiple statistical assumptions and valuation techniques with the objective of anticipating future events for the calculation of the charges, liabilities and assets relating to these plans. The assumptions relate to the discount rate, the expected return of the plan assets and the rate of future salary increases. In addition, the actuarial consultants of the Group utilise subjective factors, for example mortality and employee turnover rates;
- the calculation of deferred tax assets is supported by a recoverability plan prepared on the basis of the assumptions which the Directors consider reasonable.

Note 1 - Intangible assets

Intangible assets at December 31, 2017 amount to Euro 208,091 thousand (Euro 218,440 thousand at December 31, 2016) and are comprised for Euro 77,208 thousand of intangible assets with indefinite useful life – goodwill (“Note 1.B - Goodwill for Cash Generating Units”) and for Euro 130,883 thousand intangible assets with finite useful life (“Note 1.D – Intangible Assets with finite useful lives”).

The movements in the year were as follows:

Note 1.A - INTANGIBLE ASSETS

Euro thousands	Goodwill	Industrial Patents & Intellectual Property Rights	Concessions, Licenses, Trademarks & Similar Rights	Other Intangible Assets	Construction in Progress	Total
Change in Historical Cost						
December 31, 2016	**77,865**	**190**	**111,902**	**50,349**	**365**	**240,671**
Increases in the year	**-**	**-**	**53**	**356**	**1,642**	**2,051**
Increases (Investments)	-	-	53	356	1,642	2,051
Decreases in the year	**(656)**	**-**	**(4,093)**	**(2,102)**	**-**	**(6,851)**
Write Down	(71)	-	-	-	-	(72)
Variation in Consolidation Scope	(131)	-	-	-	-	(131)
Decrease in Translation Differences	(455)	-	(4,093)	(2,102)	-	(6,650)
December 31, 2017	**77,208**	**190**	**107,862**	**48,604**	**2,007**	**235,870**
Change in Amortisation						
December 31, 2016	**-**	**(136)**	**(16,492)**	**(5,603)**		**(22,231)**
Increases in the year	**-**	**(11)**	**(4,277)**	**(2,426)**		**(6,714)**
Amortisation in Year	-	(11)	(4,277)	(2,426)		(6,714)
Decreases in the year	**-**	**-**	**946**	**220**		**1,166**
Decrease in Translation Differences	-	-	946	220		1,166
December 31, 2017	**-**	**(147)**	**(19,823)**	**(7,809)**		**(27,779)**
Carrying amount at December 31, 2016	**77,865**	**54**	**95,410**	**44,746**	**365**	**218,440**
Carrying amount at December 31, 2017	**77,208**	**43**	**88,039**	**40,794**	**2,007**	**208,091**
Change	**(657)**	**(11)**	**(7,371)**	**(3,952)**	**1,642**	**(10,349)**

The decrease in intangible assets on the previous year for Euro 10,349 thousand is principally due to the amortisation in the year of intangible assets with definite useful life (Euro 6,714 thousand) and negative exchange differences of Euro 5,485 thousand, partially offset by investment increases of Euro 2,053 thousand.

Intangible assets with indefinite useful life

“Intangible assets with indefinite useful lives” is comprised entirely of goodwill for a total amount of Euro 77,208 thousand (Euro 77,865 thousand at December 31, 2016). The movement on the previous year is principally due to negative exchange effects (Euro 455 thousand) and the impairment loss of the goodwill of the company Licyn Mercantil Industrial Ltda (Brazil) of Euro 71 thousand, merged by incorporation on August 31, 2017 into the subsidiary Canson Brasil I.P.E. LTDA.

Goodwill is not amortised but subject to an impairment test at least annually and whenever facts or circumstances arise which may indicate the risk of an impairment loss.

In accordance with the provisions of IAS 36, goodwill is allocated to the various cash generating units (CGU's).

The cash generating units relate to the operating segments, on a regional basis, in line with the minimum level at which goodwill is monitored for internal management purposes.

The CGU's to which goodwill are allocated are as follows:

NOTE 1.B GOODWILL BY CASH GENERATING UNIT

Euro thousands	December 31, 2017	December 31, 2016	Change	Goodwill Reallocation (A)	Exchange Rate Difference	Impairment Loss	Consolidation Area Change
DOMS Industries Pvt Ltd	33,281	33,291	(10)	-	(10)	-	-
Gruppo Canson (4)	10,875	30,566	(19,691)	(19,691)	-	-	-
Gruppo Daler-Rowney Lukas (5)	1,647	3,520	(1,873)	(1,873)	-	-	-
Gruppo Dixon - Nord America(2)	23,646	2,264	21,382	21,564	(182)	-	-
Gruppo Dixon - Centro/Sud America(1)	1,812	2,075	(263)	-	(263)	-	-
Industria Maimeri S.p.A. (Italia)	1,695	1,695	-	-	-	-	-
Omyacolor S.A. (Francia)	1,611	1,611	-	-	-	-	-
St. Cuthberts Holding(6)	1,323	1,323	-	-	-	-	-
Gruppo Lyra(3)	1,217	1,217	-	-	-	-	-
Pioneer Stationery PVT Ltd (India)	-	131	(131)	-	-	-	(131)
FILA SA (Sud Africa)	101	101	-	-	-	-	-
Licyn Mercantil Industrial Ltda (Brasile) (7)	-	71	(71)	-	-	(71)	-
Totale	**77,208**	**77,865**	**(657)**	**-**	**(455)**	**(71)**	**(131)**

(A) - The F.I.L.A. Group CGU in 2017 were reviewed due to the reorganization of the Group; the reorganization that mainly involved the CGU of North America, Canson Group and Daler & Rowney Lukas Group.
(1) - Grupo F.I.L.A.-Dixon, S.A. de C.V. (Messico); F.I.L.A. Chile Ltda (Cile); FILA Argentina S.A. (Argentina).
(2) - Dixon Ticonderoga Company (U.S.A.); Dixon Ticonderoga Inc. (Canada); Canson Inc (U.S.A); Daler USA Ltd (U.S.A); Brideshore Srl (Repubblica Dominicana) as CGU North America; Eurholdam USA Inc. (U.S.A).
(3) - Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG (Germania); FILA Nordic AB (Svezia); PT. Lyra Akrelux (Indonesia).
(4) - Canson SAS (Francia); Lodi 12 SAS (Francia); Canson Brasil I.P.E. LTDA (Brasile); Canson Australia PTY LTD (Australia); Canson Qingdao Ltd.(Cina); Canson Italy (Italia).
(5) - Renoir Topco Ltd (Regno Unito); Renoir Midco Ltd (Regno Unito); Renoir Bidco Ltd (Regno Unito); Daler Rowney Group Ltd (Regno Unito); FILA Benelux SA (Belgio); Daler Rowney Ltd (Regno Unito); Longbeach Arts Ltd (Regno Unito); Daler Board Company Ltd (Regno Unito); Daler Holdings Ltd (Regno Unito); Daler Designs Ltd (Regno Unito); Daler Rowney GmbH (Germania); Lukas-Nerchau GmbH (Germania); Nerchauer Malfarben GmbH (Germania); Lastmill Ltd (Regno Unito); Rowney & Company Pencils Ltd (Regno Unito); Rowney (Artists Brushes) Ltd (Regno Unito); Brideshore srl (Repubblica Dominicana) as CGU Daler.
(6) - St. Cuthberts Holding (Regno Unito); St. Cuthberts Mill (Regno Unito)
(7) - On 31 August 2017 the company was merged by incorporation into Canson Brasil I.P.E LTDA (Brazil)

The allocation of goodwill was made considering individual CGU's or Groups of CGU's based on potential synergies and similar operational strategies on the various markets.

The breakdown of Group assets by CGU and their identification criteria has not changed compared to the financial statements at December 31, 2016, with the exception of the Canson Group and the Daler-Rowney Lukas Group CGU's, for which, limited to the companies Canson Inc., Eurholdam USA Inc., Daler Rowney USA and Brideshore Srl, as a consequence of the launch of the F.I.L.A. Group reorganisation plans, conferred the assets and the relative portions of goodwill to the Group CGU

Dixon - North America. Specifically, the allocation of goodwill was made on the basis of the value generated by the individual entity - CGU on acquisition or at the nearest date.
The annual impairment test undertaken by the Group has the objective to compare the carrying amount of the cash-generating units to which the goodwill was allocated with the relative recoverable amount. This latter is determined as the higher between the market value net of cost of sales and the estimated value in use through discounting the cash flows.

The F.I.L.A. Group identifies the recoverable amount as the value in use of the cash generating units, identified (as per IAS 36) as the present value of projected cash flows, discounted at a separate rate for each geographical segment and reflecting the specific risks of the individual CGU's at the measurement date.

The assumptions utilised for the purposes of the impairment test are as follows:

The projected cash flows for calculation of the "Value in use" are developed according to the 2018 Budget and the Industrial Plan, respectively approved by the Board of Directors on February 2, 2018 and May 11, 2016.
In particular, the cash flows were determined taking the assumptions from the plan and applying the growth rate identified for each CGU in line with the long-term assumptions relating to the growth rate of the sector and the specific risk of their country in which each CGU operates. The "Terminal Value" was calculated applying the perpetuity growth method. These financial estimates were subject to approval by the Boards of Directors of the individual Group companies subject to impairments.

The discount rate (W.A.C.C.) is the average weighted cost of risk capital and debt capital considering the tax effects generated from the financial leverage.

The table below outlines the main assumptions for the impairment test. The discount rate altered on December 31, 2016 to reflect the changed market conditions at December 31, 2017, as commented upon below:

IMPAIRMENT TEST - VALUE IN USE CALCULATION ASSUMPTIONS

Euro thousands	Discount Rate (W.A.C.C.)	Growth Rate (g rate)	Cash flow horizon	Terminal Value Calculation Method
DOMS Industries Pvt Ltd (India)	12.97%	5.00%	5 years	Perpetuing growth rate
Gruppo Canson (Francia) (4)	7.05%	1.90%	5 years	Perpetuing growth rate
Gruppo Daler-Rowney Lukas (Regno Unito) (5)	7.62%	2.10%	5 years	Perpetuing growth rate
Gruppo Dixon - Nord America(2)	8.71%	1.69%	5 years	Perpetuing growth rate
Gruppo Dixon - Centro/Sud America(1)	11.51%	3.62%	5 years	Perpetuing growth rate
Industria Maimeri S.p.A. (Italia)	9.97%	1.30%	5 years	Perpetuing growth rate
Omyacolor S.A. (Francia)	7.05%	1.90%	5 years	Perpetuing growth rate
St. Cuthberts Holding (Regno Unito)(6)	7.62%	2.10%	5 years	Perpetuing growth rate
Gruppo Lyra(3)	6.70%	2.10%	5 years	Perpetuing growth rate
FILA SA (Sudafrica)	14.91%	5.90%	5 years	Perpetuing growth rate

(1) - Grupo F.I.L.A.-Dixon, S.A. de C.V. (Messico); F.I.L.A. Chile Ltda (Cile); FILA Argentina S.A. (Argentina).
(2) - Dixon Ticonderoga Company (U.S.A.); Dixon Ticonderoga Inc. (Canada); Canson Inc (U.S.A); Daler USA Ltd (U.S.A); Brideshore srl (Repubblica Dominicana) in quota
(3) - Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG (Germania); FILA Nordic AB (Svezia); PT. Lyra Akrelux (Indonesia).
(4) - Canson SAS (Francia); Lodi 12 SAS (Francia); Canson Brasil I.P.E. LTDA (Brasile); Canson Australia PTY LTD (Australia); Canson Qingdao Ltd.(Cina); Canson Italy
(5) - Renoir Topco Ltd (Regno Unito); Renoir Midco Ltd (Regno Unito); Renoir Bidco Ltd (Regno Unito); Daler Rowney Group Ltd (Regno Unito); FILA Benelux SA (Belgio); Daler Rowney Ltd (Regno Unito); Longbeach Arts Ltd (Regno Unito); Daler Board Company Ltd (Regno Unito); Daler Holdings Ltd (Regno Unito); Daler Designs Ltd (Regno Unito); Daler Rowney GmbH (Germania); Lukas-Nerchau GmbH (Germania); Nerchauer Malfarben GmbH (Germania); Lastmill Ltd (Regno Unito); Rowney & Company Pencils Ltd (Regno Unito); Rowney (Artists Brushes) Ltd (Regno Unito); Brideshore srl (Repubblica Dominicana) in quota CGU Daler.
(6) - St. Cuthberts Holding (Regno Unito); St. Cuthberts Mill (Regno Unito)

The main changes to the discount rate utilised for the impairment test on the previous year were:

- DOMS Industries Pvt Ltd (India) – The W.A.C.C. is 12.97% (13.20% at December 31, 2016), with the change on the previous year principally due to a reduction in the risk components (i.e. *Country risk*”), in part offset by an increase in the risk-free rate and in the beta levered component;
- Dixon Group - Central/South America - the discount rate is 11.51% (11.23% at December 31, 2016), slightly increasing on the previous year due to the higher risk-free rate (calculated both on the cost of debt and *Ke* components), calculated on US government bonds, and the beta unlevered component (business operating risk ratio);
- Dixon Group - North America - The W.A.C.C. utilised is 8.71% (7.66% at December 31, 2016). Also with regards to the North America CGU, the discount factor increased on the previous year. The movement relates not only to the risk-free rate increase (calculated on US government bonds) and of the beta unlevered component, but also the reduction in the tax rate expected for future years, resulting in a contraction in the tax benefit which is an integral part of the discount rate calculation;
- Canson Group and Omyacolor S.A. (France) - The W.A.C.C. is 7.05% (6.50% at December 31, 2016), with the increase on the previous year substantially due to the increase in business operating risk, calculated on the beta unlevered component;

- Daler-Rowney Lukas Group and St. Cuthberts (United Kingdom) - The discount rate is 7.62% (7.42% at December 31, 2016); this did not significantly change on the previous year - slightly increasing due to the increase in the beta unlevered component.
- Industria Maimeri S.p.A. (Italy) – the rate utilised was 9.97% (7.57% at December 31, 2016). The significant increase on the previous year is mainly due to the deterioration in the cost of capital (*Ke*) and in the risk-free rate (raising of ten-year BTP forecast yields) and in the beta unlevered and size premium risk components;
- Lyra Group (Germany) – the discount rate utilised was 6.70% (6.24% at December 31, 2016). The change on the previous year is due to the slight increase in the beta unlevered and the higher risk-free rate on German Bunds;
- FILA SA (South Africa) – W.A.C.C. equal to 14.91% (14.11% at December 31, 2016). The movement on 2016 is due to the increase in the risk-free rate and in the beta unlevered, in part offset by an improvement in the country risk component.

Particular importance was given to the impairment tests on the goodwill allocated to the cash generating units DOMS Industries Pvt Ltd of Euro 33,281 thousand (Euro 33,291 thousand at December 31, 2016), Dixon Group - North America of Euro 23,646 thousand (Euro 2,264 thousand) and Canson Group of Euro 10,875 thousand) Euro 30,566 thousand at December 31, 2016). These account for 87.8% of intangible assets with indefinite useful life of the Group of Euro 77,208 thousand.

In support of the results obtained by the above CGU's, in 2017 sales on the Indian and American markets increased significantly, while consolidating on the French market. These trends were confirmed also for 2018.

The DCF (Discounted Cash Flow) method applied to the carrying amount of the above CGU's comfortably confirms the book value.

The impairment tests on the remaining CGU's did not indicate any impairment losses, with the exception of the goodwill recognised to Licyn Mercantil Industrial Ltda (Brazil) for Euro 71 thousand.

The table below shows the levels at which, with regard to the most important assumptions in the criteria for verification of value, there is a cancellation of the difference between the value in use of the CGU and its carrying amount

	Discount Rate After Tax	**g rate**
DOMS Industries Pvt Ltd	14.17%	4.86%
Gruppo Canson	17.37%	1.36%
Gruppo Daler-Rowney Lukas	13.67%	1.78%
Gruppo Dixon - Nord America	15.51%	1.53%
Gruppo Dixon - Centro/Sud America	15.84%	3.35%
Industria Maimeri S.p.A. (Italia)	10.61%	1.29%
Omyacolor S.A. (Francia)	33.73%	0.31%
St. Cuthberts Holding	24.94%	1.09%
Gruppo Lyra	14.13%	1.52%
FILA SA (Sud Africa)	19.51%	5.48%

Further complementary analysis was also undertaken such as:

- a sensitivity analysis, in order to verify the recoverability of the goodwill against the possibility of changes in the base assumptions utilised for the calculation of the discounted cash flows (assuming changes of +0.5% and -0.5% in the W.A.C.C. rate and the g rate);
- the comparison between the value in use of the CGU for 2017 and 2016 with the analysis of the variations;
- reasonableness test between the overall value in use at Group level and the stock market capitalisation.

As suggested by ESMA which published on October 28, 2014 the Public Statement *"European common enforcement priorities for 2014 financial statements",* the analysis on the sensitivity of the impairment test result to changes in EBITDA over the explicit time period was also made, as this variable is one of the main assumptions.

The above-mentioned analysis also confirmed the full recoverability of goodwill and the reasonableness of the assumptions utilised.

The cash flows and assumptions used for the Impairment Test were approved by the Board of Directors on March 16, 2018.

Intangible assets with indefinite useful life

The changes at December 31, 2017 of "Intangible Assets with Finite Useful Lives" are reported below.

Note 1.D - INTANGIBLE ASSETS WITH FINITE USEFUL LIVES					
Euro thousands	Industrial Patents & Intellectual Property Rights	Concessions, Licenses, Trademarks & Similar Rights	Other Intangible Assets	Construxtion in Progress	Total
Change in Historical Cost					
December 31, 2016	**190**	**111,902**	**50,349**	**365**	**162,806**
Increases in the year	**-**	**53**	**356**	**1,642**	**2,051**
Increases (Investments)	-	53	356	1,642	2,051
Decreases in the year	**-**	**(4,093)**	**(2,102)**	**-**	**(6,195)**
Decrease Translation Differences	-	(4,093)	(2,102)	-	(6,195)
December 31, 2017	**190**	**107,862**	**48,603**	**2,007**	**158,662**
Change in Amortisation					
December 31, 2016	**(136)**	**(16,492)**	**(5,603)**	**-**	**(22,231)**
Increases in the year	**(11)**	**(4,277)**	**(2,426)**		**(6,714)**
Amortisation in Year	(11)	(4,277)	(2,426)		(6,714)
Decreases in the year	**-**	**946**	**220**		**1,166**
Decrease in Translation Differences	-	946	220		1,166
December 31, 2017	**(147)**	**(19,823)**	**(7,809)**	**-**	**(27,779)**
Carrying amount at December 31, 2016	**54**	**95,410**	**44,746**	**365**	**140,575**
Carrying amount at December 31, 2017	**43**	**88,039**	**40,794**	**2,007**	**130,883**
Change	**(11)**	**(7,371)**	**(3,952)**	**1,642**	**(9,692)**

"Industrial Patents and Intellectual Property Rights" amount to Euro 43 thousand at December 31, 2017 (Euro 54 thousand at December 31, 2016).

The average residual useful life of the "Industrial Patents and Intellectual Property Rights", recorded in the financial statements at December 31, 2017, is 6 years.

"Concessions, Licences, Trademarks and Similar Rights" amount to Euro 88,039 thousand at December 31, 2017 (Euro 95,410 thousand at December 31, 2016).

The net carrying amount reduced Euro 7,371 thousand, principally due to amortisation (Euro 4,277 thousand) and negative exchange rate effects of Euro 3,147 thousand. A significant amount of the amortisation relates to the "Business combinations" undertaken in 2016 and relating to the brands held by the English Group Daler Rowney-Lukas (Euro 40,223 thousand) and by the Canson Group (Euro 32,400 thousand).

The other historic trademarks subject to amortisation refer principally to "*Lapimex*" held by F.I.L.A.-Dixon, S.A. de C.V. (Mexico) and the brands "*Lyra*" held by Lyra KG (Germany) and *"DOMS" held* by DOMS Industries Pvt Ltd (India).
The average useful life of the "Concessions, Licenses, Brands and Similar Rights", recorded in the financial statements of December 31, 2017, is 30 years.

"Other Intangible Assets" amount to Euro 40,794 thousand at December 31, 2017 (Euro 44,746 thousand at December 31, 2016). The account records a decrease of Euro 3,952 thousand compared to the previous year, also mainly due to the amortisation of intangible assets (Euro 2,426 thousand) and negative exchange rate effects for Euro 1,882 thousand. The amortisation concerns in particular the value of the "Development Technology" recorded by the companies of the Daler-Rowney Lukas Group (Euro 30,532 thousand), the Canson Group (Euro 1,500 thousand) and St. Cuthberts (Euro 2,462 thousand), identified as strategic assets through the "Purchase Price Allocation" within the business combinations undertaken in 2016.
The average useful life of "Other Intangible Assets", recorded in the financial assets at December 31, 2017, is 13 years.

Assets in progress totalled Euro 2,007 thousand, entirely concerning F.I.L.A. S.p.A. and relating to investments for the installation of the new ERP system (Enterprise Resource Planning).

In 2017, the F.I.L.A. Group did not generate any intangible assets internally. There are no intangible assets subject to restrictions.

Note 2 - Property, plant and equipment

At December 31, 2017, "Property, Plant and Equipment" amounted to Euro 88,355 thousand (Euro 81,321 thousand at December 31, 2016).

The movements in the year are shown below:

Note 2.A - PROPERTY, PLANT AND EQUIPMENT

Euro thousands	Land	Buildings	Plant and Machinery	Industrial & Commercial Equipment	Other Assets	Construction in Progress	Total
Change in Historical Cost							
December 31, 2016	**13,466**	**53,396**	**97,641**	**18,947**	**11,525**	**2,841**	**197,816**
Increases in the year	**565**	**1,755**	**12,085**	**891**	**1,040**	**5,692**	**22,028**
Increases (Investments)	565	1,677	9,796	819	1,013	8,158	22,028
Capitalisation from Assets in Progress	-	78	2,289	72	27	(2,466)	0
Decreases in the year	**(392)**	**(1,632)**	**(4,842)**	**(783)**	**(1,063)**	**(325)**	**(9,037)**
Decreases (Divestments)	-	(3)	(1,090)	(117)	(123)	-	(1,333)
Write-downs	-	-	(30)	(24)	(9)	-	(63)
Variation in Consolidation Scope	-	(537)	(428)	-	(59)	(140)	(1,164)
Decrease Translation Differences	(392)	(1,092)	(3,294)	(642)	(872)	(185)	(6,477)
December 31, 2017	**13,639**	**53,519**	**104,884**	**19,055**	**11,502**	**8,208**	**210,807**
Change in Depreciation							
December 31, 2016		**(28,542)**	**(62,067)**	**(17,015)**	**(8,870)**		**(116,495)**
Increases in the year		**(1,817)**	**(7,417)**	**(641)**	**(1,170)**		**(11,045)**
Depreciation in Year		(1,817)	(7,417)	(641)	(1,170)		(11,045)
Decreases in the year		**394**	**3,198**	**632**	**864**		**5,088**
Decreases (Divestments)		3	1,028	111	79		1,221
Variation in Consolidation Scope		66	106	-	45		217
Decrease in Translation Differences		325	2,064	521	740		3,650
December 31, 2017		**(29,965)**	**(66,286)**	**(17,024)**	**(9,176)**		**(122,452)**
Carrying amount at December 31, 2016	**13,466**	**24,854**	**35,574**	**1,932**	**2,655**	**2,841**	**81,321**
Carrying amount at December 31, 2017	**13,639**	**23,554**	**38,598**	**2,031**	**2,325**	**8,208**	**88,355**
Change	**173**	**(1,300)**	**3,024**	**99**	**(330)**	**5,367**	**7,034**

"Land" at December 31, 2017 amounts to Euro 13,639 thousand (Euro 13,466 thousand at December 31, 2016) and includes the land relating to the buildings and production facilities owned by the company F.I.L.A. S.p.A. (Rufina Scopeti – Italy), by the subsidiary Lyra KG (Germany), by DOMS Industries Pvt Ltd (India), Daler Rowney Ltd (UK) and by Canson SAS (France). During the year, DOMS Industries Pvt Ltd (India) executed its Umargaon production site expansion plan, acquiring land for Euro 565 thousand.

"Buildings" at December 31, 2017 amount to Euro 23,554 thousand (Euro 24,854 thousand at December 31, 2016) and principally concern the buildings of the Group production facilities (particularly those in Italy, Mexico, Germany, France, India and the United Kingdom). The account decreased Euro 1,300 thousand compared to December 31, 2016, mainly due to depreciation on buildings (Euro 1,817 thousand) and from negative currency differences for Euro 767 thousand. Group capital investments amount to Euro 1,677 thousand and mainly refer to Daler Rowney Ltd (Euro 879 thousand relating to the new production facilities) and DOMS Industries PVT Ltd (Euro 485 thousand).

“Plant and Machinery” amounted to Euro 38,598 thousand (Euro 35,574 thousand at December 31, 2016). The account increased Euro 3,024 thousand compared to the previous year, mainly due to investments made by the companies of the Group offset by the depreciation of assets (Euro 7,417 thousand) and negative exchange differences (Euro 1.230 thousand). Capital investments amounted to Euro 9,796 thousand and concerned in particular: DOMS Industries Pvt Ltd (Euro 2,869 thousand relating to the upgrading of the Art Division production plant and the Jammu production facility), St. Cuthberts Mill Ltd (Euro 863 thousand), F.I.L.A. S.p.A. (Euro 534 thousand) and the two Daler Rowney Ltd companies (Euro 3,439 thousand) and Canson SAS (Euro 927 thousand) involved in the start-up of new warehouses and the extension of the local production facilities. The total Historical Cost of “Plant and Equipment” also includes Euro 2,289 thousand transferred from “Assets in progress”, mainly concerning F.I.L.A. S.p.A. (Euro 830 thousand), Dixon Ticonderoga Company (Euro 578 thousand) and Grupo F.I.L.A.-Dixon, S.A. de C.V. (Euro 299 thousand).

“Industrial and Commercial Equipment” amounted to Euro 2,031 thousand at December 31, 2017 (Euro 1,932 thousand at December 31, 2016). The account increased Euro 99 thousand and is mainly due to acquisitions for Euro 891 thousand (Investments for Euro 819 thousand and assets in progress for Euro 72 thousand) offset by depreciation of Euro 641 thousand and negative exchange differences of Euro 121 thousand. Investments in Industrial and Commercial Equipment principally relate to the acquisition of new production moulds and technological upgrades to existing plant.

“Other Assets” amount to Euro 2,325 thousand at December 31, 2017 (Euro 2,655 thousand at December 31, 2016) and include furniture and office equipment, Electronic Office Equipment and motor vehicles. The account decreased Euro 330 thousand, mainly due to depreciation of assets (Euro 1,170 thousand) and negative exchange differences for Euro 132 thousand, only in part offset by investments of Euro 1,013 thousand and capitalisation of “Assets in progress” amounting to Euro 27 thousand.

“Assets under Construction” include internal constructions undertaken by the individual companies of the Group which are not yet operational. The investments in 2017 amount to Euro 8,158 thousand, principally concerning the French company Canson SAS (Euro 6,361 thousand) for ongoing investment for the readying of the new European logistics "Hub" in Annonay.

There is no property, plant and equipment subject to restrictions.

Note 3 – Financial Assets

"Financial Assets" amount to Euro 4,337 thousand at December 31, 2017 (Euro 3,984 thousand at December 31, 2016).

Note 3.A - FINANCIAL ASSETS

Euro thousands		Loans and Receivables	Derivative Financial Instruments	Other Financial Assets	Total
December 31, 2016		**355**	**462**	**3,167**	**3,984**
	non-current portion	355	462	2,892	3,709
	current portion	-	-	275	275
December 31, 2017		**358**	**1,053**	**2,926**	**4,337**
	non-current portion	6	1,053	2,859	3,918
	current portion	352	-	67	419
Change		**3**	**591**	**(241)**	**353**
	non-current portion	(349)	591	(33)	209
	current portion	352	-	(208)	144

Loans and Receivables

These amount to Euro 358 thousand and concern the issue of a loan to third parties by F.I.L.A. S.p.A. for Euro 352 thousand and by Omyacolor SA for Euro 6 thousand.

Derivative Financial Instruments

Financial instruments presented in the consolidated financial statements at December 31, 2017 concern the fair value measurement of derivative hedging instruments related to the loan (hedged instrument) issued in favour of F.I.L.A. S.p.A. in 2016 for the acquisition of the Daler-Rowney Lukas Group, the Canson Group and St. Cuthberts Holding.

F.I.L.A. S.p.A., exposed to future cash flow fluctuations in relation to the interest rate indexing mechanism under the loan agreed, considered a hedge based on the payment of a fixed rate against the variable rate necessary. The financial instruments, qualifying as hedges and concerning Interest Rate Swaps, present characteristics in line with those of the hedged instrument, such as the same maturity

and the same repayment plan broken down into quarterly instalments with interest in arrears, in addition to a variable interest rate indexed to the Euribor at 3 months.
The accounting treatment adopted for the hedging instruments, based on IAS 39, is based on hedge accounting and in particular that concerning "cash flow hedges" and involving the recognition of a financial asset or liability and an equity reserve.

As per IFRS 7, the Fair Values of the derivative instruments at December 31, 2017 and the characteristics of the hedge exercised on the underlying loan are outlined below:

NOTE 17.A FINANCIAL INSTRUMENTS

in Euro						Intesa Sanpaolo S.p.A.		Banca Nazionale del Lavoro S.p.A.		Mediobanca Banca di Credito Finanziario S.p.A.		UniCredit S.p.A.			
IRS	**Date agreed**	**Loan**	**% Hedge**	**Fixed Rate**	**Variable Rate**	**Fair Value**	**Notional**	**Fair Value**	**Notional**	**Fair Value**	**Notional**	**Fair Value**	**Notional**	**Fair Value**	**Notional**
IRS 1	09/06/2016	Facility A1	50%	0.06%	-0.329%	- 47,333	11,623,750	- 28,384	6,974,250	- 57,127	13,948,500	- 56,742	13,948,500	- 189,586	46,495,000
IRS 2	08/07/2016	Facility A1	50%	-0.08%	-0.329%	- 14,425	11,623,750	- 8,649	6,974,250	- 17,637	13,948,500	- 17,272	13,948,500	- 57,983	46,495,000
IRS 3	03/11/2016	FacilityTLA2	50%	-0.035%	-0.329%	- 2,443	1,184,047	- 1,466	710,428	- 2,968	1,420,856	- 2,930	1,420,856	- 9,807	4,736,187
IRS 4	28/10/2016	FacilityTLA2	50%	0.056%	-0.329%	- 4,676	1,184,047	- 2,806	710,428	- 5,648	1,420,856	- 5,609	1,420,856	- 18,739	4,736,187
IRS 5	03/11/2016	FacilityTLB1a_B1b	50%	0.10%	-0.329%	4,094	10,237,500	1,300	6,142,500	3,953	12,285,000	3,440	12,285,000	12,787	40,950,000
IRS 7	28/10/2016	FacilityTLB1a_B1b	50%	0.196%	-0.329%	- 36,863	10,237,500	- 23,246	6,142,500	- 45,199	12,285,000	- 45,655	12,285,000	- 150,963	40,950,000
IRS 6	03/11/2016	FacilityTLB2A	50%	0.10%	-0.329%	342	856,250	109	513,750	331	1,027,500	288	1,027,500	1,070	3,425,000
IRS 8	28/10/2016	FacilityTLB2A	50%	0.196%	-0.329%	- 3,083	856,250	- 1,944	513,750	- 3,780	1,027,500	- 3,819	1,027,500	- 12,626	3,425,000
Total						**(104,387)**	**47,803,094**	**(65,087)**	**28,681,856**	**(128,075)**	**57,363,712**	**(128,299)**	**57,363,712**	**(425,848)**	**191,212,374**

The fair value of the derivative instruments at 2017 amount to Euro 1,053 thousand; this amount includes the fair value of projected cash flows discounted at December 31, 2017 (Euro 426 thousand, fixed rate and variable rate), net of negotiation charges applied on "inception" by the banks, related to the elimination of the floor to zero on the loan (hereafter "*hedged instrument*"). For further details, reference should be made to *"Note 13 - Financial Liabilities".*

In addition, the timing of the projected cash flows from the derivative instruments is the same as that expected and reported for the loan underlying the hedge.

The amount reclassified to other comprehensive income during the year was Euro 591 thousand.

Reference should be made to Note 11 concerning the net financial debt at December 31, 2017 of the F.I.L.A. Group.

Other financial assets

The non-current portion of *"Other Financial Assets" totalled* Euro 2,859 thousand (Euro 2,892 thousand at December 31, 2016), decreasing Euro 33 thousand. They principally comprise:

- Deposits required for guarantee purposes on goods and service supply contracts of the various Group companies, including in particular DOMS Industries Pvt Ltd (Euro 825 thousand), Canson SAS (Euro 794 thousand) and Grupo F.I.L.A.-Dixon, S.A. de C.V. (Euro 299 thousand).
- Assets underlying indemnity plans (Euro 719 thousand at Dixon Ticonderoga Company (USA).

The current portion of "*Other Financial Assets*" amount to Euro 67 thousand (Euro 275 thousand at December 31, 2016), also concerning deposits on supply contracts maturing within 12 months.

The carrying amount of financial assets represents their "Fair Value" at the reporting date.

Note 4 - Investments Measured at Equity

Note 4.A INVESTMENTS MEASURED AT EQUITY

Euro thousands	**Inv. in Associates**
December 31, 2016	**271**
Increases in the year	**566**
Increases (Investments)	197
Movement in Investments at Equity	66
Other Increase	303
Decreases in the year	**(55)**
Increase in Translation Differences	(55)
December 31, 2017	**782**
Change	**511**

The Investments measured at Equity amount to Euro 782 thousand (Euro 271 thousand at December 31, 2016).

The increase in the period relates to the investments in associated companies held by DOMS Industries Pvt Ltd (India), consolidated under the Equity Method. At December 31, 2017, the "Carrying amount" of the investments was adjusted in line with the share of Equity held in the associated companies.

The increase in the year (Euro 197 thousand) is due both to the part subscription to the share capital increase of Pioneer Stationery Pvt Ltd (INR 5.1 million) and the acquisition of an additional capital stake in Uniwrite Pens and Plastics Pvt Ltd (INR 9.1 million).

Note 5 - Investments Measured at Cost

The Investments measured at cost, amounting to Euro 31 thousand, relate to the shareholding in Maimeri S.p.A. by F.I.L.A. S.p.A. for Euro 28 thousand, corresponding to 1% of the share capital, and the quota held in the consortiums Conai, Energia Elettrica Zona Mugello and Energia Elettrica Milano by F.I.L.A. S.p.A. at December 31, 2017.

Note 6 – Deferred Tax Assets

“Deferred Tax Assets” amount to Euro 15,660 thousand at December 31, 2017 (Euro 20,842 thousand at December 31, 2016).

The movement of “Deferred Tax Assets” is illustrated in the table below with indication of the opening balance, changes during the year and the closing balance at December 31, 2017.

Note 6.A - CHANGES IN DEFERRED TAX ASSETS

Euro thousands	
December 31, 2016	**20,842**
Provisions	2,750
Utilisations	(6,734)
Translation differences	(731)
Change in Equity	(454)
Variation in Consolidation Scope	(13)
December 31, 2017	**15,660**
Change	**(5,182)**

The balance at December 31, 2017 principally includes the deferred tax assets calculated on the ACE, Inventories, Prior tax losses, Personnel and Trade Receivables (Non-deductible debt provision).

The following table outlines the movements in deferred tax assets broken down according to their nature:

NOTE 6.B - BREAKDOWN OF DEFERRED TAX ASSETS

	Statement of Financial Position			Income Statement		Equity	
Euro thousands	2017	Variation in Consolidation Scope	2016	2017	2016	2017	2016
Deferred tax assets relating to:							
Intangible Assets	104	0	865	(761)	(63)	0	0
Property, Plant and Equipment	274	0	1,035	(761)	(489)	0	0
Other Provision	399	0	539	(140)	379	0	0
Trade Receivables and Other Receivables	1,317	0	1,041	276	(93)	0	0
Inventories	3,226	0	4,712	(1,486)	1,841	0	0
Personnel	1,801	0	2,034	221	(467)	(454)	205
Exchange Rate adjustments	127	0	53	74	2	0	0
Conversion difference accounted for as "Translation Reserve"	(731)	0	(133)	133	(339)	(731)	(133)
Other	0	0	3	(3)	(883)	0	0
Tax Losses	2,202	0	3,399	(1,197)	(1,406)	0	0
Deferred deductible costs	3,675	(13)	3,977	(289)	154	0	0
ACE	3,266	0	3,317	(51)	1,051	0	0
Total deferred tax assets	**15,660**	**(13)**	**20,842**	**(3,984)**	**(313)**	**(1,185)**	**72**

Deferred tax assets amount to Euro 15,660 thousand and mainly refer to the Parent F.I.L.A. S.p.A. (Euro 5,431 thousand), Canson SAS (Euro 2,145 thousand) and the subsidiary Dixon Ticonderoga Company (Euro 1,424 thousand).

Deferred tax assets recognised at the reporting date concerned the amounts of probable realisation on the basis of management estimates on future assessable income.

Note 7 - Current Tax Assets

At December 31, 2017, tax assets relating to income tax amounted overall to Euro 8,689 thousand (Euro 5,105 thousand at December 31, 2016) and refer principally to the Parent F.I.L.A. S.p.A. for Euro 2,930 thousand, DOMS Industries Pvt Ltd (India) for Euro 1,219 thousand and Dixon Ticonderoga Co. (USA) for Euro 2,611 thousand.

Note 8 - Inventories

Inventories at December 31, 2017 amount to Euro 178,699 thousand (Euro 177,406 thousand at December 31, 2016).

Note 8.A - INVENTORIES

Euro thousands	Raw Materials, Ancillary and Consumables	Work-in-progress and Semi-finished Products	Finished Products and Goods	Total
December 31, 2016	**43,994**	**22,542**	**110,871**	**177,406**
December 31, 2017	**43,895**	**22,895**	**111,909**	**178,699**
Change	**(99)**	**353**	**1,038**	**1,293**

Inventory increased Euro 1,293 thousand. Net of negative currency effects of Euro 11,517 thousand, a net increase of Euro 12,810 thousand was reported, principally due to higher stock levels at the companies Dixon Ticonderoga Company (USA) and Daler Rowney Ltd (United Kingdom) in support of strategy and the expected turnover in the initial months in the subsequent year.

Inventories are presented net of the provision for write-down of inventory relating to raw materials (Euro 1,578 thousand), work-in-progress (Euro 328 thousand) and finished products (Euro 2,947 thousand). The provisions refer to obsolete or slow-moving materials for which it is not considered possible to recover their value through sale.

Note 8.B- CHANGE IN INVENTORY OBSOLESCENCE PROVISION

Euro thousands	Raw Materials, Ancillary and Consumables	Work-in-progress and Semi-finished Products	Finished Products and Goods	Total
December 31, 2016	**2,086**	**396**	**4,714**	**7,195**
Provisions	177	144	792	1,113
Utilisations	(638)	(211)	(2,228)	(3,077)
Release	(72)	-	(391)	(463)
Translation differences	25	-	60	86
December 31, 2017	**1,578**	**328**	**2,947**	**4,853**
Change	**(508)**	**(68)**	**(1,767)**	**(2,341)**

The provision for write-down of inventory at December 31, 2017 reduced Euro 2,341 thousand, principally due to the change in the provision at Dixon Ticonderoga Co. (USA), Canson SAS (France), Canson Australia PTY LTD (Australia) and Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico).

Note 9 – Trade and Other Assets

Trade and Other Assets amount to Euro 132,768 thousand (Euro 113,582 thousand at December 31, 2016).

Note 9.A - TRADE AND OTHER RECEIVABLES

Euro thousands	December 31, 2017	December 31, 2016	Change
Trade Receivables	118,701	102,689	16,012
Tax Receivables	5,198	4,070	1,128
Other Receivables	5,560	4,314	1,246
Prepayments and Accrued Income	3,309	2,509	800
Total	**132,768**	**113,582**	**19,186**

Trade Receivables increased Euro 16,012 thousand, principally due to higher revenues in Central-South America and, in the final part of the year, in North America and to a lesser extent payment extensions.

Trade receivables broken down by country are illustrated below:

TRADE RECEIVABLES: GEO AREA

Euro thousands	December 31, 2017	December 31, 2016	Change
Europe	36,603	34,162	2,441
North America	36,136	26,156	9,980
Central-South America	38,643	33,785	4,858
Asia	5,000	4,278	722
Other	2,319	4,308	(1,989)
Total	**118,701**	**102,689**	**16,012**

The changes in the allowance for impairment to cover difficult recovery positions are illustrated in the table below.

Note 9.C - CHANGES IN DOUBTFUL DEBT PROVISION

Euro thousands	
December 31, 2016	**4,794**
Provisions	1,963
Utilisations	(1,265)
Release	(22)
Variation in Consolidation Scope	(8)
Exchange rate losses	(200)
December 31, 2017	**5,262**
Change	**468**

The provision in the year of Euro 1,963 thousand principally concerns Dixon Ticonderoga Company (Euro 895 thousand), F.I.L.A. S.p.A. (Euro 630 thousand) and Daler Rowney Ltd (Euro 118 thousand). Utilisations amounted to Euro 1,265 thousand and principally concerned the US subsidiary (Euro 482 thousand) and Lyra KG (Euro 426 thousand).

"*Tax Assets*" totalled Euro 5,198 thousand (Euro 4,070 thousand at December 31, 2016) and include VAT assets (Euro 3,551 thousand) and other tax assets for local taxes other than direct income taxes (Euro 1,647 thousand).

"Other Assets" amount to Euro 5,560 thousand (Euro 4,314 thousand at December 31, 2016) and mainly concern receivables from employee (Euro 178 thousand), from social security institutions (Euro 74 thousand) and advances paid to suppliers (Euro 2,734 thousand), principally concerning the Indian and Chinese subsidiaries. The carrying amount of "Other assets" represents the "fair value" at the reporting date.
All of the above receivables are due within 12 months.

Note 10 - Cash and Cash Equivalents

"Cash and Cash Equivalents" at December 31, 2017 amount to Euro 38,558 thousand (Euro 59,519 thousand at December 31, 2016).

Note 10 - CASH AND CASH EQUIVALENTS

Euro thousands	Bank and Post Office Deposits	Cash in hand and similar	Total
December 31, 2016	**59,446**	**73**	**59,519**
December 31, 2017	**38,491**	**67**	**38,558**
Change	**(20,955)**	**(6)**	**(20,961)**

"Bank and post office deposits" consist of temporary liquidity positions generated within the treasury management and mainly relating to ordinary current accounts of F.I.L.A. S.p.A. for Euro 6,990 thousand and current accounts of the subsidiary companies for Euro 31,501 thousand, in particular: Canson SAS (Euro 5,593 thousand), Omyacolor S.A. (Euro 4,102 thousand), FILA Hispania (Euro 2,543 thousand), Grupo F.I.L.A.-Dixon, S.A. de C.V. (Euro 2,108 thousand), Dixon Ticonderoga Company (Euro 1,957 thousand) and the Chinese subsidiaries of the Dixon Group (Euro 1,877 thousand).

“Cash in hand and similar” amount to Euro 67 thousand, of which Euro 7 thousand relates to the parent F.I.L.A. S.p.A and Euro 60 thousand to the various subsidiaries.

The carrying amount approximates the fair value at the reporting date.

Bank and post office deposits are remunerated at rates indexed to inter-bank rates such as Libor and Euribor.

There are no bank and postal deposits subject to restrictions.
Reference should be made to the paragraph: “Statement of Financial Position” for comments relating to the Net Financial Debt of the F.I.L.A. Group.

Note 11 - Net Financial Debt

The F.I.L.A. Group "Net Financial Debt" at December 31, 2017 was a net financial debt of Euro 239,614 thousand. It shows an increase of Euro 16,177 thousand.

	Euro thousands	December 31, 2017	December 31, 2016	Change
A	Cash	67	73	(6)
B	Other cash equivalents	38,491	59,446	(20,955)
C	Securities held-for-trading	-	-	-
D	**Liquidity (A + B + C)**	**38,558**	**59,519**	**(20,961)**
E	**Current financial receivables**	**419**	**275**	**144**
F	Current bank loans and borrowing	(72,724)	(52,879)	(19,845)
G	Current portion of non-current loans and borrowing	(18,710)	(24,158)	5,448
H	Other current loans and borrowing	(8,239)	(16,497)	8,258
I	**Current financial debt (F + G + H)**	**(99,673)**	**(93,534)**	**(6,139)**
J	**Net current financial debt (I + E+ D)**	**(60,696)**	**(33,740)**	**(26,956)**
K	Non-current bank loans and borrowing	(178,420)	(189,902)	11,482
L	Bonds issued	-	-	-
M	Other non-current loans and borrowing	(504)	(150)	(354)
N	**Non-current financial debt (K + L + M)**	**(178,924)**	**(190,052)**	**11,128**
O	**Net financial debt (J+N)**	**(239,620)**	**(223,792)**	**(15,828)**
P	**Loans issued to third parties**	**6**	**355**	**(349)**
Q	**Net financial debt (O + P) - F.I.L.A. Group**	**(239,614)**	**(223,437)**	**(16,177)**

Note:

1) The net financial debt calculated at point "O" complies with Consob Communication DEM/6064293 of July 28, 2006, which excludes non-current financial assets.The net financial debt of the F.I.L.A. Group differs from the above communication by Euro 6 thousand in relation to the non-current loans granted to third parties by Omyacolor S.A. (Euro 6 thousand)

2) At December 31, 2017 there were no transactions with related parties which impacted the net financial debt.

Reference should be made to the paragraph: "Statement of Financial Position" for comments relating to the Net Financial Debt of the F.I.L.A. Group.

Note 12 - Share Capital and Equity

Share capital

The subscribed and paid-in share capital at December 31, 2017 of the parent F.I.L.A. S.p.A., fully paid-in, comprises 41,332,477 shares, as follows:

- 34,765,969 ordinary shares, without nominal amount;
- 6,566,508 class B shares, without nominal amount, which attribute 3 votes exercisable at the Shareholders' Meeting (ordinary and extraordinary).

The breakdown of the share capital of F.I.L.A. S.p.A. is illustrated below.

	No. of Shares	% of Share Capital	Listing
Ordinary shares	34,765,969	*84.11%*	MTA - STAR Segment
Class B Shares (multiple votes)	6,566,508	*15.89%*	Unquoted Shares

According to the available information, published by Consob and updated to December 31, 2017, the main shareholders of the parent were:

Shareholder	Ordinary shares	%
Pencil S.p.A.	13,133,032	37.78%
Venice European Investment Capital S.p.A.	3,741,799	10.76%
Sponsor	750,000	2.16%
Market Investors	17,141,138	49.30%
Total	**34,765,969**	

Shareholder	Ordinary shares	Class B Shares	Total	Voting rights
Pencil S.p.A.	13,133,032	6,566,508	19,699,540	60.28%
Venice European Investment Capital S.p.A.	3,741,799		3,741,799	6.87%
Sponsor	750,000		750,000	1.38%
Market Investors	17,141,138		17,141,138	31.47%
Total	**34,765,969**	**6,566,508**	**41,332,477**	

Each ordinary share attributes voting rights without limitations.

Each class B share attributes three votes, in accordance with Article 127-*sexies* of Legislative Decree No. 58/1998.

Legal Reserve

At December 31, 2017 this account amounted to Euro 7,434 thousand.

Share premium reserve

The reserve at December 31, 2017 amounts to Euro 65,349 thousand and was unchanged on December 31, 2016.

We highlight in addition the restriction on the distribution of a portion of the share premium reserve related to the revaluation of the investment held in the company DOMS Industries Pvt Ltd (Euro 15,052 thousand), in accordance with Article 6, paragraph 1, letter a) of Legislative Decree No. 38 of February 28, 2015, following the purchase of the majority shareholding.

Sponsor Warrants

At December 31, 2017 no sponsor warrants had been exercised.

IAS 19 Reserve

Following the application of IAS 19, the equity reserve is negative for Euro 1,671 thousand, increasing in the year Euro 1.632 thousand limited to the share of the F.I.L.A. Group.

Other Reserves

At December 31, 2017, the reserve is negative for Euro 20,404 thousand, increasing Euro 2,622 thousand on December 31, 2016. The increase concerns the following factors:

- The IRS fair value reserve on contracts undertaken by F.I.L.A. S.p.A. and Canson SAS at December 31, 2017 and amounts to Euro 1,018 thousand, recording an increase of Euro 556 thousand compared to December 31, 2016.
- “Share Based Premium” reserve of Euro 2,309 thousand, set up against the incentive plan for F.I.L.A. Group Management. The accounting treatment applied is in line with the accounting standards which establish that for equity share based payments, the Fair Value at the vesting date of the share options granted to employees is recorded under personnel expenses, with a corresponding increase in Shareholders’ equity within the account “Other reserves and retained earnings”, over the period in which the employees will obtain the unconditional right to the incentives. The amount recorded as cost is adjusted to reflect the effective number of incentives (options) for which the conditions have matured and the achievement of “non-market” conditions, in order that the final cost recorded is based on the number of incentives which will mature. Similarly, in the estimate of the fair value of the options assigned,

consideration must be taken of the non-maturation conditions. With reference to the non-maturation conditions, any differences between the assumptions at the vesting date and the effective conditions will not produce any impact in the financial statements.

- The reclassification between Group equity and non-controlling interest equity of Euro 242 thousand relates to the sale by Lyra KG (Germany) of the 30% holding in Fila Nordic AB to third party shareholders.

Translation Reserve

The account refers to the exchange rate differences relating to the translation of the financial statements of subsidiaries prepared in local currencies and converted into Euro as the consolidation currency.

The changes in the "Translation Reserve" in 2017 are illustrated below (Limited to the share regarding Group Equity):

TRANSLATION RESERVE	
Euro thousands	
December 31, 2016	**(10,904)**
Changes in the year:	
Difference between Period Average Rate and Year-End Rate	(471)
Difference between Historical Rate and Year-End Rate	(15,461)
December 31, 2017	**(26,836)**
Change	**(15,932)**

Retained earnings

The reserve totalled Euro 138,049 thousand and increased on the previous year Euro 17,282 thousand, principally due to:

- The distribution of dividends to F.I.L.A. S.p.A. shareholders for Euro 3,711 thousand, as per Shareholders' Meeting Resolution of April 27, 2017;
- the profit for the year 2016 of Euro 20,993 thousand;

Equity attributable to non-controlling interests

Non-controlling interest equity increased Euro 139 thousand, principally due to:

- Non-controlling interest profit of Euro 1.600 thousand;
- distribution of dividends to minorities of Euro 166 thousand;
- exchange rate losses of Euro 1,597 thousand;
- IAS Reserve of non-controlling interest of Euro 150 thousand;
- the reclassification between Group equity and non-controlling interest equity of Euro 246 thousand relates to the sale by Lyra KG (Germany) of the 30% holding in Fila Nordic AB to third party shareholders.

Basic and diluted earnings per share

The basic earnings per share is calculated by dividing the result of the Group by the weighted average number of ordinary shares outstanding during the year, excluding any treasury shares in portfolio.

The diluted earnings/(loss) per share is calculated by dividing the result of the company by the weighted average number of ordinary shares outstanding during the year and those potentially arising from the conversion of all potential ordinary shares with dilutive effect.

The basic and diluted earnings per Share is reported in the Statement of Comprehensive Income, to which reference should be made.

The table below illustrates the reconciliation between the equity of the Parent F.I.L.A. S.p.A. and the consolidated equity and the reconciliation between the result of the Parent F.I.L.A. S.p.A. and the consolidated result:

Reconciliation at December 31, 2017 between Parent Equity and F.I.L.A. Group Equity

Euro thousands

F.I.L.A. S.p.A. Equity	**168,282**
Effect elimination intercompany margins	(2,445)
Consolidation effect Omyacolor S.A. (France)	8,763
Consolidation effect F.I.L.A. Hispania S.A. (Spain)	3,353
Consolidation effect Dixon Ticonderoga group	64,982
Consolidation effect Lyra group	1,543
Consolidation effect FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey)	(2,346)
Consolidation effect FILA Stationary O.O.O. (Russia)	(755)
Consolidation effect FILA Hellas (Greece)	1,138
Consolidation effect Industria Maimeri S.p.A. (Italy)	(37)
Consolidation effect FILA Cartorama S.A. (South Africa)	(636)
Consolidation effect Fila Polska Sp. Z.o.o (Poland)	504
Consolidation effect DOMS Industries Pvt Ltd (India)	21,303
Consolidation effect Daler & Rowney Group	(14,161)
Consolidation effect St Cutbert Holding (England)	411
Consolidation effect FILA Hiberia S.L. (Spain)	1,398
Consolidation effect Canson Group	(11,558)
Consolidation effect FILA Art Product AG (Svizzera)	(162)
Total Equity	**239,577**
"Non-controlling interest" consolidation effect	24,628
F.I.L.A. Group Equity	**214,949**

Reconciliation at December 31, 2017 between Parent Result and F.I.L.A. Group Result

Euro thousands

F.I.L.A. S.p.A. Net Profit	**6,933**
Result of Subsidiaries of the Parent	**(4,052)**
Elimination of the effects of transactions between consolidated companies:	
Dividends	(14,004)
Net Inventory Margins	1,099
Other Net Revenue	298
Adjustments to Group accounting standards:	
Stock Option Plan	(699)
Impairment Loss on Lycin Mercantill Industria Ltda (Brasil) Goodwill	(71)
Consolidation Daler Rowney Lukas Group - reversal write-down of investments in the separate financial statements of Daler Rowney Ltd	32,015
Consolidation F.I.L.A. S.p.A. - reversal write-down of investments in the separate financial statements of F.I.L.A. S.p.A.	3,348
Consolidation Canson Group - IFRS 3 - Earnout	(7,500)
Total Net Result	**17,367**
Non-controlling interest share	1,600
F.I.L.A. Group Net Profit	**15,767**

Note 13 - Financial Liabilities

The balance at December 31, 2017 amounts to Euro 278,562 thousand (Euro 283,586 thousand at December 31, 2016), of which Euro 178,889 thousand long-term and Euro 99,673 thousand short-term. The account refers to both non-current and current portions of the loans granted by banking institutions, other lenders and bank overdrafts.

The breakdown at December 31, 2017 is illustrated below.

Note 13.A - FINANCIAL LIABILITIES: Third Parties

	Banks		Other Lenders		Bank Overdrafts		Total
Euro thousands	Principal	Interest	Principal	Interest	Principal	Interest	
December 31, 2016	**266,020**	**(4,660)**	**16,649**	**(2)**	**5,546**	**34**	**283,586**
non-current portion	194,768	(4,866)	164	(14)	-	-	190,052
current portion	71,252	205	16,485	12	5,546	34	93,534
December 31, 2017	**254,695**	**(3,146)**	**8,762**	**(54)**	**18,133**	**172**	**278,562**
non-current portion	181,820	(3,400)	513	(44)	-	-	178,889
current portion	72,875	254	8,249	(10)	18,133	172	99,673
Change	**(11,325)**	**1,515**	**(7,887)**	**(52)**	**12,587**	**138**	**(5,024)**
non-current portion	(12,948)	1,466	349	(30)	-	-	(11,163)
current portion	1,623	49	(8,236)	(22)	12,587	138	6,139

Bank Loans and Borrowings

With reference to “Bank Loans and Borrowings”, the total exposure of the Group amounts to Euro 251,549 thousand, of which Euro 73,129 thousand considered as current (Euro 71,457 thousand at December 31, 2016) and Euro 178,420 thousand as non-current (Euro 189,902 thousand at December 31, 2016).

Non Current Portion

Non-current bank payables report a reduction of Euro 11,482 thousand compared to December 12, 2016, mainly due to the reclassification to current payables of the amount due within 12 months of the loan undertaken by F.I.L.A. S.p.A. (Euro 18,000 thousand); this amount is in part offset by the drawdown of the new medium/long-term loan granted to Canson SAS (Euro 6,350 thousand) in support of recent investment by the French company for the building of the Annonay “Hub”.

The structured loan undertaken by F.I.L.A. S.p.A. and issued by a banking syndicate comprising UniCredit S.p.A. as “Global coordinator - Mandated Lead Arranger”, Intesa Sanpaolo S.p.A. – Banca IMI, Mediobanca Banca di Credito Finanziario S.p.A. and Banca Nazionale del Lavoro S.p.A. as “Mandated Lead Arranger”, was drawn down:

- in February 2016 for Euro 109,357 thousand, against the total granting of Euro 130,000 thousand, including a "Revolving Credit Facility" of Euro 10,000 thousand in support of the acquisition of the Daler-Rowney Lukas Group;
- in October 2016, the loan was disbursed for a further Euro 92,543 thousand for the acquisition of the Canson Group and for Euro 6,850 thousand St. Cuthberts Holding (United Kingdom).

The loan was initially recognised at fair value, including directly associated transaction costs. The initial carrying amount was subsequently adjusted to account for redemptions in principal, any impairment losses and amortisation of the difference between the redemption value and initial carrying amount. Amortisation is made on the basis of the internal effective interest rate represented by the rate equal to, at the moment of initial recognition, the present value of expected cash flows and the initial carrying amount (amortised cost method). The effect at December 31, 2017 of the amortised cost method is Euro 960 thousand of interest.

In 2017, F.I.L.A. S.p.A. repaid the two loan instalments due in the year on March 31, 2017 and September 30, 2017 for a total of Euro 13,200 thousand, and on December 20, 2017 Euro 10,000 thousand on the *Revolving Credit Facility*. The residual value at December 31, 2017 was Euro 189,256 thousand (including the Amortised Cost of Euro 1,920 thousand), of which Euro 171,256 thousand maturing beyond 12 months and Euro 18,000 thousand classified as the current portion. The non-current portion, in addition to the loan of Euro 171,256 thousand, includes also the fair value of the negotiation charges related to the derivative financial instruments of Euro 1,480 thousand undertaken in 2016.

The repayment plan of the loan is outlined below:

Note 13.C - BANKS LOANS AND BORROWINGS REPAYMENT PLAN

Euro thousands	Facility	Capital portion
March 31, 2018	Facility A	8,400
September 30, 2018	Facility A	9,600
Total current financial liabilities		**18,000**
March 31, 2019	Facility A	13,200
September 30, 2019	Facility A	15,600
March 31, 2020	Facility A	18,000
September 30, 2020	Facility A	18,000
February 2, 2021	Facility A	19,626
February 2, 2022	Facility B	88,750
Total non-current financial liabilities		**173,176**

Excluding the F.I.L.A. S.p.A. loan, the residual value of non-current financial liabilities amounts to Euro 7,164 thousand and principally relates to the non-current portion of the loans granted to:

- Canson SAS (France) from Intesa Sanpaolo S.p.A. for Euro 6,350 thousand;
- Industria Maimeri S.p.A. (Italy) from BPER, Creval for Euro 266 thousand;
- DOMS Industries Pvt Ltd (India) by HDFC Bank for Euro 305 thousand;
- Lyra KG (Germany) by Hypo Real Estate for Euro 243 thousand;

Current Portion

The current portion of Bank Loans and Borrowings totalled Euro 73,129 thousand, increasing Euro 1,672 thousand on 2016. The increase in total bank payables is mainly due to the greater utilisation of the credit lines granted to the companies of the Group. Excluding the current portion of the loan provided to F.I.L.A. S.p.A. (Euro 18,000 thousand), the current financial payables of the other companies of the Group amount to Euro 55,129 thousand and principally relates to the following disbursements:

- Credit Lines granted by Banamex S.A., Grupo Financiero BBVA Bancomer S.A., Banco Santander S.A. and Banco Sabadell S.A. to Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico) for a total of Euro 21,349 thousand. During the year, total bank payables increased Euro 3,462 thousand, of which Euro 1,428 thousand due to the negative exchange rate effect;
- credit Line issued by Unicredit S.p.A., Intesa Sanpaolo and Bank of the West in favour of Dixon Ticonderoga Company (U.S.A.), with a total exposure at December 31, 2017 of Euro

17,590 thousand, increasing Euro 3,360 thousand on December 2016 (of which Euro 1,723 thousand due to exchange effects);

- credit Lines issued to Lyra KG (Germany) by Commerzbank and HVB for Euro 5,500 thousand. The current debt of the German company in addition comprises the current portion of loans issued by Hypo Real Estate for Euro 227 thousand. The company's total financial exposure reduced Euro 997 thousand on 2016;
- the current portion of the loan and the credit lines granted to DOMS Industries Pvt Ltd (India) by HDFC Bank for Euro 1,232 thousand; the exposure decreased Euro 899 thousand on December 2016;
- credit line granted in favour of Fila Dixon Stationery (Kunshan) Co., Ltd. (China) by Intesa Sanpaolo S.p.A. and UniCredit S.p.A. for Euro 3,434 thousand, also decreasing on December 31, 2016 for Euro 652 thousand (of which Euro 254 thousand due to exchange effects);
- credit line in favour of Canson Brasil I.P.E. LTDA (previously granted to Licyn Mercantil Industrial Ltda, merged by incorporation in 2017) issued by Bank Itau, Bank Caixa Federal and BNP for a total of Euro 968 thousand (Euro 518 thousand at December 31, 2016).

Covenants

The F.I.L.A. Group, against the debt undertaken with leading credit institutions (UniCredit S.p.A., Intesa Sanpaolo S.p.A., Mediobanca Banca di Credito Finanziario S.p.A. and Banca Nazionale del Lavoro S.p.A.) for the acquisition of the Daler-Rowney Lukas and the Canson Group is subject to commitments and "covenants".

Covenants are verified half-yearly and annually. In particular, the covenants on the loan contracts concern: Net Financial Debt (NFD), EBITDA ("Earnings Before Interest, Tax, Depreciation and Amortisation") calculated on the F.I.L.A. Group IFRS interim and annual consolidated financial statements. The criteria for the calculation of the NFD and the EBITDA are established by the relative loan contract.

We report below the "covenant" indicators and the relative parameters to be complied with at December 31, 2017:

- **NFD / EBITDA $\leq$ 3.25x**

The covenants at December 31, 2017 were fully complied with.

As required by Consob Communication No. DEM/6064293 of July 28, 2006, we report that the impact of non-compliance with the covenants as established by the underlying contracts essentially concerns the possibility that the lending banks may revoke the loan contract and/or declare forfeiture of the repayment conditions upon all or part of the loans.

Financial Liabilities - Other Lenders

"Financial Liabilities – Other Lenders" at December 31, 2017 totalled Euro 8,708 thousand (Euro 16,647 thousand at December 31, 2016), with the current portion totalling Euro 8,239 thousand (Euro 16,497 thousand at December 31, 2016).

The changes compared to the previous year principally relate to the price adjustment mechanism on Canson Group purchases. At December 31, 2016 its application, based on net working capital and net financial debt amounts at the acquisition date give rise to a financial liability for F.I.L.A. S.p.A. of Euro 15,572 thousand, settled in the initial months of 2017. At December 31, 2017, the same mechanism, based on the achievement of the earnings objectives, fixed an additional tranche for F.I.L.A. S.p.A. for an amount of Euro 7,500 thousand.

The additional financial liability above (Euro 1,208 thousand) relates principally to the finance lease recognised to the F.I.L.A. Group companies.

Financial Liabilities - Bank Overdrafts

"Bank Overdrafts" amounted to Euro 18,305 thousand (Euro 5,580 thousand at December 31, 2016) and concern the overdrafts principally of F.I.L.A. S.p.A. (Euro 12,536 thousand), Industria Maimeri S.p.A. (Euro 4,627 thousand) and Fila Stationary O.O.O. (Euro 851 thousand).
The increase compared to December 31, 2016 is mainly due to the increase in the exposure of F.I.L.A. S.p.A.

Pursuant to the latest amendments made to IAS 7, the following spreadsheet shows the changes in liabilities (and any related activities) recorded in the statement of financial position, whose cash flows are or will be reflected in the cash flow statement as cash flows in the future financing activities.

Euro thousands	Bank Loans	Other Loans	Bank Overdrafts	Hedging Derivatives Assets	Hedging Derivatives Liabilities	Total
	Nota 13	*Nota 13*	*Nota 13*	*Nota 3*	*Nota 17*	
December 31, 2016	**(261,359)**	**(16,647)**	**(5,580)**	**462**	**-**	**(283,124)**
Cash Flows	**6,558**	**7,322**	**(12,769)**	**-**	**-**	**1,111**
Other Variations:						
Translation difference	4,077	32	44	-	-	4,153
Fair Value variations	(960)	(54)	-	591	(35)	(458)
Consolidation scope variation effects	135	640	-	-	-	775
December 31, 2017	**(251,549)**	**(8,707)**	**(18,306)**	**1,053**	**(35)**	**(277,544)**

Note 14 - Employee Benefits

The F.I.L.A. Group companies guarantee post-employment benefits for employees, both directly and through contributions to external funds.

The means for accruing these benefits varies according to the legal, fiscal and economic conditions of each country in which the Group operates. These benefits are based on remuneration and years of employee service.

The benefits recognised to employees of the Parent F.I.L.A. S.p.A. concern salary-based Post-Employment Benefits, governed by Italian legislation and in particular Article 2120 of the Italian Civil Code. The amount of these benefits is in line with the contractually-established compensation agreed between the parties on hiring.

The other Group companies, particularly Omyacolor S.A. (France), Dixon Ticonderoga Company (U.S.A.), Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico), Daler Rowney Ltd (United Kingdom) and Canson SAS (France), guarantee post-employment benefits, both through defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the Group companies pay the contributions to public or private insurance institutions based on legal or contractual obligations, or on a voluntary basis. With the payment of contributions, the companies fulfil all of their obligations. The cost is accrued based on employment rendered and is recorded under personnel expenses.

The defined benefit plans may be unfunded, or they may be partially or fully funded by the contributions paid by the company, and sometimes by its employees to a company or fund, legally separate from the company which provides the benefits to the employees. The plans provide for a fixed contribution by the employees and a variable contribution by the employer, necessary to at least satisfy the funding requirements established by law and regulation in the individual countries.

Finally, the Group recognises to employees other long-term benefits, generally issued on the reaching of a fixed number of years of service or in the case of invalidity. In this instance, the value of the obligation recognised in the financial statements reflects the probability that the payment will be issued and the duration for which payment will be made. These plans are calculated on an actuarial basis, utilising the "projected unit credit" method.

The amounts at December 31, 2017 were as follows:

Note 14.A -POST-EMPLOYMENT BENEFITS ITALY ("TFR") AND OTHER EMPLOYEE BENEFITS

Euro thousands	Post-employment benefits (Italy)	Other Employee benefits	Total
December 31, 2016	**2,414**	**8,929**	**11,343**
Disbursements	(107)	(2,885)	(2,992)
Financial Expense	30	164	194
Pension Cost for Service	47	2,864	2,911
IAS 19 Reserve	7	(2,467)	(2,460)
Change in consolidation scope	-	(5)	(5)
Translation differences	-	(255)	(255)
December 31, 2017	**2,391**	**6,345**	**8,736**
Change	**(23)**	**(2,584)**	**(2,607)**

The Actuarial Gains for 2017 totalled Euro 2,460 thousand, recognised net of the fiscal effect directly in equity. The actuarial gain principally relates to the company Daler Rowney Ltd (United Kingdom).

The following table outlines the amount of employee benefits, broken down by funded and unfunded by plan assets over the last two years:

EMPLOYEE BENEFIT PLANS

1. Obligations for Employee Benefits	**December 31, 2017**	**December 31, 2016**
Present Value of Obligations Not Covered by Assets	2,391	2,414
	2,391	**2,414**
Present Value of Obligations Covered by plan assets	9,507	11,336
Fair Value of Plan Assets Relating to the Obligations	(3,162)	(2,407)
	6,345	**8,929**
Total	**8,736**	**11,343**

The financial assets at December 31, 2017 invested by the F.I.L.A. Group to cover financial liabilities arising from "Employee Benefits" amount to Euro 3,162 thousand (Euro 2,407 thousand at December 31, 2016) and relate to Dixon Ticonderoga Company (Euro 2,031 thousand) and F.I.L.A.-Dixon, S.A. de C.V. (Euro 1,131 thousand). The financial investments have an average return of 4.5% on invested capital (equally broken down between investments in the "Ticket PFG" fund and investments in guaranteed investments contracts). The "structure" of financial investments at December 31, 2017 did not change on the previous year.

The table below highlights the net cost of employee benefit components recognised in profit or loss in 2017 and 2016:

2. Cost Recognised in Income Statement	December 31, 2017	December 31, 2016
Pension Cost for Service	2,911	2,177
Financial Expense	194	190
Cost Recognised in Income Statement	**3,105**	**2,367**

The principal actuarial assumptions used for the estimate of the post-employment benefits were the following:

3. Main Actuarial Assumptions at Reporting Date (average values)	December 31, 2017	December 31, 2016
Annual Technical Discounting Rate	3.3%	3.2%
Increase in Cost of Living index	3.7%	3.8%
Future Increase in Salaries	3.2%	2.5%
Future Increase in Pensions	2.7%	2.0%

Details of the cash flows of employee benefits at December 31, 2017 are illustrated in the table below.

Nota 14.B - EMPLOYEE BENEFIT: FINANCIAL FLOWS SCHEDULE

Nature	Ammount	Financial Flows Schedule				
		2018	2019	2020	2021	After 2021
Italian post-employment benefits (TFR)	2,391	115	150	112	158	1,856
Employee Benefit	6,345	820	202	135	94	5,094
Total	**8,736**					

** Euro thousands*

Note 15 - Provisions for Risks and Charges

"Provisions for Risks and Charges" at December 31, 2017 amount to Euro 5,012 thousand (Euro 4,067 thousand at December 31, 2016), of which Euro 2,095 thousand (Euro 1.618 thousand at December 31, 2016) concerning the non-current portion and Euro 2,917 thousand (Euro 2.449 thousand at December 31, 2016) concerning the current portion.

Note 15A - PROVISIONS FOR RISKS AND CHARGES

Euro thousands	Provisions for Tax Disputes	Provisions for Legal Disputes	Provisions for Agents	Restructuring Provisions	Other Provisions	Total
December 31, 2016	**39**	**231**	**794**	**1,845**	**1,158**	**4,067**
non-current portion	-	-	686	-	932	1,618
current portion	39	231	108	1,845	226	2,449
December 31, 2017	**159**	**213**	**794**	**1,957**	**1,889**	**5,012**
non-current portion	-	-	761	-	1,334	2,095
current portion	159	213	33	1,957	555	2,917
Change	**120**	**(18)**	**-**	**112**	**731**	**945**
non-current portion	-	-	75	-	401	477
current portion	120	(18)	(75)	112	329	468

The change in the account "Provisions for Risks and Charges" at December 31, 2017 was as follows:

Note 15.B PROVISION FOR RISKS AND CHARGES: CHANGES IN YEAR

Euro thousands	Provisions for Tax Disputes	Provisions for Legal Disputes	Provisions for Agents	Restructuring Provisions	Other Provisions	Total
December 31, 2016	**39**	**231**	**794**	**1,845**	**1,158**	**4,067**
Utilisation of Provisions	-	-	(46)	(985)	(76)	(1,107)
Provisions Accrued	120	-	43	1,161	869	2,193
Release	-	-	(70)	-	-	(70)
Discounting	-	-	73	-	-	73
Exchange Differences	-	(18)	-	(64)	(62)	(144)
December 31, 2017	**159**	**213**	**794**	**1,957**	**1,889**	**5,012**
Change	**120**	**(18)**	**(0)**	**112**	**731**	**945**

Provisions for Tax Disputes

This provision represents the best estimate by management of tax liabilities concerning:

- F.I.L.A. S.p.A., concerning the 2004 tax period and relating to direct and indirect taxes (Euro 39 thousand);
- Lyra KG (Germany), penalty regarding the current tax audit (Euro 120 thousand).

Provisions for Legal Dispute

The provision concerns accruals made in relation to:

- Legal proceedings arising from ordinary operating activities;
- Legal proceedings concerning disputes with employees or former employees and agents.

The provision remained unchanged compared to the previous year, with the exception of Euro 18 thousand deriving from exchange differences.

Provisions for Agents

The account includes the agents' leaving indemnity provision at December 31, 2017 of the parent F.I.L.A. S.p.A. and of the subsidiaries Industria Maimeri S.p.A. and Canson Italia S.r.l.. The actuarial loss for 2017 was Euro 73 thousand. The actuarial changes in the year, net of the tax effect, are recognised directly to equity.

Restructuring Provisions

For the integration and reorganisation of the Group structure following the acquisitions in 2016, a number of F.I.L.A. Group companies established provisions for risks and charges concerning personnel mobility plans for a total of Euro 1,957 thousand. The plans particularly involve Canson SAS (Euro 957 thousand), Daler Rowney Ltd (Euro 675 thousand), Dixon Ticonderoga Company (Euro 205 thousand) and Canson Brasil I.P.E. LTDA (Euro 120 thousand), as per the reorganisation projects drawn up by the parent.

Other Provisions

The provision of Euro 1,889 thousand principally relates to the subsidiary Dixon Ticonderoga Company (U.S.A.) and F.I.L.A. S.p.A.. The US company established a provision for risks concerning environmental reclamation (Euro 505 thousand) relating to actions undertaken in the US in the period prior to acquisition by F.I.L.A. S.p.A.. Reclamation times and estimates will be revised by management until completion. No further disposal and environmental reclamation costs are expected following the reorganisation process involving the F.I.L.A. Group sites.

The parent F.I.L.A. S.p.A. provisioned, taking account of the information available and the best estimate made by management, Euro 1,165 thousand against liabilities deriving from the non current variable remuneration plan for a number of key management personnel of the company. The plan, approved by the Remuneration Committee and ratified by the Board of Directors, is indexed to quantitative and qualitative parameters. As this is a medium/long-term provision, the expected future cash flows are discounted at a rate of 9.9%.

In order to establish the best estimate of the potential liability, each F.I.L.A. Group company assesses legal proceedings individually to estimate the probable losses which generally derive from similar events. The best estimate considers, where possible and necessary, the opinion of legal consultants and other experts, the prior experience of the company, in addition to the intention of the company itself to undertake further actions in each case. The present provision in the F.I.L.A. Group consolidated financial statements concerns the sum of individual accruals made by each Group company.

Note 16 - Deferred tax liabilities

"Deferred Tax Liabilities" amount to Euro 39,241 thousand (Euro 47,034 thousand at December 31, 2016).

Note 16.A CHANGES IN DEFERRED TAX LIABILITIES

Euro thousands

December 31, 2016	**47,034**
Provisions	92
Utilisations	(6,253)
Translation differences	(1,655)
Change in Equity	151
Variation in Consolidation Scope	(128)
December 31, 2017	**39,241**
Change	**(7,793)**

Deferred tax liabilities principally concern differences between fiscal and statutory amounts and the tax effect calculated on property, plant and equipment and intangible assets valued through the "purchase price allocation" in completion of non-recurring transactions executed by the F.I.L.A. Group in 2016.

The table below shows the deferred tax liabilities by nature:

NOTE 16.B - BREAKDOWN OF DEFERRED TAX LIABILITIES

	Statement of Financial Position			Income Statement		Equity	
Euro thousands	2017	Variation in Consolidation Scope	2016	2017	2016	2017	2016
Deferred tax liabilities relating to:							
Inventory	0	0	0	0	(33)	0	0
Intangible Assets	32,370	0	38,744	(6,374)	(56)	0	0
Property, Plant and Equipment	6,482	0	8,402	(1,920)	(439)	0	0
Personnel - IAS 19	223	0	70	2	(34)	151	(50)
Dividends	289	0	285	4	160	0	0
Conversion difference accounted for as "Translation Reserve"	(1,655)	0	(1,281)	1,281	(99)	(1,655)	(1,281)
Other	1,532	(128)	815	845	(863)	0	0
Total deferred tax liabilities	**39,241**	**(128)**	**47,034**	**(6,161)**	**(1,364)**	**(1,504)**	**(1,331)**

The movement on the previous year is principally due to the release of deferred taxes provisioned on the higher value of tangible and intangible assets recorded through the "purchase price allocation" on the companies acquired during the preceding years (in particular the Canson Group, the Daler-Rowney Lukas and DOMS Industries PVT Ltd). Against the gradual amortisation and depreciation of the assets so calculated, the company gradually released the relative deferred taxes.

The change in Equity represents the tax effect of the "Actuarial Gains/Losses" calculated on the "Post-Employment Benefits and Employee Benefits" and recognised, in accordance with IAS 19, as an Equity reserve.

Note 17 - Financial Instruments

"Financial Instruments" amount Euro 35 thousand at December 31, 2017 (Euro 0 thousand at December 31, 2016) and concern the fair value of the derivatives on the loan (hedged instrument) issued in favour of Canson SAS (France) in 2017. The financial instrument (Interest Rate Swap) classified as a hedge, present characteristics in line with those of the hedged instrument, such as the same maturity and the same repayment plan broken down into quarterly instalments with interest in arrears, in addition to a variable interest rate indexed to the Euribor at 3 months.

The accounting treatment adopted for the hedging instruments, based on IAS 39, is based on hedge accounting and in particular that concerning "cash flow hedges" and involving the recognition of a financial asset or liability and an equity reserve.

Note 18 - Current Tax Liabilities

"Current tax Liabilities" total Euro 8,448 thousand at December 31, 2017 (Euro 4,951 thousand at December 31, 2016), relating mainly to the parent (Euro 1,805 thousand), DOMS Industries Pvt Ltd (Euro 1,356 thousand) and Dixon Ticonderoga Company (Euro 1,822 thousand).

Note 19 - Trade and Other Liabilities

"Trade and Other Liabilities" at December 31, 2017 amount to Euro 96,263 thousand (Euro 90,445 thousand at December 31, 2016). The breakdown of "Trade and Other Liabilities" of the F.I.L.A. Group is reported below:

Note 19.A TRADE AND OTHER PAYABLES

Euro thousands	December 31, 2017	December 31, 2016	Change
Trade Payables	68,374	63,170	5,204
Tax Expemses	7,096	5,291	1,805
Other Expenses	19,416	20,490	(1,074)
Accrued Expemses & Def.Income	1,377	1,494	(116)
Total	**96,263**	**90,445**	**5,818**

The increase in Trade Payables was Euro 5,204 thousand and principally relates to Dixon Ticonderoga Company (USA) and Daler Rowney Ltd (United Kingdom) due to stock purchases for the filling of orders in the initial months of the subsequent year. In addition, the movement is in part due to payables deriving from the acquisition of tangible assets by DOMS Industries Pvt Ltd (India) against investments undertaken in the final part of the year for the development of the local production sites.

The geographic breakdown of trade payables is shown below:

TRADE AND OTHER PAYABLES: GEO AREA

Euro thousands	December 31, 2017	December 31, 2016	Change
Europe	35,181	36,827	(1,646)
North America	10,211	5,506	4,705
Central-South America	4,878	4,204	674
Asia	17,836	14,069	3,767
Other	268	2,564	(2,296)
Total	**68,374**	**63,170**	**5,204**

The carrying amount of trade payables at the reporting date approximates their “fair value”.
The trade payables reported above are due within 12 months.

The account “Tax liabilities” to third parties amounts to Euro 7,096 thousand at December 31, 2017 (Euro 5,291 thousand at December 31, 2016), of which Euro 5,262 thousand VAT liabilities and Euro 1,834 thousand concerning tax liabilities other than current taxes. The VAT liabilities principally concerns the Mexican subsidiary (Euro 2,584 thousand). Other Tax liabilities concern consultants withholding taxes, principally relating to F.I.L.A. S.p.A (Euro 437 thousand). The residual amount mainly refers to the Chinese subsidiaries (Euro 333 thousand) and Canson SAS (Euro 316 thousand).

“Other liabilities” amount to Euro 19,416 thousand at December 31, 2017 and principally include:

- Employee salary liabilities of Euro 9,671 thousand (Euro 9,908 thousand at December 31, 2016);
- Social security contributions to be paid of Euro 4,946 thousand (Euro 4,787 thousand at December 31, 2016);
- Payables for agent commissions of Euro 241 thousand (Euro 339 thousand at December 31, 2016).
- The residual liabilities of Euro 4,558 thousand principally concern advances to clients (Euro 5,439 thousand at December 31, 2016).

The carrying amount of “Tax liabilities”, “Other liabilities” and “Accrued Expense and Deferred Income” at the reporting date approximate their fair value.

With reference to the other non-current payables, the balance at December 31, 2017 amounted to Euro 96 thousand and refers to deposits paid by customers to guarantee long-term supply contracts of the Indian company DOMS Industries Pvt Ltd (India).

Note 20 – Core Business Revenue

Core business revenue in 2017 amounted to Euro 510,354 thousand (Euro 422,609 thousand in 2016).

Note 20.A - CORE BUSINESS REVENUE

Euro thousands	December 31, 2017	December 31, 2016	Change
Revenue from Sales and Service	536,330	445,257	91,073
Adjustments on Sales	(25,976)	(22,648)	(3,328)
Returns on Sales	*(13,993)*	*(13,641)*	*(352)*
Discounts, Allowances and Premiums	*(11,983)*	*(9,007)*	*(2,976)*
Total	**510,354**	**422,609**	**87,745**

"Core Business Revenue" of Euro 510,354 thousand increased on the previous year Euro 87,745 thousand (+20.8%). This movement relates for Euro 19,883 thousand (+4.70% on December 31, 2016) to the organic growth calculated net of the negative exchange effect of approx. Euro 5,986 thousand (principally due to the strengthening of the Euro against the US Dollar, GB Pound and the Mexican Peso, only in part offset by the strengthening of the Indian Rupee) and the M&A effect of approx. Euro 73,848 thousand (of which principally: Euro 4,582 thousand relating to a month of Daler-Rowney Lukas operations, consolidated from February 2016, Euro 66,358 thousand relating to the Canson Group, consolidated from October 2016, Euro 3,034 thousand concerning St. Cuthberts Mill, consolidated from September 2016).

Revenue by geographical segment on the basis of the "Entity Locations" are reported below:

Note 20.B - CORE BUSINESS REVENUE

Euro thousands	December 31, 2017	December 31, 2016	Change
Europe	220,029	178,158	41,871
North America	155,336	133,524	21,812
Central - South America	67,580	56,986	10,594
Asia	62,283	51,349	10,934
Other	5,126	2,592	2,534
Total	**510,354**	**422,609**	**87,745**

Note 21 – Other Revenue and Income

The account other income relates to ordinary operations and does not include the sale of goods and provision of services, in addition to realised and unrealised exchange rate gains on commercial transactions.

For further details on transaction differences, reference should be made to “Note 30 - Foreign currency transactions”.

“Other Revenue and Income” in 2017 amounted to Euro 18,300 thousand (Euro 19,652 thousand in 2016).

Note 21 – OTHER REVENUE AND INCOME

Euro thousands	December 31, 2017	December 31, 2016	Change
Gains on Sale of Property, Plant and Equipment	68	49	19
Unrealised Exchange Rate Gains on Commercial Transactions	9,827	12,796	(2,969)
Realised Exchange Rate Gains on Commercial Transactions	6,225	4,178	2,047
Other Revenue and Income	2,180	2,629	(449)
Total	**18,300**	**19,652**	**(1,352)**

The account “Other revenue and income” totalled Euro 2,180 thousand and principally related to commissions from Ticonderoga brand sales and the sale of production waste product by Lyra KG (Germany).

Note 22 - Costs for Raw Materials, Ancillary, Consumables and Goods and Change in Raw Materials, Semi-Finished, Work-in-progress and Finished Products

The account includes all purchases of raw materials, semi-processed products, transport for purchases, goods and consumables for operating activities.

“Costs for Raw Materials, Ancillary, Consumables and Goods” in 2017 totalled Euro 227,453 thousand (Euro 196,991 thousand in 2016).

The breakdown is provided below:

Note 22 - COSTS FOR RAW MATERIALS, ANCILLARY, CONSUMABLES AND GOODS			
Euro thousands	December 31, 2017	December 31, 2016	Change
Raw materials, Ancillary, Consumables and Goods	(187,738)	(164,614)	(23,124)
Shipping Expenses on Purchases	(12,411)	(9,585)	(2,826)
Packaging	(8,340)	(7,284)	(1,056)
Import Charges and Customs Duties	(5,177)	(5,580)	403
Other Accessory Charges on Purchases	(12,916)	(9,201)	(3,715)
Materials for Maintenance	(985)	(813)	(172)
Adjustments on Purchases	114	86	28
Total	**(227,453)**	**(196,991)**	**(30,461)**

The increase in “Costs for Raw Materials, Ancillary, Consumables and Goods” in 2017 was Euro 30,462 thousand, mainly due to the above-mentioned M&A effects (Euro 28,625 thousand).

The increases in inventories at December 31, 2017 totalled Euro 13,245 thousand, of which:

- increase in “Raw Materials, Ancillary, Consumables and Goods” for Euro 2,982 thousand (increase of Euro 418 thousand in 2016);
- increase in “Contract Work in Progress and Semi-Finished products” of Euro 1,599 thousand (decrease of Euro 3,417 thousand in 2016);
- movement in “Finished Products” of Euro 8,664 thousand (increase of Euro 12,162 thousand in 2016).

For further details, reference should be made to the “Normalised operating result” paragraph of the Directors’ Report.

Note 23 - Service Costs and Use of Third Party Assets

“Service Costs and Use of Third Party Assets” amounted in 2017 to Euro 115,701 thousand (Euro 101,731 thousand in 2016).

Services costs are broken down as follows:

Note 23 - SERVICE COSTS AND RENT, LEASES AND SIMILAR COSTS

Euro thousands	December 31, 2017	December 31, 2016	Change
Sundry services	(9,976)	(9,610)	(366)
Transport	(20,128)	(15,798)	(4,330)
Warehousing	(1,646)	(1,702)	56
Maintenance	(8,925)	(7,162)	(1,763)
Utilities	(7,705)	(6,071)	(1,634)
Consulting	(9,966)	(13,861)	3,895
Directors' and Statutory Auditors' Fees	(4,776)	(4,688)	(88)
Advertising, Promotions, Shows and Fairs	(5,359)	(5,614)	255
Cleaning	(594)	(533)	(61)
Bank Charges	(1,005)	(877)	(128)
Agents	(7,231)	(7,569)	338
Sales representatives	(5,565)	(4,634)	(931)
Sales Commissions	(12,778)	(9,932)	(2,846)
Insurance	(1,971)	(1,986)	15
Other Service Costs	(3,762)	(2,231)	(1,531)
Hire Charges	(8,962)	(5,896)	(3,066)
Rental	(1,712)	(1,046)	(666)
Operating Leases	(2,812)	(1,727)	(1,085)
Royalties and Patents	(828)	(796)	(32)
Total	**(115,701)**	**(101,731)**	**(13,970)**

The increase in “Service Costs and Use of Third Party Assets” compared to 2016 was Euro 13,970 thousand, principally relating to the effect deriving from the M&A transactions in 2016 for a total amount of Euro 15,849 thousand. Net of this effect, the costs contracted approx. Euro 1,879 thousand, principally thanks to lower consultancy costs in the year and relating, in 2016, to Group corporate transactions.

Note 24 – Other Costs

“Other Costs” totalled in 2017 Euro 19,338 thousand (Euro 20,313 thousand in 2016).
The account principally includes realised and unrealised exchange rate losses on commercial transactions. For further details on currency differences, reference should be made to “Note 30 - Foreign currency transactions”.

“Other costs” are broken down as follows:

Note 24 – OTHER COSTS			
Euro thousands	**December 31, 2017**	**December 31, 2016**	**Change**
Unrealised Exchange Rate Losses on Commercial Transactions	(9,494)	(10,847)	1,353
Realised Exchange Rate Losses on Commercial Transactions	(8,623)	(7,210)	(1,413)
Other Operating Charges	(1,221)	(2,256)	1,035
Total	**(19,338)**	**(20,313)**	**975**

The increase in “Other costs” in 2017 following the change in the consolidation scope was Euro 172 thousand, with a net decrease at like-for-like consolidation scope of Euro 1,207 thousand.
The account mainly refers to non-recurring costs incurred by the US subsidiary Dixon Ticonderoga Co. (Euro 201 thousand mainly relating to legal disputes and merchandising donations) and by the parent company F.I.L.A. S.p.A. (Euro 233 thousand relating to tax charges other than income taxes, such as municipal taxes on property, registration taxes and other indirect taxes, in addition to gifts and promotional items).

Note 25 – Personnel expense

"Personnel Expense" include all costs and expenses incurred for employees.

"Personnel Expense" in 2017 amounted to Euro 106,283 thousand (Euro 82,399 thousand in 2016).

These costs are broken down as follows:

Note 25 – PERSONNEL EXPENSE

Euro thousands	December 31, 2017	December 31, 2016	Change
Wages and Salaries	(77,708)	(62,909)	(14,799)
Social Security Charges	(17,369)	(13,396)	(3,973)
Employee Benefits	(2,864)	(2,144)	(720)
Post-Employment Benefits	(47)	(33)	(14)
Other Personnel Expenses	(8,295)	(3,917)	(4,378)
Total	**(106,283)**	**(82,399)**	**(23,884)**

"Personnel expense" increased Euro 23,884 thousand on 2016, mainly as a result of the M&A effect of the acquisitions in 2016 (Euro 19,933 thousand). The net increase at like-for-like consolidation scope was Euro 3,951 thousand.

Non-recurring persionnel expenses were incurred for a total of Euro 1,161 thousand for the F.I.L.A. Group reorganisation.

The F.I.L.A. Group workforce at December 31, 2017 numbered 8,439 FTE, compared to 7,724 at December 31, 2016. The increase of 715 was mainly in Asia and, particularly, at the Indian company DOMS Industries Pvt Ltd which launched major plant expansion projects during the year.

For further details, reference should be made to the Personnel section of the Directors' Report.

The following table reports the breakdown of the F.I.L.A. Group workforce at December 31, 2017 and December 31, 2016 by geographical segment.

	Europe	North America	Central - South America	Asia	Rest of the World	Total
December 31, 2016	**1,114**	**171**	**1,768**	**4,636**	**35**	**7,724**
December 31, 2017	**1,099**	**206**	**1,836**	**5,263**	**35**	**8,439**
Change	**(15)**	**35**	**68**	**627**	**0**	**715**

Personnel are broken down as follows:

	Manager	White Collars	Blue Collars	Totale
December 31, 2016	**168**	**1,698**	**5,858**	**7,724**
Incrementi	36	554	4,000	**4,590**
Decrementi	23	433	3,419	**3,875**
December 31, 2017	**181**	**1,819**	**6,439**	**8,439**

The average workforce in 2017 of the F.I.L.A. Group was 8,082, higher than the average workforce in 2016 of 7,548.

	Manager	White Collars	Blue Collars	Totale
December 31, 2016	**141**	**1,654**	**5,753**	**7,548**
December 31, 2017	**174**	**1,759**	**6,149**	**8,082**

Note 26 – Amortisation and Depreciation

The account in 2017 amounted to Euro 17,759 thousand (Euro 14,910 thousand in 2016). Amortisation and depreciation in 2017 and 2016 are reported below:

Note 26 – AMORTISATION AND DEPRECIATION

Euro thousands	December 31, 2017	December 31, 2016	Change
Depreciation of Property, Plant and Equipment	(11,045)	(9,162)	(1,883)
Amortisation of Intangible Assets	(6,714)	(5,748)	(966)
Total	**(17,759)**	**(14,910)**	**(2,849)**

The increase in "Amortisation and Depreciation" in is due to the M&A effect relating to the companies consolidated in 2016 and to the amortisation of "*Brands*" and "*Other Intangible assets*", measured through the "Purchase Price Allocation" in relation to these corporate operations undertaken in the previous year.

For further details, reference should be made to "Note 1 – Intangible Assets" and "Note 2 – Property, Plant and Equipment".

Note 27 – Write-Downs

"Write-downs" in 2017 totalled Euro 2,097 thousand (Euro 828 thousand in 2016).

The write-downs in 2017 and 2016 are reported below:

Note 27 – WRITE-DOWNS

Euro thousands	December 31, 2017	December 31, 2016	Change
Write-down Property, Plant and Equipment	(63)	(9)	(54)
Write-down Intangible Assets	(71)	-	(71)
Doubtful Debt Provisions	(1,963)	(819)	(1,144)
Total	**(2,097)**	**(828)**	**(1,269)**

The write-down of Intangible Assets concerns the impairment loss on the goodwill of Licyn Mercantil Industrial Ltda (Brazil) for Euro 71 thousand. For further information, reference should be made to "Note 1 - Intangible Assets".

The doubtful debt provision amounts to Euro 1,963 thousand and principally concerned Dixon Ticonderoga Company (Euro 895 thousand), F.I.L.A. S.p.A. (Euro 630 thousand) and Daler Rowney Ltd (Euro 118 thousand).

Note 28 – Financial Income

Total" Financial Income" in 2017 amounted to Euro 3,118 thousand (Euro 4,470 thousand in 2016).

Financial income, together with the comment on the main changes on the previous year, was as follows:

Note 28 – FINANCIAL INCOME			
Euro thousands	**December 31, 2017**	**December 31, 2016**	**Change**
Interest on Bank Deposits	121	141	(20)
Financial Income from Disposal of Non-Current Financial Assets	-		
Other Financial Income	1,134	945	189
Unrealised Exchange Rate Gains on Financial Transactions	1,566	3,239	(1,673)
Realised Exchange Rate Gains on Financial Transactions	297	144	153
Total	**3,118**	**4,470**	**(1,352)**

The main change within the account "Other Financial Income" concerns the financial income generated from the sale of the minority stake (30% of the share capital) held in FILA Nordic AB (Sweden) by the German subsidiary Lyra KG for Euro 990 thousand.

Note 29 - Financial Expense

In 2017, "Financial Expense" amounted to Euro 25,543 thousand (Euro 10,231 thousand in 2016).

Financial expense, together with the comment on the main changes on the previous year, was as follows:

Note 29 - FINANCIAL EXPENSE			
Euro thousands	**December 31, 2017**	**December 31, 2016**	**Change**
Interest on Bank Overdrafts	(210)	(189)	(21)
Interest on Bank Loans and borrowings	(8,831)	(5,600)	(3,231)
Interest to Other Lenders	(27)	(75)	48
Other Financial Expenses	(10,149)	(2,153)	(7,996)
Unrealised Exchange Rate Losses on Financial Transactions	(4,732)	(1,317)	(3,415)
Realised Exchange Rate Losses on Financial Transactions	(1,595)	(897)	(698)
Total	**(25,543)**	**(10,231)**	**(15,312)**

The increase in "Financial Expense" in 2017 was Euro 15,312 thousand, net of the considerations regarding exchange differences and principally concerned:

- Higher interest of the parent F.I.L.A. S.p.A. on the loan contracted for the corporate transactions executed (Euro 2,043 thousand) and the increased effect of the amortised cost, Euro 960 thousand (Euro 488 thousand at December 31, 2016) calculated on the loan;

- The recognition of the charge from application of the price adjustment mechanism regarding the Canson Group acquisition which, based on earnings indicators, resulted in the recognition of Euro 7,500 thousand by the Group.

For further details concerning these issues, reference should be made to “Note 13 - Financial Liabilities”.

Note 30 - Foreign Currency Transactions

Exchange Rate differences on financial and commercial transactions in foreign currencies in 2017 are reported below.

Note 30 - FOREIGN CURRENCY TRANSACTIONS

Euro thousands	December 31, 2017	December 31, 2016	Change
Unrealised Exchange Rate Gains on Commercial Transactions	9,827	12,796	(2,969)
Realised Exchange Rate Gains on Commercial Transactions	6,225	4,178	2,047
Unrealised Exchange Rate Losses on Commercial Transactions	(9,494)	(10,847)	1,353
Realised Exchange Rate Losses on Commercial Transactions	(8,623)	(7,210)	(1,413)
Net exchange rate losses on commercial transactions	**(2,065)**	**(1,083)**	**(982)**
Unrealised Exchange Rate Gains on Financial Transactions	1,566	3,239	(1,673)
Realised Exchange Rate Gains on Financial Transactions	297	144	153
Unrealised Exchange Rate Losses on Financial Transactions	(4,732)	(1,317)	(3,415)
Realised Exchange Rate Losses on Financial Transactions	(1,595)	(897)	(698)
Net exchange rate gains on financial transactions	**(4,464)**	**1,169**	**(5,633)**
Total net value of exchange differences	**(6,529)**	**86**	**(6,615)**

Exchange rate differences in 2017 principally arose from the movement of local currencies (principally the Mexican Peso, the US Dollar, and GB Pound) against the Euro, in addition to the movement in the period of assets and liabilities in foreign currencies, following commercial and financial transactions.

Note 31 – Income/Expense from Equity Accounted Investments

“Income/Expense from Equity Accounted Investments” report income of Euro 66 thousand (Euro 19 thousand in 2016), due to the adjustment of the investments in associated companies held by DOMS Industries Pvt Ltd (India), consolidated under the Equity method.

Note 32 - Income Taxes

These amounted to Euro 13,542 thousand in 2017 (Euro 13,334 thousand in 2016) and concern current taxes for Euro 15,719 thousand (Euro 14,385 thousand in 2016) and net deferred tax income of Euro 2,177 thousand (Euro 1,051 thousand in 2016).

Note 32.A – Current Income Taxes

The breakdown is as follows.

Note 32.A - INCOME TAXES

Euro thousands	December 31, 2017	December 31, 2016	Change
Current Income Taxes - Italy	(1,083)	(962)	(121)
Current Income Taxes - Foreign	(14,636)	(13,423)	(1,213)
Total	**(15,719)**	**(14,385)**	**(1,334)**

Current Italian taxes concern F.I.L.A. S.p.A., Industria Maimeri S.p.A and Canson Italia S.r.l..

The breakdown of current foreign income taxes is illustrated below.

Note 32.A.1 - INCOME TAXES

Euro thousands	December 31, 2017	December 31, 2016	Change
FILA (Italy)	(238)	(1,471)	1,233
OMYACOLOR (France)	(800)	(1,012)	212
FILA (Hispania)	(487)	(394)	(93)
Dixon Ticonderoga Company (U.S.A.)	(7,244)	(5,863)	(1,381)
Dixon (U.K)	0	(32)	32
Dixon (China)	0	(4)	4
Fila Dixon (Kunshan)	(178)	(225)	47
FILA (Yixing)	(85)	(50)	(35)
Dixon (Canada)	(248)	(258)	10
Dixon (Mexico)	(922)	(1,505)	583
FILA (Argentina)	(27)	(31)	4
Lyra Akrelux (Indonesia)	(60)	(46)	(14)
Lyra KG (Germany)	(330)	(314)	(16)
Fila Nordic (Scandinavia)	(3)	(62)	60
Lyra Verwaltungs (Germany)	(1)	(1)	0
Licyn Mercantil Industrial LTDA (Brazil)	0	(87)	87
FILA Hellas (Grecia)	(200)	(159)	(42)
FILA (Polonia)	(91)	(34)	(57)
DOMS Industries PVT Ltd (India)	(1,825)	(1,589)	(236)
FILA (Russia)	(32)	0	(32)
FILA Iberia	(458)	0	(458)
FILA Art Products AG	(1)	0	(1)
FILA (Chile)	(586)	(215)	(372)
Piooner Stationary Private Limited	0	2	(2)
Renoir Bidco Ltd (UK)	0	(21)	21
Daler Rowney Ltd (UK)	(85)	0	(85)
Daler Rowney Group Ltd (Jersey - UK)	11	(48)	58
FILA Benelux	36	(35)	71
Daler Rowney USA Ltd (USA)	0	277	(277)
Daler Rowney GmbH (Germany)	0	6	(6)
Nerchauer Malfarben GmbH (Germany)	0	14	(14)
St.Cuthberts Mill Limited Paper (UK)	(188)	(93)	(95)
Canson Bresil (Brazil)	(59)	(162)	103
Canson SAS (France)	(516)	93	(609)
Canson Inc. (USA)	(17)	3	(20)
Canson Qingdao (China)	0	(106)	106
Totale	**(14,636)**	**(13,423)**	**(1,212)**

The foreign income taxes also include the tax charge relating to F.I.L.A S.p.A. concerning the tax representation of the subsidiary Lyra KG (Euro 196 thousand) and the tax under Article 167 of Presidential Decree No. 917/1986 concerning "Controlled Foreign Companies" for Euro 42 thousand.

Note 32.B – Deferred Tax Income and Expense

The breakdown is provided below:

Note 32.B DEFERRED TAX INCOME AND EXPENSE

Euro thousands	December 31, 2017	December 31, 2016	Change
Deferred Tax Income	6,161	1,364	4,797
Deferred Tax Charge	(3,984)	(313)	(3,671)
Total	**2,177**	**1,051**	**1,126**

The table below shows the overall tax effects in the period.

Note 32.C TOTAL INCOME TAXES IN YEAR

Euro thousands	2017	Effective tax rate	2016	Effective tax rate
Pre-Tax Consolidated Result of the F.I.L.A. Group	30,909		35,306	
Result of Companies of the F.I.L.A. Group not subject to Current Taxes	3,226		3,114	
Consolidation Effect of the F.I.L.A. Group - Before Current Taxes	14,005		17,826	
Theoretical Tax Base	48,140		56,246	
Total current income taxes	(15,719)	32.7%	(14,385)	25.6%
Deferred Tax Assets on Temporary Differences	(3,984)		(313)	
Deferred Tax Liabilities on Temporary Differences	6,161		1,364	
Total deferred tax income & charges	2,177	-4.5%	1,051	-1.9%
Net tax expense	**(13,542)**	**28.1%**	**(13,334)**	**23.7%**

The “Net Tax Expense” of Euro 13,542 thousand represent an average effective tax rate for the F.I.L.A. Group of 28.1%, increasing 4.4% on the previous year.

Commitments and guarantees

Commitments

In 2017, commercial supplier commitments maturing in 2018 totalled Euro 4,358 thousand and concern F.I.L.A. Hispania S.L. (Spain - Euro 897 thousand), Fila Hellas S.A. - Euro 3 thousand) and Daler Rowney Ltd (United Kingdom - Euro 3,458 thousand).

The commitments undertaken by the Group companies for leasing and hire were as follows:

	Financial Leasing		Operative leasing	
Euro thousands	Short term	Long Term	Short term	Long Term
FILA S.p.A.	-	-	148	226
Omyacolor S.A: (France)	12	28	-	-
F.I.L.A. Nordic AB (Sweden)	-	-	194	136
Industria Maimeri S.p.A.	4	-	-	-
Fila Hellas SA (Greece)	-	-	6	1
Dixon Ticonderoga Company (USA)	11	3	925	6,491
Dixon Ticonderoga Inc. (Canada)	-	-	146	495
Grupo F.I.L.A-Dixon, S.A. de C.V. (Messico)	-	-	1,848	8,277
Daler Rowney Ltd (UK)	54	245	521	17,932
Brideshore srl (Dominican Rep.)	-	-	646	1
St. Cuthberts Mill Limited (UK)	37	-	-	-
Canson Inc. (USA)	-	-	559	16,533
Total	**118**	**276**	**4,993**	**50,093**

Guarantees

On February 2, 2016, F.I.L.A. S.p.A. signed a loan contract (hereafter the “Facility Agreement”) issued by a banking syndicate comprising UniCredit S.p.A. as “Global Coordinator”, Intesa Sanpaolo S.p.A., Mediobanca Banca di Credito Finanziario S.p.A. and Banca Nazionale del Lavoro as “Mandated Lead Arranger” and UniCredit Bank AG as “Security Agent”, for a total of Euro 109,357 thousand against a total underwritten amount of Euro 130,000 thousand.

The loan disbursed was for the acquisition of the Daler-Rowney Lukas Group on February 3, 2016. On May 12, 2016, the loan was extended to a total nominal amount of Euro 236,900 thousand for the acquisition of the Canson Group.

Against this exposure, there are “share security” guarantees in place on the following companies:

- Renoir Topco Ltd;
- Renoir Bidco Ltd;
- Renoir Midco Ltd;
- Daler-Rowney Ltd;
- Daler-Rowney USA Ltd;

- Omyacolor S.A.;
- Grupo F.I.L.A. – Dixon, S.A. de C.V.;
- Canson SAS;
- Lodi 12 SAS;
- Daler-Rowney Group Ltd;
- Canson Inc. (USA);
- Dixon Ticonderoga Company (USA).

in addition to other guarantees ("other asset security") on trade receivables and loan assets from the acquisitions in 2016.

The guarantees provided by F.I.L.A. S.p.A. are as follows:

- Brank surety issued in favour of Banca Nazionale del Lavoro S.p.A. on the credit lines granted to Industria Maimeri S.p.A. (Italy) for Euro 1,226 thousand;
- Bank surety issued, in favour of third parties, in guarantee of the Pero offices lease contract for Euro 88 thousand;
- Stand by given in favour of Banca Nazionale del Lavoro S.p.A. on credit lines granted to:
  - FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey) for Euro 2 million;
  - Canson Brasil I.P.E. Ltda (Brazil) for Euro 392 thousand;
- Patronage letters provided on opening of credit granted to Industria Maimeri S.p.A. (Italy) in favour of the following credit institutions:
  - Credito Emiliano S.p.A. for Euro 1,000 thousand;
  - Banco BPM for Euro 2,000 thousand;
  - Banca Popolare dell'Emilia Romagna for Euro 1,025 thousand;
- Loan mandates granted to UniCredit S.p.A. in favour of Dixon Ticonderoga Co. (U.S.A.) of USD 17 million, of Fila Dixon Stationery Company (Kunshan) Co. Ltd. (China) for Euro 2,100 thousand and in favour of Industria Maimeri S.p.A. (Italy) for Euro 1,950 thousand;
- Loan mandates granted in favour of Banca Intesa Sanpaolo S.p.A. on its subsidiaries:
  - Fila Dixon Stationery (Kunshan) Co. Ltd. (China) of Renminbi 32 million;
  - Fila Dixon Stationary (Kunshan) Co., Ltd. of USD 500 thousand;
  - Fila Dixon Stationery (Kunshan) Co. Ltd. (China) for Euro 2,000 thousand;
  - Xinjiang Fila Dixon Plantation Co. Ltd. (China) for Euro 1,600 thousand;
  - Industria Maimeri S.p.A. (Italy) for Euro 1,000 thousand;
  - Fila Stationary O.O.O. (Russia) for Euro 1,250 thousand.

- Loan mandate granted in favour of Credito Valtellinese on Industria Maimeri S.p.A. (Italy) for Euro 350 thousand.

With reference to the other guarantees provided by the Group companies, we highlight the mortgages in favour of Deutsche Pfandbriefbank (Hypo Real Estate) on the property of Lyra KG "Johann Froescheis Lyra-Bleitstitift-Fabrik GmbH&Co-KG" (Germany) for Euro 3,931 thousand.

Lyra KG "Johann Froescheis Lyra- Bleitstitift-Fabrik GmbH&Co-KG" (Germany) provided a guarantee in favour of T. Perma Plasindo (a local F.I.L.A. Group partner) which, in turn, pledged land and buildings in guarantee of the obligations devolving to PT. Lyra Akrelux under the loan contract with PT. Bank Central Asia of February 11, 2010 for a total IDR 2,500,000,000 (approx. Euro 154,000).

Subsequent events

With regards to the nature and equity, financial and earnings effects of the significant events subsequent to year-end, reference should be made to the "*Subsequent events"* paragraph of the Directors' Report.

Attachments

Attachment 1 - Transactions with Related Parties

For the procedures adopted in relation to transactions with related parties, also in accordance with Article 2391-bis of the Italian Civil Code, reference should be made to the procedure adopted by the Parent pursuant to the Regulation approved by Consob with Resolution No. 17221 of March 12, 2010 and subsequent amendments, published on the website of the company www.filagroup.it in the "Governance" section.

In accordance with Consob Communication No. 6064293 of July 28, 2006, the following table outlines the commercial and financial transactions with related parties for the year ended December 31, 2017:

F.I.L.A. GROUP RELATED PARTIES - 2017

Euro thousands		December 2017 – Statement of Financial Position						December 2017 – Income Statement					
		ASSETS			LIABILITIES			REVENUE			COSTS		
Company	Nature	Property, plant & equipment	Trade Receivables	Cash and Cash Equivalents	Financial Payables (Banks)	Financial Payables (Other)	Trade Payables	Revenue from sales	Other Revenue (Services)	Financial Income	Operating Costs (Products)	Operating Costs (Services)	Financial Expense
Nuova Alpa Collanti S.r.l.	Trade Supplier	-	-	-	-	-	944	-	-	-	2,150	-	-
Studio Legale Salonia e Associati	Legal Consultancy	-	-	-	-	-	35	-	-	-	-	453	-
Studio Zucchetti	Tax & Administration Consultancy	-	-	-	-	-	119	-	-	-	-	263	-
Beijing Majestic	Trade Supplier	-	-	-	-	-	92	-	-	-	515	-	-
Autogrill S.p.A.	Trade Supplier	-	-	-	-	-	1	2	-	-	-	1	-
Pynturas y Texturizados S.A. de C.V.	Trade Supplier	-	-	-	-	-	-	-	-	-	197	10	-
HR Trustee	Service Supplier	-	-	-	-	-	-	-	-	-	-	18	-
Totale		**-**	**-**	**-**	**-**	**-**	**1,191**	**2**	**-**	**-**	**2,863**	**745**	**-**

F.I.L.A. GROUP RELATED PARTIES - 2016

Euro thousands		December 2016 – Statement of Financial Position						December 2016 – Income Statement					
		ASSETS			LIABILITIES			REVENUE			COSTS		
Company	Nature	Property, plant & equipment	Trade Receivables	Cash and Cash Equivalents	Financial Payables (Banks)	Financial Payables (Other)	Trade Receivables	Revenue from sales	Other Revenue (Services)	Financial Income	Operating Costs (Products)	Operating Costs (Services)	Financial Expense
Nuova Alpa Collanti S.r.l.	Trade Supplier	-	-	-	-	-	450	-	-	-	1,460	-	-
Studio Legale Salonia e Associati	Legal Consultancy	-	-	-	-	-	67	-	-	-	-	298	-
Studio Zucchetti	Tax & Administration Consultancy	-	-	-	-	-	146	-	-	-	-	263	-
Beijing Majestic	Trade Supplier	12	-	-	-	-	138	14	-	-	793	-	-
Pynturas y Texturizados S.A. de C.V.	Trade Supplier	-	-	-	-	-	-	-	-	-	126	15	-
HR Trustee	Service Supplier	-	-	-	-	-	-	-	-	-	-	24	-
Totale		**12**	**-**	**-**	**-**	**-**	**802**	**14**	**-**	**-**	**2,379**	**601**	**-**

Studio Legale Salonia e Associati

Studio Legale Salonia e Associati, with which a partner is related to the majority shareholder of the company, principally provides legal consultancy.

Nuova Alpa Collanti S.r.l.

Nuova Alpa Collanti S.r.l., in which a shareholder is a Board member of F.I.L.A. S.p.A., supplies glue.

Studio Zucchetti

Studio Zucchetti, in which a partner of the firm is a member of the Board of Directors of F.I.L.A. S.p.A., principally provides tax and administrative consultancy.

Beijing Majestic

Beijing Majestic Stationery Company, a shareholder of which is related to the management of a F.I.L.A. Group company, is an industrial and commercial company specialised in the sale of stationary items.

Pynturas y Texturizados S.A. de C.V.

Pynturas y Texturizados S.A. de C.V., a shareholder of which is related to the management of a F.I.L.A. Group company, is a company specialised in the production and sale of paint, coating paints and anti-corrosion products.

HR Trustee

HR Trustee, a shareholder of which is related to the management of a F.I.L.A. Group company, is a United Kingdom based company specialised in the provision of professional pension plan services.

Autogrill S.p.A.

Autogrill S.p.A., a related party of a member of the Board of Directors of F.I.L.A. S.p.A., is a leading global provider of traveller catering services.

F.I.L.A. Group transactions with related parties refer to normal transactions and are regulated at market conditions, i.e. the conditions that would be applied between two independent parties and are undertaken in the interests of the Group. Typical or normal transactions are those which, by their object or nature, are not outside the normal course of business of the F.I.L.A. Group and those which do not involve particular critical factors due to their characteristics or to the risks related to the nature of the counterparty or the time at which they are concluded; normal market conditions relate to transactions undertaken at standard Group conditions in similar situations.
On this basis, the exchange of goods, services and financial transactions between the various group companies were undertaken at competitive market conditions.

In relation to the infragroup transactions of F.I.L.A. S.p.A., they relate to transactions to develop synergies between Group companies, integrating production and commercial operations.

The nature and the balances of transactions of the Parent F.I.L.A. S.p.A. with the companies of the F.I.L.A. Group at December 31, 2017 and December 31, 2016 are detailed below.

F.I.L.A. S.P.A. INTERCOMPANY TRANSACTIONS 2017

	Statement of Financial Position - 2016					Income Statement - 2016						
	Asset			Liabilities		Revenues				Costs		
Company Euro thousands	Inventories	Trade Receivables	Financial Assets	Trade Payables	Financial Liabilities	Revenue from sales	Other Revenue	Dividends	Financial Income	Operating Costs (Products)	Operating Costs (Services)	Financial Expense
Omyacolor S.A. (Francia)	430	308	-	616	-	2,997	146	2,089	-	1,473	21	-
F.I.L.A. Hispania S.L. (Spagna)	-	162	-	5	-	2,413	43	1,151	-	-	-	-
Dixon Ticonderoga Company (U.S.A.)	12	182	-	8	-	719	314	5,594	-	-	6	-
Beijing F.I.L.A.-Dixon Stationery Company Limited (Cina)	1	2	-	1	-	-	1	-	-	-	-	-
Dixon Ticonderoga Inc. (Canada)	-	9	-	1	-	9	14	-	-	-	2	-
Grupo F.I.L.A.-Dixon, S.A. de C.V. (Messico)	460	205	-	179	-	765	102	-	-	646	7	-
F.I.L.A. Chile Ltda (Cile)	-	332	-	1	-	988	3	-	-	-	-	-
FILA Argentina S.A. (Argentina)	-	1,451	-	1	-	380	1	-	-	-	-	-
Johann Froescheis Lyra KG (Germania)	752	96	-	286	-	835	117	1,293	-	1,041	317	-
F.I.L.A. Nordic (Svezia)	-	189	-	22	-	419	26	-	-	18	-	-
PT. Lyra Akrelux (Indonesia)	-	-	-	-	-	159	4	-	-	-	-	-
FILA Stationary Ltd. Co. (Turchia)	-	328	365	1	-	197	27	-	7	-	4	-
DOMS Industries Pvt Ltd (India)	714	6	-	36	-	-	50	145	-	1,467	5	-
Licyn Mercantil Industrial Ltda (Brasile)	-	-	-	-	-	27	6	-	58	-	-	-
Fila Stationary O.O.O. (Russia)	-	611	1,528	-	-	494	20	-	21	-	-	-
FILA Hellas SA (Grecia)	-	326	-	2	-	1,220	9	-	-	-	-	-
Industria Maimeri S.p.A. (Italia)	102	48	1,076	34	-	64	100	-	4	155	10	-
FILA SA (Sudafrica)	-	4	2,251	-	-	176	13	-	28	-	-	-
FILA Dixon Stationery (Kunshan) Co., Ltd. (Cina)	6,404	93	-	1,371	-	118	64	-	-	8,839	16	-
Renoir Midco (Regno Unito)	-	-	-	-	-	-	61	-	-	-	-	-
Renoir Bidco (Regno Unito)	-	-	-	-	-	-	22	-	-	-	-	-
F.I.L.A. Benelux (belgio)	-	7	-	2	-	-	10	-	-	-	-	-
Daler Rowney Ltd (Regno Unito)	-	491	3,051	47	-	811	305	-	95	-	-	-
Brideshore (Rep. Dominicana)	-	-	-	-	-	-	-	-	-	-	-	-
Lukas-Nerchau GmbH	-	-	-	7	-	46	12	-	-	-	-	-
FILA Poland (Polonia)	-	9	-	-	-	75	-	-	-	-	-	-
Canson Art & Craft Yixing Co., Ltd. (Cina)	901	37	-	277	-	94	-	-	-	1,494	1	-
St. Cuthberts Mill (Regno Unito)	-	-	-	-	-	-	9	-	-	-	-	-
FILA Hiberia (Spagna)	-	16	-	2	-	-	24	-	-	-	-	-
Canson Brasil (Brasile)	-	110	3,602	1	-	-	11	-	29	-	-	-
Lodi 12 (Francia)	-	-	425	-	-	-	-	-	42	-	-	-
Canson SAS (Francia)	2	272	18,969	83	-	36	643	-	658	44	23	-
Euroholdham (USA)	-	-	10,589	-	-	-	-	-	352	-	-	-
Canson Inc. (USA)	-	61	3,686	-	-	-	87	-	137	-	-	-
Canson Australia (Australia)	-	278	1,661	-	-	283	64	-	56	-	-	-
Canson Quingdao (Cina)	-	60	-	-	-	-	180	-	-	-	-	-
Canson Italy Srl (Italia)	-	2	-	2	-	-	282	-	-	-	-	-
Fila Art Products AG (Svizzera)	-	25	239	-	-	27	2	-	3	-	-	-
Total	**9,778**	**5,720**	**47,442**	**2,985**	**-**	**13,352**	**2,772**	**10,272**	**1,490**	**15,177**	**412**	**-**

F.I.L.A. S.P.A. INTERCOMPANY TRANSACTIONS 2016

	Statement of Financial Position - 2016					Income Statement - 2016						
	Assets			Liabilities		Revenues				Costs		
Company *Euro thousands*	Inventories	Trade Receivables	Financial Assets	Trade Payables	Financial Liabilities	Revenue from sales	Other Revenue	Dividends	Financial Income	Operating Costs (Products)	Operating Costs (Services)	Financial Expense
Omyacolor S.A. (France)	490	282	-	667	-	2,958	191	1,899	-	1,859	24	-
F.I.L.A. Hispania S.L. (Spain)	-	173	-	-	-	2,450	71	968	-	-	-	-
Licyn Mercantil Industrial Ltda (Brazil)	-	115	3,515	-	-	62	9	-	85	-	-	-
Dixon Ticonderoga Company (U.S.A.)	6	118	-	57	-	359	153	4,497	-	1	-	-
Dixon Ticonderoga Inc. (Canada)	-	13	-	1	-	19	13	-	-	-	6	-
FILALYRA GB Ltd (United Kingdom)	-	45	-	1	-	704	41	-	1	-	5	-
Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico)	437	207	-	77	-	556	143	-	-	615	7	-
FILA Dixon Stationery (Kunshan) Co., Ltd. (China)	7,824	120	-	214	-	175	79	-	-	9,224	14	-
F.I.L.A. Chile Ltda (Chile)	-	294	-	-	-	628	7	-	-	-	-	-
FILA Argentina S.A. (Argentina)	-	1,829	-	-	-	340	-	-	-	-	-	-
Johann Froescheis Lyra KG (Germany)	670	60	-	160	-	685	142	498	-	863	361	-
F.I.L.A. Nordic (Sweden)	-	42	-	-	-	381	30	-	-	-	-	-
FILA Hellas SA (Greece)	-	344	117	-	-	1,283	7	130	-	-	-	-
PT. Lyra Akrelux (Indonesia)	-	-	-	-	-	110	2	-	-	-	-	-
FILA SA (South Africa)	-	1,120	1,165	-	-	327	11	-	25	-	-	-
Fila Stationary O.O.O. Co. (Turkey)	-	219	211	1	-	207	26	-	5	-	-	-
Industria Maimeri S.p.A. (Italy)	119	78	1,177	54	-	112	165	-	19	208	-	-
Fila Stationary O.O.O. (Russia)	-	1,153	857	-	-	669	12	-	20	-	-	-
Fila Dixon Art & Craft Yixing Co.,Ltd (China)	815	33	-	143	-	208	-	-	-	1,330	10	-
Writefine Products PVT LTD (India)	460	18	-	79	-	-	20	512	-	671	-	-
Fila Polska Sp. Z.o.o (Poland)	-	15	-	-	-	87	-	-	-	-	-	-
Canson SAS (France)	-	-	18,969	-	-	-	-	-	186	-	-	-
Lodi 12 SAS (France)	-	-	1,917	-	-	-	-	-	22	-	-	-
Eurholdham USA Inc. (USA)	-	-	10,237	-	-	-	-	-	84	-	-	-
Canson Australia (Australia)	-	-	1,619	-	-	-	-	-	14	-	-	-
Canson Inc. (U.S.A.)	-	-	4,594	-	-	-	-	-	42	-	-	-
Daler Rowney Ltd (United Kingdom)	-	33	2,500	9	-	52	102	-	50	-	9	-
Canson Italy S.r.l. (Italy)	-	65	-	-	-	-	53	-	-	-	-	-
Renoir Bidco (United Kingdom)	-	-	-	-	-	-	211	-	292	-	-	-
Renoir Midco (United Kingdom)	-	-	-	-	-	-	597	-	828	-	-	-
Total	**10,821**	**6,376**	**46,878**	**1,463**	**-**	**12,372**	**2,085**	**8,504**	**1,673**	**14,771**	**436**	**-**

The nature and the balances of transactions of the Parent F.I.L.A. S.p.A. with the companies of the F.I.L.A. Group at December 31, 2017 and December 31, 2016 are detailed below.

In particular, in 2017 the nature of transactions between F.I.L.A. S.p.A. to the other Group companies concerned:

- sale of products/goods of F.I.L.A. S.p.A. and other Group companies;
- granting of licenses for the usage of the Suger trademark by F.I.L.A. S.p.A. and Omyacolor S.A. (France);
- concession of the license for the usage of the Omyacolor S.A. (France) and Lyra KG (Germany) trademarks in favour of F.I.L.A. S.p.A.;
- conversion of trade receivables held by F.I.L.A. S.p.A. into loans from the subsidiaries FILA S.A. (Pty) Ltd. (South Africa) and Fila Stationary O.O.O. (Russia);
- concession of a loan in favour of the subsidiary Daler Rowney Ltd. (United Kingdom), the subsidiary Canson SAS (France), the subsidiary Lodi 12 SAS (France), the subsidiary Eurholdham USA Inc. (U.S.A.), the subsidiary Canson Australia Pty. Ltd. (Australia), the subsidiary Canson Inc. (U.S.A.), FILA Stationary and Office Equipment Industry Ltd. Co.

(Turkey), FILA Art Products AG (Switzerland) Canson Brasil I.P.E. LTDA (Brazil) and Industria Maimeri S.p.A.;

- dividends received by the Parent F.I.L.A. S.p.A. from the subsidiary Dixon Ticonderoga Co. (U.S.A. Euro 5,594 thousand), the subsidiary Omyacolor S.A. (France – Euro 2,089 thousand), F.I.L.A. Hispania S.L. (Spain – Euro 1,151 thousand), the subsidiary DOMS Industries PVT Ltd (India – Euro 145 thousand) and the subsidiary Lyra KG (Germany – Euro 1,293 thousand);
- recharges for services and consultancy provided by F.I.L.A. S.p.A. in favour of Canson SAS (France - Euro 346 thousand), Canson Italy S.r.l. (Italy - Euro 276 thousand), Dixon Ticonderoga Company (U.S.A. - Euro 265 thousand), Qingdao Canson Paper Products Co., Ltd (China – Euro 136 thousand), Daler Rowney Ltd (United Kingdom – Euro 107 thousand), Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico - Euro 99 thousand), Industria Maimeri S.p.A. (Italy – Euro 75 thousand), Fila Dixon Stationery (Kunshan) Co, Ltd. (China - Euro 64 thousand), Lyra KG (Germany - Euro 56 thousand), Omyacolor S.A. (France - Euro 51 thousand), DOMS Industries Pvt Ltd (India –Euro 50 thousand), Canson Inc. (U.S.A. – Euro 42 thousand), Canson Australia PTY Ltd. (Australia – Euro 37 thousand) and F.I.L.A. Hispania S.L. (Spain - Euro 32 thousand);
- recharges for costs incurred by F.I.L.A. S.p.A. against Group insurance coverage principally related to the companies Canson SAS (France – Euro 130 thousand), Daler Rowney Ltd. (United Kingdom – Euro 75 thousand), Omyacolor S.A. (France - Euro 62 thousand), Lyra KG (Germany - Euro 41 thousand) and F.I.L.A. Hispania S.L. (Spain - Euro 10 thousand);
- recharges of costs incurred by F.I.L.A. S.p.A. related to the ERP roll out at the FILA Group, principally related to Canson Inc. (U.S.A. - Euro 43 thousand), Dixon Ticonderoga Company (U.S.A. – Euro 41 thousand), Qingdao Canson Paper Products Co., Ltd (China – Euro 41 thousand), Lyra KG (Germany - Euro 19 thousand), Canson Australia PTY Ltd. (Australia – Euro 18 thousand), Industria Maimeri S.p.A. (Italy – Euro 17 thousand), F.I.L.A. Iberia S.L. (Spain – Euro 14 thousand) and Omyacolor S.A. (France – Euro 14 thousand);
- recharges of costs to subsidiaries for sureties granted in favour of FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey - Euro 13 thousand) and Canson Brasil I.P.E. LTDA (Brazil - Euro 5 thousand) by F.I.L.A. S.p.A., in guarantee of credit lines contracted with Banca Nazionale del Lavoro S.p.A. and in favour of FILA Stationary O.O.O. (Russia - Euro 13 thousand) in guarantee of the credit lines contracted with Banca Intesa Sanpaolo.

In addition, the following information is provided in relation to the remuneration of the Directors, Statutory Auditors, Chief Executive Officer and the General Manager, in the various forms in which they are paid and reported in the financial statements.

Name and Surname	Office held	Duration	Emolumens for office (€)	Bonuses and other incentives (€)
Gianni Mion	Chairman	2015-2017	90,000	-
Massimo Candela	Chief Executive Officer	2015-2017	850,000	1,262,705
Luca Pelosin	Executive Director	2015-2017	300,000	471,960
Alberto Candela	Director & Honorary Chairman	2015-2017	150,000	-
Fabio Zucchetti	Director	2015-2017	25,000	-
Annalisa Barbera	Director	2015-2017	20,000	-
Sergio Ravagli	Director	2015-2017	30,000	-
Gerolamo Caccia Dominioni	Director	2015-2017	35,000	-
Francesca Prandstraller	Director	2015-2017	25,000	
Total Directors			**1,525,000**	**1,734,665**

Name	Office held	Duration	Emoluments for office (€)
Claudia Mezzabotta	Chair. Board of Statutory Auditors	2015-2017	30,160
Stefano Amoroso	Statutory Auditor	2015-2017	22,880
Rosalba Casiraghi	Statutory Auditor	2015-2017	7,334
Pietro Villa	Statutory Auditor	2015-2017	15,546
Total Statutory Auditors			**75,920**

The following members of the Board of Statutory Auditors also received emoluments for offices held in other companies of the Group.

Name and Surname	Office held	Emoluments for Office €	Company
Stefano Amoroso	Statutory Auditor	6,760	Industria Maimeri S.p.A.

Attachment 2 - List of companies included in the consolidation and other equity investments

Company	State of residence of the company	Segment IFRS 8[1]	Year of acquisition of the company	% held directly (F.I.L.A. S.p.A.)	% held indirectly	% held by F.I.L.A. Group	Investing Company	Consolidation Method	Non-controlling interests
Omyacolor S.A.	Francia	EU	2000	94.94%	5.06%	100.00%	FILA S.p.A. Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG Lyra Bleistift-Fabrik Verwaltungs GmbH	Integrale	0.00%
F.I.L.A. Hispania S.L.	Spagna	EU	1997	96.77%	0.00%	96.77%	FILA S.p.A.	Integrale	3.23%
FILALYRA GB Ltd.	Regno Unito	EU	2005	0.00%	100.00%	100.00%	Daler Rowney Ltd	Integrale	0.00%
Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG	Germania	EU	2008	99.53%	0.47%	100.00%	FILA S.p.A. Lyra Bleistift-Fabrik Verwaltungs GmbH	Integrale	0.00%
Lyra Bleistift-Fabrik Verwaltungs GmbH	Germania	EU	2008	0.00%	100.00%	100.00%	Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG	Integrale	0.00%
F.I.L.A. Nordic AB[2]	Svezia	EU	2008	0.00%	50.00%	50.00%	Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG	Integrale	50.00%
FILA Stationary and Office Equipment Industry Ltd. Co.	Turchia	EU	2011	100.00%	0.00%	100.00%	FILA S.p.A.	Integrale	0.00%
Fila Stationary O.O.O.	Russia	EU	2013	90.00%	0.00%	90.00%	FILA S.p.A.	Integrale	10.00%
Industria Maimeri S.p.A.	Italia	EU	2014	51.00%	0.00%	51.00%	FILA S.p.A.	Integrale	49.00%
Fila Hellas SA[2]	Grecia	EU	2013	50.00%	0.00%	50.00%	FILA S.p.A.	Integrale	50.00%
Fila Polska Sp. Z.o.o	Polonia	EU	2015	51.00%	0.00%	51.00%	FILA S.p.A.	Integrale	49.00%
Dixon Ticonderoga Company	U.S.A.	NA	2005	100.00%	0.00%	100.00%	FILA S.p.A.	Integrale	0.00%
Dixon Ticonderoga Inc.	Canada	NA	2005	0.00%	100.00%	100.00%	Dixon Ticonderoga Company	Integrale	0.00%
Grupo F.I.L.A.-Dixon, S.A. de C.V.	Messico	CSA	2005	0.00%	100.00%	100.00%	Dixon Ticonderoga Inc. Dixon Ticonderoga Company	Integrale	0.00%
F.I.L.A. Chile Ltda	Cile	CSA	2000	0.79%	99.21%	100.00%	Dixon Ticonderoga Company FILA S.p.A.	Integrale	0.00%
FILA Argentina S.A.	Argentina	CSA	2000	0.00%	100.00%	100.00%	F.I.L.A. Chile Ltda Dixon Ticonderoga Company	Integrale	0.00%
Beijing F.I.L.A.-Dixon Stationery Company Ltd.	Cina	AS	2005	0.00%	100.00%	100.00%	Dixon Ticonderoga Company	Integrale	0.00%
Xinjiang F.I.L.A.-Dixon Plantation Company Ltd.	Cina	AS	2008	0.00%	100.00%	100.00%	Beijing F.I.L.A.-Dixon Stationery Company Ltd.	Integrale	0.00%
PT. Lyra Akrelux	Indonesia	AS	2008	0.00%	52.00%	52.00%	Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG	Integrale	48.00%
FILA Dixon Stationery (Kunshan) Co., Ltd.	Cina	AS	2013	0.00%	100.00%	100.00%	Beijing F.I.L.A.-Dixon Stationery Company Ltd.	Integrale	0.00%
FILA SA PTY LTD	Sudafrica	RM	2014	90.00%	0.00%	90.00%	FILA S.p.A.	Integrale	10.00%
Canson Art & Craft Yixing Co., Ltd.[4]	Cina	AS	2015	0.00%	100.00%	100.00%	Beijing F.I.L.A.-Dixon Stationery Company Ltd.	Integrale	0.00%
DOMS Industries Pvt Ltd [3]	India	AS	2015	51.00%	0.00%	51.00%	FILA S.p.A.	Integrale	49.00%
Renoir Topco Ltd	Regno Unito	EU	2016	100.00%	0.00%	100.00%	FILA S.p.A.	Integrale	0.00%
Renoir Midco Ltd	Regno Unito	EU	2016	0.00%	100.00%	100.00%	Renoir Topco Ltd	Integrale	0.00%
Renoir Bidco Ltd	Regno Unito	EU	2016	0.00%	100.00%	100.00%	Renoir Midco Ltd	Integrale	0.00%
Daler Rowney Group Ltd	Regno Unito	EU	2016	0.00%	100.00%	100.00%	Renoir Bidco Ltd	Integrale	0.00%
FILA Benelux SA	Belgio	EU	2016	0.00%	100.00%	100.00%	Renoir Bidco Ltd Daler Rowney LtdDaler Board (	Integrale	0.00%
Daler Rowney Ltd	Regno Unito	EU	2016	0.00%	100.00%	100.00%	Renoir Bidco Ltd	Integrale	0.00%
Longbeach Arts Ltd	Regno Unito	EU	2016	0.00%	100.00%	100.00%	Daler Rowney Group Ltd	Integrale	0.00%
Daler Board Company Ltd	Regno Unito	EU	2016	0.00%	100.00%	100.00%	Daler Rowney Group Ltd	Integrale	0.00%
Daler Holdings Ltd	Regno Unito	EU	2016	0.00%	100.00%	100.00%	Longbeach Arts Ltd	Integrale	0.00%
Daler Designs Ltd	Regno Unito	EU	2016	0.00%	100.00%	100.00%	Daler Board Company Ltd	Integrale	0.00%
Daler Rowney GmbH	Germania	EU	2016	0.00%	100.00%	100.00%	Daler Rowney Ltd	Integrale	0.00%
Lukas-Nerchau GmbH	Germania	EU	2016	0.00%	100.00%	100.00%	Daler Rowney GmbH	Integrale	0.00%
Nerchauer Malfarben GmbH	Germania	EU	2016	0.00%	100.00%	100.00%	Daler Rowney GmbH	Integrale	0.00%
Lastmill Ltd	Regno Unito	EU	2016	0.00%	100.00%	100.00%	Daler Rowney Ltd	Integrale	0.00%
Rowney & Company Pencils Ltd	Regno Unito	EU	2016	0.00%	100.00%	100.00%	Daler Rowney Ltd	Integrale	0.00%
Rowney (Artists Brushes) Ltd	Regno Unito	EU	2016	0.00%	100.00%	100.00%	Daler Rowney Ltd	Integrale	0.00%
Daler Rowney USA Ltd	U.S.A.	NA	2016	0.00%	100.00%	100.00%	Daler Rowney Group Ltd	Integrale	0.00%
Brideshore srl	Rep. Dominicana	CSA	2016	0.00%	100.00%	100.00%	Daler Rowney Ltd	Integrale	0.00%
St. Cuthberts Holding Limited	Regno Unito	EU	2016	100.00%	0.00%	100.00%	FILA S.p.A.	Integrale	0.00%
St. Cuthberts Mill Limited	Regno Unito	EU	2016	0.00%	100.00%	100.00%	St. Cuthberts Holding Limited	Integrale	0.00%
Fila Iberia S. L.	Spagna	EU	2016	0.00%	99.99%	99.99%	F.I.L.A. Hispania S.L.	Integrale	0.01%
Eurholdam USA Inc.	U.S.A.	NA	2016	100.00%	0.00%	100.00%	FILA S.p.A.	Integrale	0.00%
Canson Inc.	U.S.A.	NA	2016	0.00%	100.00%	100.00%	Eurholdam USA Inc.	Integrale	0.00%
Canson SAS	Francia	EU	2016	100.00%	0.00%	100.00%	FILA S.p.A.	Integrale	0.00%
Canson Brasil I.P.E. LTDA	Brasile	CSA	2016	0.19%	99.81%	100.00%	Canson SAS FILA S.p.A.	Integrale	0.00%
Lodi 12 SAS	Francia	EU	2016	100.00%	0.00%	100.00%	FILA S.p.A.	Integrale	0.00%
Canson Australia PTY LTD	Australia	RM	2016	0.00%	100.00%	100.00%	Lodi 12 SAS	Integrale	0.00%
Canson Qingdao Ltd.	Cina	AS	2016	0.00%	100.00%	100.00%	Lodi 12 SAS	Integrale	0.00%
Canson Italy S.r.l.	Italia	EU	2016	0.00%	100.00%	100.00%	Lodi 12 SAS	Integrale	0.00%
FILA Art Products AG	Svizzera	EU	2017	52.00%	0.00%	52.00%	FILA S.p.A.	Integrale	48.00%
Pioneer Stationery Pvt Ltd.	India	AS	2015	0.00%	51.00%	51.00%	DOMS Industries Pvt Ltd	Patrimonio Netto	49.00%
Uniwrite Pens and Plastics Pvt Ltd	Inida	AS	2016	0.00%	60.00%	60.00%	DOMS Industries Pvt Ltd	Patrimonio Netto	40.00%

*1 - **EU** - Europe; **NA** - North America; **CSA** - Central-South America; **AS** - Asia; **RW** - Rest of World*

2 - Although not holding more than 50% of the share capital considered a subsidiary under IFRS 10

3- During 2017 the name of the indian company Writefine Products private Limited was changed in DOMS Industries Pvt Ltd

4- During 2017 the name of chinese company FILA Dixon Art & Craft Yixing Co, Ltd was changed in Canson Art & Craft Yixing Co., Ltd

Attachment 3 - Disclosure pursuant to Article 149 of the Consob Issuer's Regulation

The following table, prepared pursuant to Article 149 of the CONSOB Issuers' Regulation, reports the payments made in 2017 for audit and other services carried out by the audit company and entities associated with the audit company.

Euro thousands	Company providing the service	Recipient	2017 Fees
Audit	KPMG S.p.A.	Parent	300
	KPMG S.p.A.	Italian Subsidiaries	25
	KPMG **	Not Italian Subsidiaries	579
Non Audit Servicess *	KPMG **		231
Total			**1,135**

* *Other services for Euro 0.1 million concern in particular consultancy on the director remuneration plans and on F.I.L.A. S.p.A. financial covenants.*
** *Other companies belonging to the KPMG S.p.A. network*

Atypical and/or unusual Transactions

In accordance with Consob Communication of July 28, 2006, during 2017 the F.I.L.A. Group did not undertake any atypical and/or unusual transactions as defined by this communication, whereby atypical and/or unusual transactions refers to transactions which for size/importance, nature of the counterparties, nature of the transaction, method in determining the transfer price or time period (close to the period-end) may give rise to doubts in relation to: the correctness/completeness of the information in the financial statements, conflicts of interest, the safeguarding of the company's assets and the protection of non-controlling shareholders.

The Board of Directors
THE CHAIRMAN
Mr. Gianni Mion
(signed on the original)

Statement of the Manager in Charge and Corporate Bodies

Fabbrica Italiana Lapis ed Affini
F.I.L.A. S.p.A.
Via XXV Aprile, 5
20016 Pero (MI)

March 21, 2018

Statement of the Manager in Charge of Financial Reporting and the Corporate Bodies - Consolidated Financial Statements (ref. Article 154-bis, paragraph 5)

The undersigned Massimo Candela, as Chief Executive Officer, and Stefano De Rosa, as Manager in Charge of Financial Reporting of F.I.L.A. S.p.A., confirm, and also in consideration of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the Group and
- the effective application

of the administrative and accounting procedures for the preparation of the consolidated financial statements as at and ended December 31, 2017.

The assessment of the adequacy of the administrative-accounting procedures for the preparation of the consolidated financial statements at December 31, 2017 is based on a process defined by F.I.L.A. S.p.A. in accordance with the Internal Control - Integrated Framework model issued by the Committee of the Sponsoring Organisations of the Treadway Commission, a benchmark framework generally accepted at international level.

It is also declared that:

1. The Consolidated Financial Statements at December 31, 2017 of F.I.L.A. S.p.A.:
   - have been drawn up in conformity with the applicable IFRS endorsed by the European Union in conformity with Regulation (CE) No. 1606/2002 of the European Parliament and the Commission of 19 July 2002;
   - correspond to the underlying accounting documents and records;
   - provide a true and fair view of the financial position and results of operations of the issuer and of the other companies in the consolidation scope.
2. The Directors' Report includes a reliable analysis on the performance and operating result, as well as the situation of the issuer and of the companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

The Chief Executive Officer

Massimo Candela
(signed in original)

Manager in Charge of
Financial Reporting

Stefano De Rosa
(signed in original)

Independent Auditors' Report pursuant to Article 14 of Legislative Decree No. 39 of January 27, 2010

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

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
F.I.L.A. S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the F.I.L.A. Group (the "Group"), which comprise the statement of financial position as at 31 December 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the F.I.L.A Group as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of F.I.L.A. S.p.A. (the "Company") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of goodwill

Notes to the consolidated financial statements: section "Accounting policies of the Consolidated Financial Statements " and note 1 "Intangible assets"

Key audit matter	Audit procedures addressing the key audit matter
The carrying amount of goodwill at 31 December 2017 is €77.2 million. Specifically: — as a result of the 2015 business combination of the Indian company DOMS Industries Pvt Ltd., the Group recognised goodwill allocated to the "DOMS Industries Pvt Ltd" cash-generating unit ("CGU"), which amounts to €33.3 million at 31 December 2017; — as a result of business combinations of the French Canson Group and the Dixon Group, the Group recognised goodwill allocated to the "Canson Group" CGU (€10.9 million) and the "Dixon Group – North America" CGU (€23.6 million) at 31 December 2017. The Group tests the carrying amounts of goodwill for impairment at least annually and whenever there are indicators of impairment, by comparing them to the individual CGU's estimated recoverable amount, calculated by discounting the expected cash flows using the discounted cash flow model. Calculating the recoverable amount of goodwill requires significant estimates by directors. Specifically, this process has the following characteristics: — valuation assumptions affected by the reference market trends and specific economic and political conditions that are difficult to predict, especially with reference to the Indian market; — assumptions about the synergies expected from the business combinations mentioned above; — a high level of directors' judgement about the estimated long-term growth rate and the discount rate applied to the projected cash flows. For the above reasons, we believe that the recoverability of the goodwill allocated to the "DOMS Industries Pvt Ltd", "CansonGroup " and "Gruppo Dixon Nord – America" CGUs is a key audit matter.	Our audit procedures, which also involved our own valuation specialists, included: — understanding the process adopted to prepare the impairment tests approved by the Company's board of directors. — understanding the process adopted to prepare the forecasts from which the expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the assumptions used by the Group to prepare the forecasts; — checking any discrepancies between the previous year forecast and actual figures, in order to check the accuracy of the estimation process; — checking the consistency of the expected cash flows used for impairment testing with those used for the forecasts and analysing the reasonableness of any discrepancies; — analysing the expected cash flows and main assumptions used to calculate the CGUs' value in use, especially the key assumptions, which include: the revenue increase in India, France and the United States, expected synergies and the calculation of the discount and long-term growth rates; — analysing the reasonableness of the valuation methods and key assumptions used by the Group, and especially: - the application of the discounted cash flow model; - the criteria and parameters used to calculate the discount rate applied to the projected cash flows and the long-term growth rate; - checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing;

Key audit matter	Audit procedures addressing the key audit matter
	— comparing the Group's market capitalisation to its reported equity; — assessing the appropriateness of the disclosures provided in the notes about goodwill and related impairment tests.

Inventories

Notes to the consolidated financial statements: section "Accounting policies of the Consolidated Financial Statements" and note 8 "Inventories"

Key audit matter	Audit procedures addressing the key audit matter
The carrying amount of inventories at 31 December 2017 is €178.7 million, net of the allowance for inventory write-down of €4.8 million. Recognising and measuring inventories are a complex and structured process considering the various underlying activities and estimates, including taking into account the Group's market sector and the related geographical stratification. Recognising and measuring inventories are complex and entail a high level of judgement by the directors as they are affected by many factors, including: — the inventory management policy; — requirement planning and integration with sales planning; — the sales' seasonality; — price volatility. For the above reasons, we believe that the recognition and measurement of inventories are a key audit matter.	Our audit procedures included: — understanding the process for the recognition and measurement of inventories and the related IT environment and assessing the design and implementation of controls and procedures to assess the operating effectiveness of material controls; — performing substantive analytical procedures for the most significant discrepancies compared to the previous year figures and discussing the outcome with the relevant internal departments; — analysing inventory turnover and discussing the outcome with the relevant internal departments; — checking whether incoming and outgoing inventory items had been recorded on an accruals basis; — for a sample of purchase and sale invoices, checking that inventory items quantities were correctly recorded; — for a sample of inventory items, performing physical counts of quantities and reconciling them with the related accounting records; — analysing the reasonableness of the assumptions used to measure the allowance for inventory write-down through discussions with the relevant internal departments and checks of the supporting documentation; comparing the assumptions with historical figures

Key audit matter	Audit procedures addressing the key audit matter
	and our knowledge of the Group and its operating environment; — assessing the appropriateness of the disclosures provided in the notes about inventories.

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

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The "*Collegio Sindacale*" is responsible for overseeing, within the terms established by the Italian law, the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 20 February 2015, the shareholders of F.I.L.A. S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2015 to 31 December 2023.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of F.I.L.A S.p.A. are responsible for the preparation of the Group's directors' report and report on corporate governance and ownership structure at 31 December 2017 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Group's consolidated financial statements at 31 December 2017 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the F.I.L.A Group at 31 December 2017 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of F.I.L.A S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Milan, 29 March 2018

KPMG S.p.A.

(signed on the original)

Domenico Bellini
Director of Audit

IV - Separate Financial Statements of F.I.L.A. S.p.A. at December 31, 2017

Statement of Financial Position

in Euro		December 31, 2017	December 31, 2016
Assets		**408,597,849**	**419,762,648**
Non-Current Assets		**305,375,988**	**303,459,714**
Intangible Assets	Note 1	2,830,357	1,048,688
Property, Plant and Equipment	Note 2	9,341,021	9,983,311
Non-Current Financial Assets	Note 3	2,822,952	1,671,028
Investments Measured at Cost	Note 4	284,950,722	285,385,725
Deferred Tax Assets	Note 5	5,430,935	5,370,961
Current Assets		**103,221,861**	**116,302,934**
Current Financial Asset	Note 3	46,032,358	45,911,321
Current Tax Receivables	Note 6	2,929,583	1,387,479
Inventories	Note 7	28,123,593	29,452,741
Trade and Other Receivables	Note 8	19,140,052	20,241,629
Cash and Cash Equivalents	Note 9	6,996,275	19,192,764
Other Current Assets	Note 11	0	117,000
Liabilities and Equity		**408,597,849**	**419,762,648**
Equity	Note 12	**168,281,639**	**161,840,463**
Share Capital		37,261,144	37,170,830
Reserves		98,432,047	95,303,409
Retained Earnings		25,655,318	17,939,940
Net Profit for the year		6,933,130	11,426,285
Non-Current Liabilities		**175,958,689**	**192,672,233**
Non-Current Financial Liabilities	Note 13	171,255,704	188,295,242
Financial Instruments	Note 17	-	0
Post-Employment Benefits	Note 14	1,779,352	1,755,367
Provisions for Risks and Charges	Note 15	1,818,998	1,158,140
Deferred Tax Liabilities	Note 16	1,104,636	1,463,485
Current Liabilities		**64,357,521**	**65,249,951**
Current Financial Liabilities	Note 13	38,612,028	38,872,376
Financial Instruments	Note 17	0	0
Provisions for Risks and Charges	Note 15	75,957	75,957
Current Tax Payables	Note 18	1,804,716	1,566,593
Trade and Other Payables	Note 19	23,864,820	24,735,025

Statement of Comprehensive Income

in Euro		December 31, 2017	December 31, 2016
Revenue from Sales and Service	Note 20	83,904,894	85,272,258
Other Revenue and Income	Note 21	3,175,211	2,568,789
Total Revenue		**87,080,105**	**87,841,048**
Raw Materials, Ancillary, Consumables and Goods	Note 22	(39,188,427)	(38,868,388)
Services and Rent, Leases and Similar Costs	Note 23	(23,041,720)	(25,620,665)
Other Operating Costs	Note 24	(739,622)	(614,345)
Change in Raw Materials, Semi-Finished, Work-in-progress & Finished Prod.	Note 22	(1,329,148)	(745,196)
Personnel Costs	Note 25	(13,924,563)	(12,005,714)
Amortisation & Depreciation	Note 26	(1,684,718)	(1,967,115)
Write-downs		(644,284)	(604,622)
Total Operating Costs		**(80,552,481)**	**(80,426,044)**
EBIT		**6,527,624**	**7,415,004**
Current Financial Asset			
Financial Income	Note 27	12,049,761	11,059,953
Financial Expense	Note 28	(7,687,866)	(4,781,849)
Svalutazione delle Partecipazioni Valutate con il Metodo del Costo	Note 30	(3,347,926)	0
Net financial expenses		**1,013,969**	**6,278,104**
Pre-Tax Profit/(loss)		**7,541,593**	**13,693,108**
Total Income Taxes	Note 31	**(608,463)**	**(2,266,823)**
Net Profit/(loss) for the Year		**6,933,130**	**11,426,285**
Other Comprehensive Income Items which may be reclassified subsequently in the Profit and Loss account		**1,052,547**	**461,878**
Adjustment Fair value of Hedges		1,052,547	461,878
Other Comprehensive Income Items which may not be reclassified subsequently in the Profit and Loss account		**(40,995)**	**(99,450)**
Actuarial Gains/(Losses) for Employee Benefits recorded directly to Equity		(56,493)	(134,600)
Income Taxes on income and charges recorded directly to Equity		15,498	35,150
Other Comprehensive Income Items (net of tax effect)		**1,011,552**	**362,428**
Total Comprehensive Income/(Expenses)		**7,944,681**	**11,788,713**

Statement of changes in Equity

STATEMENT OF CHANGES IN EQUITY								
Euro thousands	Share capital	Legal Reserve	Share Premium Reserve	IAS 19 Reserve	Other Reserves	Retained Earnings	Net Profit	Equity
December 31, 2016	**37,171**	**7,434**	**65,348**	**(311)**	**22,832**	**17,940**	**11,426**	**161,840**
Changes in the year	90	-	-	-	-	-	0	90
Net Profit	-	-	-	-	-	-	6,933	6,933
Other Changes in the year	-	-	-	(41)	3,171	-	-	3,130
Gains/(losses) recorded directly to equity	**90**	**-**	**-**	**(41)**	**3,171**	**-**	**6,933**	**10,153**
Allocation of the 2016 profit	-	-	-	-	-	11,426	(11,426)	-
Dividends	-	-	-	-	-	(3,711)	-	(3,711)
December 31, 2017	**37,261**	**7,434**	**65,348**	**(352)**	**26,003**	**25,655**	**6,933**	**168,282**

Statement of Cash Flows

Euro thousands		December 31, 2017	December 31, 2016
EBIT		**6,528**	**7,415**
adjustments for non-cash items:		**5,029**	**3,268**
Amortisation & Depreciation	Note 26	1,685	1,967
Write-downs & Write-backs of intangible and tangible assets	Note 2	0	2
Doubtful Debt Provision		644	603
Post-Employment and Employee Benefits		2,278	584
Exch. effect on Assets and Liabilities in Foreign Curr. of Commercial Transactions		426	130
Gain/Loss on non - current asset Disposals		(4)	(18)
integrations for:		**(3,735)**	**(1,154)**
Income Taxes Paid	Note 6	(2,316)	(399)
Unrealised Exchange Rate Differences on Assets and Liabilities in Foreign Currencies		(223)	94
Realised Exchange Rate Differences on Assets and Liabilities in Foreign Currencies		(1,196)	(849)
Cash Flow from Operating Activities Before Changes in NWC		**7,822**	**9,529**
Current Financial Asset		**(881)**	**2,769**
Change in Inventories	Note 7	1,302	738
Change in Trade and Other Receivables	Note 8	(1,318)	1,385
Change in Trade and Other Payables	Note 19	(870)	774
Change in Other Assets/Liabilities		(0)	625
Change in Post-Employment and Employee Benefits	Note 14	5	(752)
Cash Flow from Operating Activities		**6,941**	**12,299**
Total Investment/Divestment in Intangible Assets	Note 1	(1,964)	(691)
Total Investment/Divestment in Property, Plant and Equipment	Note 2	(856)	(2,905)
Total Investment/Divestment of Investments measured at Cost	Note 4	5,556	(175,682)
Total Investment/Divestment in Other Financial Assets	Note 3	1,601	(38,645)
Dividends from Group companies	Note 27	10,389	8,388
Interest Received	Note 27	999	1,452
Cash Flow used in Investing Activities		**15,725**	**(208,083)**
Total Change in Equity	Nota 12	(3,710)	(3,710)
Interest Paid	Note 28	(3,038)	(2,436)
Total Increase/Decrease in Loans and borrowing and Other Financial Liabilities	Note 13	(40,608)	230,290
Cash Flow used in Financing Activities		**(47,356)**	**224,144**
Other Non-Cash Items		65	(5,019)
NET CASH FLOW IN THE YEAR		**(24,625)**	**23,341**
Cash and Cash Equivalents net of Bank Overdrafts at beginning of the year	Note 9	19,193	(4,147)
Cash and Cash Equivalents net of Bank Overdrafts at end of the year	**Note 9**	**(5,432)**	**19,193**

1. *Cash and cash equivalents at December 31, 2017 totalled Euro 6,996 thousand; current account overdrafts amounted to Euro 12,428 thousand net of relative interest.*
2. *Cash and cash equivalents at December 31, 2016 totalled Euro 19,193 thousand; current account overdrafts amounted to Euro 0 thousand net of relative interest.*

Euro thousands	December 31, 2017	December 31, 2016
Opening Cash and Cash Equivalents	**19,193**	**(4,147)**
Cash and cash equivalents	19,193	1,139
Bank overdrafts	0	(5,286)
Closing Cash and Cash Equivalents	**(5,432)**	**19,193**
Cash and cash equivalents	6,996	19,193
Bank overdrafts	(12,428)	0

Reference should be made to the "Directors' Report" for comment and analysis.

Statement of Financial Position pursuant to CONSOB Resolution No. 15519 of July 27, 2006

Euro thousands		December 31, 2017	*of which:* Related Parties	December 31, 2016	*of which:* Related Parties
Assets		**408,598**		**419,763**	
Non-Current Assets		**305,376**		**303,460**	
Intangible Assets	Note 1	2,830		1,049	
Property, Plant and Equipment	Note 2	9,341		9,983	
Non-Current Financial Assets	Note 3	2,823	1,761	1,671	850
Investments Measured at Cost	Note 4	284,951	284,921	285,386	285,356
Deferred Tax Assets	Note 5	5,431		5,371	
Current Assets		**103,222**		**116,303**	
Current Financial Asset	Note 3	46,032	45,680	45,911	45,911
Current Tax Receivables	Note 6	2,930		1,387	
Inventories	Note 7	28,124	9,778	29,453	10,821
Trade and Other Receivables	Note 8	19,140	5,720	20,242	6,376
Cash and Cash Equivalents	Note 9	6,996		19,193	
Other Current Assets	Nota 11			117	117
Liabilities and Equity		**408,598**		**419,763**	
Equity	Note 12	**168,282**		**161,840**	
Share Capital		37,261		37,171	
Reserves		98,432		95,303	
Retained Earnings		25,655		17,940	
Net Profit/(loss) for the year		6,933		11,426	
Non-Current Liabilities		**175,959**		**192,672**	
Non-Current Financial Liabilities	Note 13	171,256		188,295	
Post-Employment Benefits	Note 14	1,779		1,755	
Provisions for Risks and Charges	Note 15	1,819		1,158	
Deferred Tax Liabilities	Note 16	1,105		1,464	
Current Liabilities		**64,358**		**65,250**	
Current Financial Liabilities	Note 13	38,612		38,872	
Provisions for Risks and Charges	Note 15	76		76	
Current Tax Payables	Note 18	1,805		1,567	
Trade and Other Payables	Note 19	23,865	4,150	24,735	2,150

Statement of Comprehensive Income pursuant to CONSOB Resolution No. 15519 of July 27, 2006

Euro thousands		December 31, 2017	*of which:* Related Parties	December 31, 2016	*of which:* Related Parties
Revenue from Sales and Service	Note 20	83,905	13,354	85,272	12,372
Other Revenue and Income	Note 21	3,175	2,764	2,569	2,080
TOTAL REVENUE		**87,080**		**87,841**	
Raw Materials, Ancillary, Consumables and Goods	Note 22	(39,188)	(17,908)	(38,868)	(16,604)
Services and Rent, Leases and Similar Costs	Note 23	(23,042)	(957)	(25,621)	(892)
Other Operating Costs	Note 24	(740)		(614)	
Change in Raw Materials, Semi-Finished, Work-in-progress & Finished Prod.	Note 22	(1,329)		(745)	
Labour Costs	Note 25	(13,925)		(12,006)	
Amortisation & Depreciation	Note 26	(1,685)		(1,967)	
Write-downs		(644)		(605)	
TOTAL OPERATING COSTS		**(80,552)**		**(80,426)**	
EBIT		**6,528**		**7,415**	
Current Financial Asset					
Financial Income	Note 27	12,050	11,762	11,060	10,177
Financial Expense	Note 28	(7,688)		(4,782)	
Write Down of Investment at Cost Method		(3,348)		0	
NET FINANCIAL INCOME/(CHARGES)		**1,014**		**6,278**	
PRE-TAX PROFIT/(LOSS)		**7,542**		**13,693**	
Income Taxes		(1,012)		(2,399)	
Deferred Tax Income and Charges		403		132	
TOTAL INCOME EXPENSES	Note 31	**(608)**		**(2,267)**	
NET PROFIT/(LOSS) FOR THE YEAR		**6,933**		**11,426**	
Other Comprehensive Income Items which may be reclassified subsequently in the Profit and Loss		**1,053**		**462**	
Adjustment Fair value of Hedges		1,053		462	
Other Comprehensive Income Items which may not be reclassified subsequently in the Profit and Loss		**(41)**		**(99)**	
Actuarial Gains/(Losses) for Employee Benefits recorded directly to Equity		(56)		(134)	
Income Taxes and expenses recorded directly to Equity		15		35	
Other Comprehensive Income Items (net of tax effect)		**1,012**		**363**	
Total Comprehensive Income/(Charge)		**7,945**		**11,789**	

Notes to the Separate Financial Statements of F.I.L.A. S.p.A.

Introduction

The Separate financial statements of the Parent F.I.L.A. S.p.A. (hereafter also "Parent" or "Company") at December 31, 2017, prepared by the Board of Directors of F.I.L.A. S.p.A., were drawn up in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

The IFRS were applied consistently for all the periods presented in the present document.

For the separate financial statements of F.I.L.A. S.p.A. the first year of application of IFRS was 2013.

The separate financial statements of F.I.L.A. S.p.A. are comprised of the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes.

The presentation of these financial statements at December 31, 2017, in line with the consolidated financial statements, is as follows:

- Statement of Financial Position: in accordance with IAS 1, the assets and liabilities must be classified between current and non-current or, alternatively, according to the liquidity order. The Company chose the classification between current and non-current;
- Statement of Comprehensive Income: IAS requires alternatively classification based on the nature or destination of the items. The Company chose the classification by nature of income and expenses;
- Statement of Changes in Equity: IAS 1 requires that this statement illustrates the changes in the year of each individual equity account or that it illustrates the nature of income and expenses reconciling in the financial statements. The Company chose to utilise this latter in the statement, providing the reconciliation statement of the opening and closing amounts of each item in a statement within the Notes;
- Statement of Cash Flows: IAS 7 requires that the statement of cash flows includes the cash flows for the period between operating, investing and financing activities. The cash flows deriving from operating activities may be represented using the direct method or the indirect method. The Company decided to utilise the indirect method.

The financial statements of F.I.L.A. S.p.A. are accompanied by the Directors' Report, to which reference should be made in relation to the business activities, subsequent events and transactions with related parties, the statement of cash flows, the reclassified income statement and statement of financial position and the outlook.

The separate financial statements of F.I.L.A. S.p.A. were prepared in accordance with the general historical cost criterion.

During the year, no special circumstances arose requiring recourse to the exceptions allowed under IAS 1.

The preparation of the financial statements and the relative notes in application of IFRS require that management make estimates and assumptions. These estimates and relative assumptions are based on historical experience and other factors considered reasonable and were adopted to determine the carrying amount of the assets and liabilities which are not easily obtained from other sources, are reviewed periodically and the effects of each change are immediately reflected in the profit or loss. However, as they concern estimates, it should be noted that the actual results may differ from such estimates reflected in the financial statements.

The estimates are used to value the allowance for impairment, depreciation and amortisation, impairment loss of assets, employee benefits, income taxes and other provisions.

The accounting policies utilised in the preparation of the financial statements and the composition and changes of the individual accounts are illustrated below.

For a better comparison of the data, the figures for the prior year were adjusted where necessary.

All amounts are expressed in thousands of Euro, unless otherwise stated.

Accounting Policies

Intangible assets

An intangible asset is a clearly identifiable non-monetary asset without physical substance, subject to control and capable of generating future economic benefits. They are recognised at acquisition cost where acquired separately and are capitalised at Fair Value at the acquisition date where acquired through business combinations.

The interest expense on loans required for the purchase and the development of intangible assets, which would not have been incurred if the investment had not been made, is not capitalised.

Intangible assets with indefinite useful life

Intangible assets with indefinite useful lives mainly consist of assets which do not have limitations in terms of useful life as per contractual, legal, economic and competitive conditions. This category includes only “goodwill”. Goodwill is represented by the excess of the purchase cost incurred compared to the net Fair Value at the acquisition date of assets and liabilities or of business units. The goodwill relating to equity accounted investments is included in the value of the equity investments.

This is not subject to systematic amortisation but an impairment test is made annually on the carrying amount. This test is made with reference to the "cash generating unit" to which the goodwill is allocated. Any impairment loss on goodwill is recorded where the recoverable amount of the goodwill is lower than the carrying amount; the carrying amount is the higher between the Fair Value of a cash generating unit, less costs of sell, and the value in use, represented by the present value of the estimated cash flows for the years of operation of the cash generating units and deriving from its disposal at the end of the useful life.

The principal assumptions adopted in the determination of the value in use of the "cash generating units", or rather the present value of the estimated future cash flows which is expected to derive from the continuing use of the activities, relates to the discount rate and the growth rate.

In particular, the F.I.L.A. Group utilised the discount rate which it considers correctly expresses the market valuations, at the date of the estimate, of the time value of money and the specific risks related to the individual cash generating units.

The operating cash flow forecasts derive from the most recent budgets and long-term plans prepared by the F.I.L.A. Group.

The cash flow forecasts refer to current business conditions, therefore they do not include cash flows related to events of a non-recurring nature.

The forecasts are based on reasonableness and consistency relating to future general expenses, expected capital investments, financial conditions, as well as macro-economic assumptions, with particular reference to increases in product prices, which take into account expected inflation rates.

The results of the "impairment tests" did not generate any impairment loss in the previous year.

In the event of an impairment loss, the carrying amount of goodwill may not be restated.

Reference should be made to Note 1 to the separate and consolidated financial statements of the Group for further information on the indicators utilised for the impairment test at December 31, 2017.

Intangible assets with finite useful lives

Intangible assets with finite useful lives are amortised on a straight-line basis over their useful life to take account of the residual possibility of utilisation. Amortisation commences when the asset is available for use.

The amortisation policies adopted by the Group provide for:

- Trademarks: based on the useful life
- Concessions, Licences and Patents: based on the duration relating to the right under concession or license and based on the duration of the patent;
- Other intangible assets: 3 years.

Research and development costs

Research and development costs are recorded in the profit or loss in the year incurred, with the exception of development costs recorded under "Intangible assets", when they satisfy the following conditions:

- the project is clearly identified and the related costs are reliably identifiable and measurable;
- the technical feasibility of the project is demonstrated;
- the intention to complete the project and sell the assets generated from the project are demonstrated;
- the potential market exists or, in the case of internal use, the use of the intangible asset is demonstrated for the development of the intangible assets generated by the project;
- the technical and financial resources necessary for the completion of the project are available;
- the intangible asset will generate probable future economic benefits.

Amortisation of development costs recorded under intangible assets begins from the date in which the result generated from the project is commercialised. Amortisation is calculated, on a straight-line basis, over the useful life of the project.

Property, plant and equipment

Property, plant and equipment are measured at purchase cost, net of accumulated depreciation and any impairment loss. The cost includes all charges directly incurred for the purchase and/or production. The interest charge on loans for the purchase and the construction of property, plant and equipment, which would not have been incurred if the investment had not been made, are not capitalised but expensed as accrued. Where an asset relating to property, plant and equipment is composed of various components with differing useful lives, these components are recorded separately (significant components) and depreciated separately. Property, plant and equipment acquired through business combinations are recognised in the financial statements at fair value at the acquisition date.

The expense incurred for maintenance and repairs is directly charged to the profit or loss in the year in which they are incurred. The costs for improvements, modernisation and transformation of an incremental nature of property, plant and equipment are allocated to the asset.

The purchase price or construction cost is net of public grants which are recognised when the conditions for their concession are confirmed. At the date of these financial statements there are no public grants recorded as a reduction of "Property, Plant and Equipment".

The initial carrying amount of property, plant and equipment is adjusted for depreciation on a systematic basis, calculated on a straight-line basis monthly, when the asset is available and ready for use, based on its estimated useful life.

The estimated useful lives for the current and previous years are as follows:

- Buildings 25 years
- Plant and machinery 8.7 years
- Equipment 2.5 years
- Other assets:
  - Office equipment: 8.3 years
  - Furniture and Electronic Office Equipment: 5 years
  - Transport vehicles: 5years
  - Motor vehicles: 4 years
  - Other: 4 years

Finance leases

The assets held through finance leases, where the majority of the risks and rewards related to the ownership of an asset have been transferred to the F.I.L.A. Group, are recognised as assets at their fair value or, if lower, at the present value of the minimum lease payments, including any redemption amounts to be paid. The corresponding liability due to the lessor is recorded under "Financial Liabilities". The assets are depreciated applying the criteria and rates previously indicated for the account "Property, Plant and Equipment", except where the duration of the lease contract is lower than the useful life and there is not a reasonable certainty of the transfer of ownership of the asset at the normal expiry date of the contract; in this case, depreciation is over the duration of the lease contract.

The leased assets where the lessor bears the majority of the risks and rewards related to an asset are recorded as operating leases. Costs related to operating leases are recognised on a straight-line basis over the duration of the lease.

Impairment losses on non-financial assets

At each reporting date, the intangible and property, plant and equipment are analysed to identify the existence of any indicators, either internally or externally to the Group, of impairment. Where these indications exist, an estimate of the recoverable amount of the above-mentioned assets is made, recording any impairment loss in the profit or loss. In the case of goodwill and other intangible assets with an indefinite useful life, this estimate is made annually independently of the existence of such indicators. The recoverable value of an asset is the higher between the fair value less costs to sell and its value in use. The fair value is estimated on the basis of the values in an active market, from recent transactions or on the basis of the best information available to reflect the amount which the entity could obtain from the sale of the asset. The value in use is the present value of the expected future cash flows to be derived from an asset. In defining the value in use, the expected future cash flows are discounted utilising a pre-tax discount rate that reflects the current market assessment of the time value of money, and the specific risks of the asset.

For an asset that does not generate sufficient independent cash flows, the realisable amount is determined in relation to the cash-generating unit to which the asset belongs. An impairment loss is recognised in the profit or loss when the carrying amount of the asset, or of the cash-generating unit to which it is allocated, is higher than the recoverable amount.

The impairment loss on cash generating units are firstly attributed to the reduction in the carrying amount of any goodwill allocated to the cash generating unit and, thereafter, to a reduction of other assets, in proportion to their carrying amount. The impairment losses goodwill may not be restated. In relation to assets other than goodwill, where the reasons for the impairment loss longer exist, the carrying amount of the asset is restated through the income statement, up to the value at which the asset would be recorded if no impairment loss had taken place and amortisation had been recorded.

Equity investments

Investments in companies represent investments in the share capital of enterprises.

Investments in companies are carried at acquisition or subscription cost, adjusted for any impairment losses, and measured under the cost method. Where the reasons for the impeirmet loss no longer exist, the original carrying amount is restated.

Financial assets

Financial assets are initially recognised at Fair Value.
After initial recognition, financial assets are measured at Fair Value, without any deduction for transaction costs which may be incurred in the sale or other disposal, with the exception for the following "Financial Assets":

- "Loans and Receivables", as defined in paragraph 9 of IAS 39, which must be measured at amortised cost utilising the effective interest method;
- investments held-to-maturity, as defined in paragraph 9 of IAS 39, which must be measured at amortised cost utilising the effective interest method;
- investments in equity instruments which do not have a listed market price on an active market and whose Fair Value may not be reliably measured and related derivatives and which must be settled with the delivery of these non-listed equity instruments, which must be measured at cost.

Impairment of financial assets

Financial assets are measured at each reporting date to determine whether there is any indication that an asset may have incurred an impairment loss. A financial asset has incurred an impairment loss if there is an objective indication that one or more events had a negative impact on the estimated future cash flows of the asset. The impairment loss of a financial asset measured at amortised cost corresponds to the difference between the carrying amount and the present value of the estimated cash flows discounted at the original effective interest rate. The impairment loss of available-for-sale financial asset is calculated based on the Fair Value of the asset.
Financial assets individually recorded are measured separately to determine if they have incurred an impairment loss. The other financial assets are cumulatively measured, for groups with similar credit risk characteristics. All the losses are recognised in the profit or loss. Any accumulated loss on a available-for-sale financial asset previously recognised in equity is transferred to the profit or loss.

Impairment losses are restated if subsequently the increase in value can be objectively associated to an event which occurred after the impairment loss. For financial assets measured at amortised cost and available-for-sale financial assets corresponding to debt securities, the restated amount is recognised in the profit or loss. For financial assets available-for-sale corresponding to equity securities, the restated amount is recognised directly in equity.

Cash and cash equivalents

Cash and cash equivalents principally include cash, bank deposits on demand and other highly liquid short-term investments (converted into liquidity within ninety days). They are measured at fair value and the relative changes are recorded in the profit or loss. Bank overdrafts are classified under "Current Financial Liabilities".

Trade and other Assets

Trade receivables and other assets are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. They are impaired to reflect the estimated impairment losses, which are recognised to the profit and loss. When, in subsequent periods, the reasons for the impairment loss no longer exist, the amount of the assets is restated up to the amount deriving from the application of the amortised cost where no impairment loss had been applied.

The doubtful debt provision is recognised to state receivables at realisable amount, including write-downs for any indicators of a reduction in value of trade receivables. The impairment losses, which are based on the most recent information and on the best estimates of the Directors, are made so that the assets are reduced to the present value of the expected future cash flows.

The doubtful debt provision is recorded as a direct reduction of trade and other assets. These provisions are classified in the profit or loss account "Write-downs"; the same classification was used for any utilisations and impairment losses on trade receivables.

Inventories

Inventories of raw materials, semi-finished and finished products are measured at the lower of purchase or production price, including accessory charges, determined in accordance with the weighted average cost method, and the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated selling costs.

Obsolete and slow-moving inventories are written down in relation to their possible utilisation or realisable value.

The purchase cost is utilised for direct and indirect materials, purchased and utilised in the production cycle. The production cost is however used for finished products or work-in-progress.

For the determination of the purchase price, consideration is taken of the actual costs sustained net of commercial discounts.

Production costs include, in addition to the costs of the materials used, as defined above, the direct and indirect industrial costs allocated. The indirect costs were allocated based on the normal production capacity of the plant.

Distribution costs were excluded from purchase cost and production cost.

Provisions for risks and charges

Provisions for risks and charges are recognised where the Group has a current obligation, legal or implied, deriving from a past event and it is probable that compliance with the obligation will result in a charge and the amount of the obligation can be reasonably estimated.

Provisions are recorded at the value representing the best estimate of the amount that the company would pay to discharge the obligation or transfer it to a third party. When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is discounted. The rate used in the determination of the present value of the liability reflects the current market values and includes the further effects relating to the specific risk associated with each liability. The increase in the provision due to the passage of time is recognised in the profit or loss account “Financial income/(expense)”.

The provisions are periodically updated to reflect the changes in the estimate of the costs, of the time period and of the discount rate; the revisions of estimates is recorded in the same profit or loss accounts in which the provision was recorded, or when the liability relates to an asset, against the asset account to which it refers.

The notes illustrate the contingent liabilities represented by: (i) possible obligations (but not probable) deriving from past events, whose existence will be confirmed only on the occurrence or otherwise of one or more uncertain future events not fully under the control of the entity; (ii) current obligations deriving from past events whose amount cannot be reliably estimated or whose fulfilment will likely not ganarate a charge.

Restructuring provisions

Restructuring provisions are recognised where a detailed formal programme has been approved which has raised a valid expectation among third parties that the company will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Employee benefits

All employee benefits are measured and reflected in the financial statements on an accruals basis.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions to a separate entity and will not have a legal or constructive obligation to pay further contributions. The contributions to be paid to defined contribution plans are recognised as costs in the profit or loss when incurred. Contributions paid in advance are recognised under assets up to the advanced payment which will determine a reduction in future payments or a reimbursement.

Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The net obligation of the Group deriving from defined benefit plans is calculated separately for each plan estimating the amount of the future benefit which the employees matured in exchange for the services provided in the current and previous years; this benefit is discounted to calculate the present value, while any costs relating to past services not recorded in the financial statements and the Fair Value of any assets to service the plan are deducted from liabilities. The discount rate is the return, at the reporting date, of the primary obligations whose maturity date approximates the terms of the obligations of the Group and which are expressed in the same currency in which it is expected the benefits will be paid. The calculation is made by an independent actuary utilising the projected credit unit method. Where the calculation generates a benefit for the Group, the asset recognised is limited to the total, net of all costs relating to past services not recognised and the present value of all economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Where improvements are made to the plan benefits, the portion of increased benefits relating to past services is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits mature immediately, the cost is recognised immediately in the income statement.

The Group records all actuarial gains and losses from a defined benefit plan directly and immediately to equity.

In relation to Post-Employment Benefits, following the amendments to Law No. 296 of December 27, 2006 and subsequent Decrees and Regulations ("Pension Reform") issued in the first months of 2007, the Parent F.I.L.A. S.p.A. adopted the following accounting treatment:

- Post-Employment Benefits vested at December 31, 2006 is considered a defined benefit plan as per IAS 19. The benefits guaranteed to employees, under the form of Post-Employment Benefits, paid on the termination of employment, are recognised in the period the right vests.
- Post-Employment Benefits vested from January 1, 2007 are considered a defined contribution plan and therefore the contributions vested in the period were fully recognised as a cost and recorded as a payable in the account "Post-Employment Benefits", after deduction of any contributions already paid.

Other long-term employee benefits

The net obligation of the Group for long-term employee benefits, other than those deriving from pension plans, corresponds to the amount of the future benefits which employees matured for services in current and previous years. This benefit is discounted, while the Fair Value of any assets is deducted from the liabilities. The discount rate is the return, at the reporting date, of the primary obligations whose maturity date approximates the terms of the obligations of the Group. The obligation is calculated using the projected unit credit method. Any actuarial gains or losses are recorded in the statement of financial position in the year in which they arise.

Short-term employee benefits

Short-term employee benefits are recorded as non-discounted expenses when the services to which they arise are provided.
The Group records a liability for the amount that it expects will to pay in the presence of a present obligation, legal or constructive, as a consequence of past events and for which the obligation can be reliably estimated.

Financial liabilities

Financial liabilities are initially recognised at Fair Value, including directly attributable transaction costs. Subsequently these liabilities are measured at amortised cost. In accordance with this method all the accessory charges relating to the provision of the loan are recorded as a direct change in the payable, recording any differences between cost and repayment amount in the profit or loss over the duration of the loan, in accordance with the effective interest rate method.

Financial instruments

Financial instruments are initially recognised at Fair Value and, subsequent to initial recognition, are measured on the basis of classification, as per IAS 39.
For financial assets, this is applied according to the following categories:

- *financial assets at Fair Value through profit or loss;*
- *held to maturity investments;*
- *loans and receivables;*
- *available-for-sale financial assets.*

For financial liabilities however, only two categories are established:

- *financial liabilities at Fair Value through profit or loss;*
- *liabilities at amortised cost.*

In compliance with IAS 39, the derivative financial instruments are recorded in accordance with the "hedge accounting" method only when: (i) at the beginning of the hedge, the formal designation and documentation relating to the hedge exists and it is presumed that the hedge is effective; (ii) such effectiveness can be reliably measured; (iii) the hedge is effective over the accounting periods for which it was designated.

The effectiveness of hedges is documented both at the beginning of the transaction and periodically (at least at the annual or interim reporting dates).

When the hedging derivatives cover the risk of change in the fair value of the instruments subject to the hedge (fair value hedge), the derivatives are recorded at fair value with the effects recorded in profit or loss.

When the derivatives hedge the risk of changes in the cash flows of the hedge instrument (cash flow hedge), the effective part of the changes in the fair value of the derivatives is recognised the statement of comprehensive income and presented in the hedging reserve. The ineffective part of the changes in the fair value of the derivative instrument is immediately recognised in profit or loss.

All derivative financial instruments are initially measured at fair value, as per IFRS 13 and IAS 39, and the transaction and associated costs are recognised to the profit or loss when incurred. After initial recognition, the financial instruments are measured at fair value.

The methods for the calculation of the Fair Value of these financial instruments, for accounting or disclosure purposes, are summarised below with regards to the main categories of financial instruments:

- derivative financial instruments: the pricing models are adopted based on the market values of the interest rates;
- receivables and payables and non-listed financial assets: for the financial instruments with maturity greater than 1 year the discounted cash flow method was applied, therefore the discounting of expected cash flows in consideration of current interest rate conditions and credit ratings, for the determination of the Fair Value on first-time recognition. Further measurements are made based on the "amortised cost" method;
- listed financial instruments: the market value at the reporting date is utilised.

In relation to financial instruments measured at Fair Value, IFRS 13 requires the classification of these instruments according to the standard's hierarchy levels, which reflect the significance of the inputs utilised in establishing the fair value. The following levels are used:

- Level 1: unadjusted assets or liabilities subject to valuation on an active market;
- Level 2: inputs other than prices listed at the previous point, which are directly observable (prices) or indirectly (derived from the prices) on the market;
- Level 3 - input which is not based on observable market data.

Trade and other liabilities

Trade payables and other liabilities are initially recognised at fair value, normally equal to the nominal amount, net of discounts, returns or invoice adjustments, and are subsequently measured at amortised cost where the financial effect of extended payment terms is significant. When there is a change in the cash flows and it is possible to estimate them reliably, liabilities are recalculated to reflect this change, based on the new present value of the cash flows and on the internal rate of return initially determined.

Current, deferred and other taxes

Income taxes include all the taxes calculated on the taxable profit of the Group Companies applying the tax rates in force at the date of the present report.

Income taxes are recorded in the profit or loss, except those relating to accounts directly credited or debited to equity, in which case the tax effect is recognised directly in equity.

Other taxes not related to income, such as taxes on property and capital gains, are included under other operating expense ("Service costs", "Rent, lease and similar" and "Other charges"). The liabilities related to indirect taxes are classified under "Other Liabilities".

Deferred tax assets and liabilities are determined in accordance with the global assets/liability method and are calculated on the basis of the temporary differences arising between the carrying amounts of the assets and liabilities and the corresponding values recognised for tax purposes, taking into account the tax rate within current fiscal legislation for the years in which the differences will reverse, with the exception of goodwill not fiscally deductible and those differences deriving from investments in subsidiaries for which it is not expected to be reversed in the foreseeable future, and on the tax losses to be carried forward.

"Deferred Tax Assets" are classified under non-current assets and are recognised only when there exists a high probability of future taxable profit to recover these assets.

The recovery of the "Deferred Tax Assets" is reviewed at each reporting date and for the part for which recovery is no longer probable recorded in the profit or loss.

Revenue and costs

Revenue recognition

The revenue and income are recorded net of returns, discounts, rebates and premiums as well as direct taxes related to the sale of products and services. In particular, the revenue from the sale of products is recognised when the risks and rewards of ownership are transferred to the buyer. This, according to normal contractual conditions, occurs on shipping of the goods.

Recognition of costs

Costs are recorded when relating to goods and services acquired or consumed in the year or when there is no future utility.
The costs directly attributable to share capital transactions are recorded as a direct reduction of equity.
Commercial costs relating to the acquisition of new clients are expensed to the profit or loss when incurred.

Financial income and expense

Financial income includes interest income on liquidity invested, dividends received and income from the sale of available-for-sale financial assets. Interest income is recorded in the profit or loss on an accruals basis utilising the effective interest method. Dividend income is recorded when the right of the Group to receive the payment is established which, in the case of listed securities, corresponds to the coupon date.

Financial expense include interest on loans, discounting of provisions, dividends distributed on reimbursable preference shares, changes in the fair value of financial assets through profit or loss and impairment losses on financial assets. Borrowing expenses are recorded in the profit or loss using the effective interest method. The foreign currency transactions are recorded as the net amount.

Dividends

Dividends recognised to shareholders are recorded on the date of the Shareholders' Meeting resolution.

Earnings per share

The basic earnings/(loss) per share are calculated by dividing the result of the Company by the weighted average shares outstanding during the year.

In order to calculate the diluted earnings/(loss) per share, the average weighted number of shares outstanding is adjusted assuming the conversion of all shares with potential dilutive effect.

The profit for the year is also adjusted to account for the effects of the conversion, net of taxes.

The diluted earnings/(loss) per share is calculated by dividing the profit for the year of the company by the weighted average number of ordinary shares outstending during the period and those potentially arising from the conversion of all potential ordinary shares with dilutive effect.

Use of estimates

The preparation of the financial statements requires the Directors to apply accounting principles and methods that, in some circumstances, are based on valuations and estimates based on the historical experience and assumptions which are from time to time considered reasonable and realistic based on the relative circumstances. The application of these estimates and assumptions impact the value of the assets and liabilities of the costs and revenue recognised in the financial statements and the disclosure of contingent assets and liabilities at the reporting date. Actual results may differ from these estimates.

The accounting principles which require greater judgement by the Directors in the preparation of the estimates and for which a change in the conditions underlying or the assumptions may have a significant impact on the combined financial figures are briefly described below.

- measurement of receivables: trade receivables are adjusted by allowance for impairment, taking into account the effective recoverable amount. The calculation of the impairment losses requires the Directors to make valuations based on the documentation and the information available relating to the solvency of the customers, and from market and historical experience;
- measurement of goodwill and intangible assets with indefinite useful life: in accordance with the accounting principles applied by the Group, goodwill and intangible assets are subject to an annual impairment test in order to verify whether an impairment loss has taken place. This verification requires the Directors to make valuations based on the information available within the Group and from the market, as well as from historical experience; this depends in addition to factors which may change over time, affecting the valuations and estimates made by Directors. In addition, when it is determined that there may be a potential impairment loss, the Group determines this through using the most appropriate valuation techniques available;

- risk provisions: the identification of the existence of a present obligation (legal or constructive) in some circumstances may be difficult to determine. The Directors evaluate these factors case-by-case, together with the estimate of the amount of the economic resources required to comply with the obligation. When the Directors consider that a liability is only possible, the risks are disclosed in the notes under the section on commitments and risks, without any provision;
- measurement of closing inventories: inventories of products which are obsolete or slow moving are periodically subject to valuation tests and written down where the recoverable amount is lower than the carrying amount. The write-downs are made based on assumptions and estimates of management deriving from experience and historical results;
- pension plans and other post-employment benefits: the companies of the Group participate in pension plans and other post-employment benefits in various countries; in particular in Italy, Germany, the United States, France, Canada and Mexico. Management utilises multiple statistical assumptions and valuation techniques with the objective of anticipating future events for the calculation of the charges, liabilities and assets relating to these plans. The assumptions relate to the discount rate, the expected return of the plan assets and the rate of future salary increases. In addition, the actuarial consultants of the Group utilise subjective factors, for example mortality and employee turnover rates;
- the calculation of deferred tax assets is supported by a recoverability plan prepared on the basis of the assumptions which the Directors consider reasonable.

Introduction

The company F.I.L.A. S.p.A. operates in the creativity tools market, producing writing and design objects such as crayons, paints, modelling clay and pencils etc..

The Parent F.I.L.A. S.p.A., Fabbrica Italiana Lapis ed Affini (hereafter "the Company") is a limited liability company with registered office in Pero (Italy), Via XXV Aprile 5. The ordinary shares of the Company were admitted for trading on the MTA, STAR Segment, organised and managed by Borsa Italiana S.p.A. from November 12, 2016.

The separate financial statements of the F.I.L.A. S.p.A. were prepared in accordance with International Financial Reporting Standards (IFRS) endorsed by the European Union.

The information relating to the shareholding structure at December 31, 2017 is shown below:

Shareholder	Ordinary shares	%
Pencil S.p.A.	13,133,032	37.78%
Venice European Investment Capital S.p.A.	3,741,799	10.76%
Sponsor	750,000	2.16%
Market Investors	17,141,138	49.30%
Total	**34,765,969**	

Shareholder	Ordinary shares	Class B Shares	Total	Voting rights
Pencil S.p.A.	13,133,032	6,566,508	19,699,540	60.28%
Venice European Investment Capital S.p.A.	3,741,799	-	3,741,799	6.87%
Sponsor	750,000	-	750,000	1.38%
Market Investors	17,141,138	-	17,141,138	31.47%
Total	**34,765,969**	**6,566,508**	**41,332,477**	

There financial statements as at and for the year ended December 31, 2017, are presented in Euro, as the functional currency in which the Company operates and comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes and are accompanied by the Directors' Report.

Note 1 - Intangible assets

Intangible assets at December 31, 2017 amount to Euro 2,830 thousand (Euro 1,049 thousand at December 31, 2016) and consist only of intangible assets with definite useful lives.

The table below shows the changes in the year.

Note 1 - INTANGIBLE ASSETS WITH FINITE LIFE					
Euro thousands	Industrial Patents & Intellectual Property Rights	Concessions, Licenses, Trademarks & Similar Rights	Construction in progress	Other Intangible Assets	Total
Change in Historical Cost					
December 31, 2016	**190**	**3,034**	**365**	**2,243**	**5,832**
Increases in the year	**-**	**49**	**1,642**	**273**	**1,964**
Increases (Investments)	-	49	1,642	273	1,964
December 31, 2017	**190**	**3,083**	**2,007**	**2,516**	**7,796**
Change in Amortisation					
December 31, 2016	**(136)**	**(2,627)**	**-**	**(2,020)**	**(4,783)**
Increases in the year	**(11)**	**(80)**	**-**	**(91)**	**(182)**
Amortisation in Year	(11)	(80)	-	(91)	(182)
December 31, 2017	**(147)**	**(2,707)**	**-**	**(2,111)**	**(4,965)**
Net Carrying Amount at December 31, 2016	**54**	**407**	**365**	**223**	**1,049**
Net Carrying Amount at December 31, 2017	**43**	**376**	**2,007**	**405**	**2,830**
Change	**(11)**	**(31)**	**1,642**	**182**	**1,781**

"Industrial Patents and Intellectual Property Rights" amount to Euro 43 thousand at December 31, 2017 (Euro 54 thousand at December 31, 2016).
The average residual useful life of the "Industrial Patents and Intellectual Property Rights", recorded in the financial statements at December 31, 2017, is 5 years.

"Concessions, Licences, Trademarks and Similar Rights" amount to Euro 376 thousand at December 31, 2017 (Euro 407 thousand at December 31, 2016) and includes the costs incurred for the registration and acquisition of trademarks necessary for the marketing of the Fila products.
Their average residual useful life recorded in the financial statements at December 31, 2017 is 3 years.

"Assets under develpment" totalled Euro 2,007 thousand at December 31, 2017 (Euro 365 thousand at December 31, 2016) and include costs relating to the capitalisation of software licenses owned for the SAP system, although not activated in 2017, in addition to consultancy costs incurred for the roll out and development of the Group ERP.

“Other Intangible Assets” amount to Euro 405 thousand at December 31, 2017 (Euro 223 thousand at December 31, 2016) and mainly include costs relating to the capitalisation of the software licenses related to the SAP system activated in 2017. The average residual useful life of “Other Intangible Assets”, recorded in the financial statements at December 31, 2017, is 3 years.

There are no intangible assets whose usage is subject to restrictions (for further details, reference should be made to the “Directors’ Report - Commitments and Guarantees”).

Note 2 - Property, plant and equipment

At December 31, 2017, “Property, Plant and Equipment” amounted to Euro 9,341 thousand (Euro 9,983 thousand at December 31, 2016). The table below shows the changes in the year:

Note 2 - PROPERTY, PLANT AND EQUIPMENT

Euro thousands	Land	Buildings	Plant and Machinery	Industrial & Commercial Equipment	Other Assets	Construction in progress	Total
Change in Historical Cost							
December 31, 2016	**1,977**	**9,573**	**16,460**	**8,531**	**1,150**	**902**	**38,593**
Increases in the year	**-**	**0**	**1,364**	**312**	**76**	**(891)**	**861**
Increases (Investments)	-	0	534	240	76	11	861
Capitalisation from Assets in Progress	-	-	830	72	-	(902)	-
Decreases in the year	**-**	**-**	**(33)**	**(22)**	**0**	**-**	**(55)**
Decreases (Divestments)	-	-	(33)	(22)	0	-	(55)
December 31, 2017	**1,977**	**9,573**	**17,791**	**8,821**	**1,226**	**11**	**39,399**
Change in Accumulated Depreciation							
December 31, 2016		**(6,498)**	**(13,057)**	**(8,180)**	**(875)**		**(28,610)**
Increases in the year		**(369)**	**(838)**	**(219)**	**(77)**		**(1,503)**
Depreciation in Year		(369)	(838)	(219)	(77)		(1,503)
Decreases in the year		**-**	**33**	**22**	**0**		**55**
Decreases (Divestments)		-	33	22	0		55
December 31, 2017		**(6,867)**	**(13,862)**	**(8,377)**	**(952)**		**(30,058)**
Net Carrying Amount at December 31, 2016	**1,977**	**3,075**	**3,403**	**351**	**275**	**902**	**9,983**
Net Carrying Amount at December 31, 2017	**1,977**	**2,706**	**3,929**	**445**	**274**	**11**	**9,341**
Change	**-**	**(369)**	**526**	**94**	**(1)**	**(891)**	**(642)**

“Land” at December 31, 2017, amounting to Euro 1,977 thousand (Euro 1,977 thousand at December 31, 2016), is comprised of land adjacent to the building owned at the production site in Rufina Scopeti (Florence - Italy).

“Buildings” at December 31, 2017 totalling Euro 2,706 thousand (Euro 3,075 thousand at December 31, 2016) concern the company’s buildings located in Rufina Scopeti (Florence - Italy). During the year there were no improvements made to buildings.

"Plant and Machinery" amounts to Euro 3,929 thousand at December 31, 2017 (Euro 3,403 thousand at December 31, 2016) and mainly includes investments in machinery for the production plant at Rufina Scopeti (Florence-Italy).

At the same time, the account increased due to investment in new plant and machinery of the current production capacity and to streamline production (Euro 1,364 thousand).

"Industrial and Commercial Equipment" amounts to Euro 445 thousand at December 31, 2017 (Euro 351 thousand at December 31, 2016) and mainly relates to investments in production moulds and the updating of the production plant at Rufina Scopeti (Florence-Italy).

"Other Assets" amount to Euro 274 thousand at December 31, 2017 (Euro 275 thousand at December 31, 2016) and include furniture and office equipment, Electronic Office Equipment and motor vehicles.

Note 3 – Financial Assets

"Financial Assets" amount to Euro 48,855 thousand at December 31, 2017 (Euro 47,582 thousand at December 31, 2016).

The breakdown of the account in 2017 is as follows:

Note 3.A - FINANCIAL ASSETS

Euro thousands	Loans and Receivables - Subsidiaries	Derivative Financial Instruments	Other Financial Assets - Third Parties	Total
December 31, 2016	**46,761**	**462**	**359**	**47,582**
non-current portion	850	462	359	1,671
current portion	45,911	-	-	45,911
December 31, 2017	**47,441**	**1,053**	**361**	**48,855**
non-current portion	1,761	1,053	9	2,823
current portion	45,680	-	352	46,032
Change	**680**	**591**	**2**	**1,273**
non-current portion	911	591	(350)	1,152
current portion	(231)	-	352	121

The account “Loans and Receivables - subsidiaries -non-current portion” includes:

- Loans granted in favour of OOO FILA Stationery (Russia) for Euro 703 thousand and in favour of FILA SA (Pty) Ltd. (South Africa) for Euro 1,058 thousand, as conversion of the commercial payable to the parent company.

The account “Loans and Receivables - subsidiaries -current portion” includes:

- the current portion of the non interest-bearing loan, granted to Industria Maimeri S.p.A. (Italia) in 2014 of Euro 850 thousand;
- the current portion, for a total of Euro 35,330 thousand, of loans issued in favour of Canson Sas (France – Euro 18,969 thousand), Eurholdham Usa Inc. (U.S.A. – Euro 10,153 thousand), Canson Inc. (U.S.A. – Euro 3,652 thousand), Canson Australia Pty Ltd. (Australia – Euro 1,619 thousand) and Lodi 12 SAS (France - Euro 418 thousand). The amounts are reported net of partial repayments in 2017 totalling Euro 2,376 thousand. The amount includes Euro 519 thousand of accrued interest. The loan matures interest at a variable rate equal to Euribor at 3 months, plus a spread of 375 basis points;
- the current portion of the loan, amounting to Euro 3,430 thousand, granted to the subsidiary Canson Brasil I.P.E. Ltda (Brazil - former Licyn Mercantil Industrial Ltda). The amount includes Euro 172 thousand of accrued interest. The loan matures interest at a variable rate equal to Euribor at 6 months, plus a spread of 280 basis points;
- the current portion of the loan, amounting to Euro 3,000 thousand, granted to Daler Rowney Ltd. (United Kingdom) in 2017. The amount includes Euro 51 thousand of accrued interest. The loan matures interest at a variable rate equal to Euribor at 3 months, plus a spread of 400 basis points;
- the current portion of the loan, amounting to Euro 1,121 thousand, granted to FILA S.A. (Pty) Ltd. (South Africa). The amount includes Euro 72 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 3 months, plus a spread of 275 basis points;
- the current portion of the loan, amounting to Euro 800 thousand, granted to FILA Stationary O.O.O. (Russia). The amount includes Euro 25 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 3 months, plus a spread of 280 basis points;

- the current portion of the loan, amounting to Euro 225 thousand, granted to Industria Maimeri S.p.A. (Italia). The amount includes Euro 1 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 6 months, plus a spread of 200 basis points;
- the current portion of the loan, amounting to Euro 353 thousand, granted to FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey) in 2016. The amount includes Euro 11 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 6 months, plus a spread of 280 basis points;
- the current portion of the loan, amounting to Euro 239 thousand, granted to FILA Art Product AG (Switzerland) in 2017. The loan vests interest at a variable rate equal to Euribor at 6 months, plus a spread of 250 basis points;

We report the partial settlement of the residual loan at December 31, 2016 issued in favour of Lodi 12 Sas (France) for Euro 1,476 thousand, Canson Inc. (U.S.A.) for Euro 900 thousand, Industria Maimeri S.p.A. (Italy) for Euro 100 thousand, FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey) for Euro 40 thousand, in addition to, of Daler Rowney Ltd (United Kingdom) for Euro 100 thousand.

"Other Financial Assets from Third Parties" of Euro 361 thousand (Euro 359 thousand at December 31, 2016) include:

- deposits paid to third parties as contractual guarantees for the provision of services and goods (Euro 9 thousand);
- the issue of a loan in favour of Gianni Maimeri, a non-controlling shareholder of Industria Maimeri S.p.A., with fixed maturity in June 2018 (Euro 350 thousand).

"Derivative Financial Instruments" of Euro 1,053 thousand relate to the signing of 8 derivative financial instruments in 2016 for hedging of future cash flow fluctuations in relation to the interest rate indexing mechanism under the loan contract signed in the year.
The amount includes the fair value of projected cash flows discounted at December 31, 2017 (fixed rate and variable rate), net of negotiation charges applied on "inception" by the banks, related to the elimination of the floor to zero on the loan (hereafter "hedged instrument"). For further details, reference should be made to *"Note 13 - Financial Liabilities".*

The accounting treatment adopted for the derivative hedges, based on IAS 39, centres on hedge accounting and in particular that concerning "cash flow hedges" and involving the recognition of a financial asset and an equity reserve.

Reference should be made to Note 10 concerning the “Net Financial Debt” at December 31, 2017 of F.I.L.A. S.p.A..

The carrying amount approximates the “fair value” of these assets at the reporting date.

Details on the timing of cash flows and “Financial Assets” at December 31, 2017 are illustrated in the following table:

Note 3.B - FINANCIAL ASSETS

Description	General information								Amount						
	Amount		Total	Year	Currency	Country	Interest		Current Financial Assets	Non-Current Financial Assets				Guarantees Received	Guarantees Granted
Euro thousands	Principal	Interest					Variable	Spread	2017	2018	2019	2020	Beyond 2020		
Security Deposits	9	-	9	2004-2015	EUR	Italy	0%	0.00%	-	-	-	-	9	None	None
Activities for Financial Derivative Instruments	1,053	-	1,053	2016	EUR	Italy	0%	0.00%	-	-	-	-	1,053	None	None
Loan to third parties	350	2	352	2015	EUR	Italy	0%	2.00%	352	-	-	-	-	None	None
Loan Canson Sas (Francia)	18,969	-	18,969	2016	EUR	France	Euribor 3 month	3.75%	18,969	-	-	-	-	None	None
Loan Lodi 12 Sas (Francia)	418	7	425	2016	EUR	France	Euribor 3 month	3.75%	425	-	-	-	-	None	None
Loan Eurholdham USA Inc. (U.S.A.)	10,153	436	10,589	2016	EUR	USA	Euribor 3 month	3.75%	10,589	-	-	-	-	None	None
Current Financial Asset	1,619	42	1,661	2016	EUR	Australia	Euribor 3 month	3.75%	1,661	-	-	-	-	None	None
Loan Canson Inc. (U.S.A.)	3,652	34	3,686	2016	EUR	USA	Euribor 3 month	3.75%	3,686	-	-	-	-	None	None
Loan Daler Rowney Ltd. (Regno Unito)	3,000	51	3,051	2016-2017	EUR	UK	Euribor 3 month	4.00%	3,051	-	-	-	-	None	None
Loan Industria Maimeri S.p.A. (Italia)	850	-	850	2014-2015	EUR	Italy	0%	0.00%	850	-	-	-	-	None	None
Loan Industria Maimeri S.p.A. (Italia)	225	1	226	2014	EUR	Italy	Euribor 6 month	2.00%	226	-	-	-	-	None	None
Loan FILA Stationery and Office Equipment Industry Ltd. Co. (Turchia)	353	11	364	2015	EUR	Turchia	Euribor 6 month Euribor 3 month	2,80% 3,00%	364	-	-	-	-	None	None
Loan Canson Brasil I.P.E. Ltda (Brasile)	3,430	172	3,602	2012	EUR	Brasil	Euribor 6 month	2.80%	3,602	-	-	-	-	None	None
Loan FILA Stationery O.O.O. (Russia)	1,503	25	1,528	2013-2017	EUR	Russia	Euribor 3 month	2,80% - 3,75%	825	35	35	70	563	None	None
Loan FILA S.A. (Pty) Ltd (Sud Africa)	2,179	72	2,251	2014-2017	EUR	Sud Africa	Euribor 3 month	2,75% - 3,75%	1,193	53	53	106	846	None	None
Loan FILA Art & Product AG (Svizzera)	239	-	239	2017	EUR	Switzerland	Euribor 6 month	2.50%	239	-	-	-	-	None	None
Total amount	**48,002**	**853**	**48,855**						**46,032**	**88**	**88**	**176.00**	**2,471**		

As per IFRS 7, the accounting treatment by class of financial assets at December 31, 2017 was as follows:

Euro thousands		December 31, 2017	Bank Loan and Receivables	Asset available for sales	Asset Measured at Equity	Asset and liabilities measurement at FV booked in OCI	Amortized Cost	Fair Value
Non-Current assets								
Non-Current financial assets	Nota 3	**2,823**	1,770			1053		**2,823**
Current assets								
Current financial assets	Nota 3	**46,032**	46,032					**46,032**
Trade and Other Receivables	Nota 8	**19,140**	19,140					**19,140**
Cash and Cash Equivalents	Nota 9	**6,996**	6,996					**6,996**

Euro thousands		December 31, 2016	Bank Loan and Receivables	Asset available for sales	Asset Measured at Equity	Asset and liabilities measurement at FV booked in OCI	Amortized Cost	Fair Value
Non-Current assets								
Non-Current financial assets	Nota 3	**1,671**	1,209			462		**1,671**
Current assets								
Current financial assets	Nota 3	**45,911**	45,911					**45,911**
Trade and Other Receivables	Nota 8	**20,242**	20,242					**20,242**
Cash and Cash Equivalents	Nota 9	**19,193**	19,193					**19,193**

Note 4 – Equity Investments Measured at Cost

"Equity Investments Measured at Cost" at December 31, 2017 amount to Euro 284,951 thousand (Euro 285,386 thousand at December 31, 2016). The movements in the year are shown below:

Note 4.A - INVESTMENTS MEASURED AT COST

Euro thousands	Investments in Subsidiaries	Inv. in Associates	Investments in Other Companies	Total Amount
Prior Year Balance	**285,356**	**28**	**2**	**285,386**
Increases in the year	8,248	-	-	8,248
Decreases in the year	(8,683)	-	-	(8,683)
Current Year Balance	**284,921**	**28**	**2**	**284,951**
Change in year	**(435)**	**-**	**-**	**(435)**

The increase in the year totalling Euro 8,248 thousand relates to the following:

- the value of the investments held in the Canson Group ("*Earn Out*") to be recognised to the French Group Hamelin (Euro 7,500 thousand);
- the effect of the extraordinary bonus regarding ordinary F.I.L.A. S.p.A. shares and the "*2017-2019 Performance Shares Plan"* concerning ordinary F.I.L.A. S.p.A. shares reserved for Group executives and managers (Euro 700 thousand);
- the incorporation of the company FILA Art & Products AG (Switzerland - Euro 48 thousand) on January 20, 2017, with the undertaking of a 52% equity stake. The company is involved in the sale of FILA Group writing, art and design products in Switzerland.

The decrease in the year for Euro 8,683 thousand relates to the following:

- the impairment loss of the investment held by F.I.L.A. S.p.A. in the subsidiary Lycin Mercantil Industrial Ltda (Brazil) for Euro 3,348 thousand, following the merger by incorporation on August 31, 2017 into the company Canson Brasil I.P.E. Ltda (Brazil), with effect from September 1, 2017;
- the impairment loss of the investment in Renoir Topco Limited (United Kingdom) of Euro 5,335 thousand, following the share capital repayment in 2017;
- the liquidation of the company FILA Australia Pty Ltd (Australia) in 2017 as not operative, for an amount of Euro 1 thousand.

Investments in subsidiaries at December 31, 2017 and the changes in the year are illustrated in the table below:

Current Financial Asset				
Euro thousands	December 31, 2016	Increases	Decreases	December 31, 2017
F.I.L.A. Hispania S.L.(Spagna)	90	104		194
Omyacolor S.A.(Francia)	2,506	131		2,637
Dixon Ticonderoga Co.(U.S.A.)	30,541	397		30,938
F.I.L.A. Chile Ltda (Cile)	62			62
Lyra Bleistift-Fabrik GmbH & Co. KG(Germania)	12,454			12,454
FILA Stationary and Office Equipment Industry Ltd. Co. (Turchia)	1,299			1,299
Licyn Mercantil Industrial Ltda (Brasile)	3,348		(3,348)	-
FILA Stationery O.O.O. (Russia)	95			95
Industria Maimeri S.p.A.(Italia)	946			946
FILA S.A. (Pty) Ltd. (Sud Africa)	1			1
FILA Hellas S.A. (Grecia)	12			12
FILA Australia Pty Ltd (Australia)	1		(1)	-
Fila Polska Sp. Z.o.o (Polonia)	44			44
DOMS Industries PTV Ltd	57,277			57,277
Renoir Topco Limited (Regno Unito)	108,921	19	(5,334)	103,606
St. Cuthberts Holdings Limited (Regno Unito)	6,727			6,727
Canson SAS (Francia)	30,517	3,784		34,301
Lodi 12 SAS (Francia)	15,258	1,875		17,133
Eurholdham USA Inc. (U.S.A.)	15,197	1,881		17,078
Canson Brasil Industria Papeis Especiais Ltda (Brasile)	61	8		69
Fila Art Products AG (Svizzera)	-	48		48
Total	**285,356**	**8,248**	**(8,683)**	**284,921**

For further details, reference should be made to the *"Significant events in the year"* paragraph.

A comparison between equity investments and the equity of the subsidiaries at December 31, 2017 is illustrated in the table below:

Subsidiaries *Euro thousands*	Equity at December 31, 2017	Net profit (loss) for the year	Total percentage of investment**	Equity Share	Net carrying amount
Dixon Ticonderoga Company (U.S.A.)*	96,272	18,623	100.00%	96,272	30,999
Current Financial Asset	0	(1,034)	99.99%	0	0
Omyacolor S.A. (France)	13,746	2,010	99.90%	13,733	2,637
F.I.L.A. Hispania S.L. (Spain)	3,547	1,456	96.77%	3,432	194
Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG (Germany)	12,780	2,451	100.00%	12,780	12,454
FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey)	(1,046)	(440)	99.99%	(1,046)	1,299
Fila Polska Sp. Z.o.o (Poland)	547	334	51.00%	279	44
Fila Hellas SA (Greece)	1,150	477	50.00%	575	12
Industria Maimeri S.p.A. (Italy)	909	(244)	51.00%	463	946
Fila SA PTY LTD (South Africa)	(736)	209	90.00%	(662)	1
Fila Stationary O.O.O. (Russia)	(660)	24	90.00%	(594)	95
DOMS Industries PVT LTD	45,439	1,982	51.00%	23,174	57,277
Ronoir Topo Ltd (United Kingdom)	85,924	(1,533)	100.00%	85,924	103,605
St. Cuthbert Holding (England)	5,928	688	100.00%	5,928	6,727
Canson SAS (Francia)	33,758	3,953	100.00%	33,758	34,301
Lodi 12 SAS (Francia)	(1,781)	(1,722)	100.00%	(1,781)	17,078
Eurholdham USA Inc. (U.S.A.)	469	(350)	100.00%	469	17,133
Canson Brasil Industria Papeis Especiais Ltda (Brasile)	(2,803)	(1,109)	0.19%	(5)	69
Fila Art Products AG (Svizzera)	(113)	(207)	52.00%	(59)	48

Figures concern approved financial statements at December 31, 2017
** includes 1% of F.I.L.A CHILE LTDA held by F.I.L.A. S.p.A.*

The investments held by F.I.L.A. S.p.A. in subsidiaries were subject to impairment tests where indicators highlighted a possible impairment loss, comparing the carrying amount in the financial statements with the recoverable amount as per the Impairment Test ("Equity Value"), at least on an annual basis. The "Value in use" was utilised to establish the recoverable amount of equity investments. The Value is use as per IAS 36 is calculated as the present value of projected cash flows.

The projected cash flows for calculation of the "Value in use" of each subsidiaries are developed based on the 2018 Budget and the Industrial Plan, respectively approved by the Board of Directors on February 2, 2018 and May 11, 2016.

In particular, the cash flows were determined taking the assumptions from the plan and applying the growth rate identified for each subsidiary in line with the long-term assumptions relating to the growth rate of the sector and the specific country risk in which each company operates. The "Terminal Value" was calculated applying the perpetuity growth method. These financial estimates were subject to approval by the Boards of Directors of the individual Group companies subject to impairments.

The discount rate (W.A.C.C.) is the average weighed cost of risk capital and borrowing cost considering the tax effects generated from the financial laverage.

The table below outlines the main assumptions for the impairment test on the investments held. The discount rate altered on December 31, 2016 to reflect the changed market conditions at December 31, 2017, as commented upon below:

IMPAIRMENT TEST - VALUE IN USE CALCULATION ASSUMPTIONS

Euro thousands	Discount Rate (W.A.C.C.)	Growth Rate (g rate)	Cash flow horizon	Terminal Value Calculation Method
FILA SA (Sudafrica)	14.91%	5.90%	5 years	Perpetuing growth rate
Fila Stationary O.O.O. (Russia)	13.74%	4.10%	5 years	Perpetuing growth rate
Fila Stationary and Office Equipment Indistry Ltd. Co (Turchia)	14.54%	5.00%	5 years	Perpetuing growth rate
DOMS Industries Pvt Ltd (India)	12.97%	5.00%	5 years	Perpetuing growth rate
Industria Maimeri S.p.A. (Italia)	9.97%	1.30%	5 years	Perpetuing growth rate
Renoir Topo Ltd (Regno Unito) (1)	7.62%	2.10%	5 years	Perpetuing growth rate
St. Cuthberts Holding (Regno Unito) (4)	7.62%	2.10%	5 years	Perpetuing growth rate
FILA Art Products AG (Svizzera)	6.43%	1.60%	5 years	Perpetuing growth rate
Canson SAS (Francia)	7.05%	1.90%	5 years	Perpetuing growth rate
Eurholdan USA Inc. (2)	8.71%	1.69%	5 years	Perpetuing growth rate
Lodi 12 (Francia) (3)	7.05%	1.90%	5 years	Perpetuing growth rate
Canson Bresil (Brasile)	13.75%	4.00%	5 years	Perpetuing growth rate

(1) - Renoir Topco Ltd (Regno Unito); Renoir Midco Ltd (Regno Unito); Renoir Bidco Ltd (Regno Unito); Daler Rowney Group Ltd (Regno Unito); FILA Benelux SA (Belgio); Daler Rowney Ltd (Regno Unito); Longbeach Arts Ltd (Regno Unito); Daler Board Company Ltd (Regno Unito); Daler Holdings Ltd (Regno Unito);Brideshore srl (Repubblica Dominicana); Daler USA Ltd (USA) Daler Designs Ltd (Regno Unito); Daler Rowney GmbH (Germania); Lukas-Nerchau GmbH (Germania); Nerchauer Malfarben GmbH (Germania); Lastmill Ltd (Regno Unito); Rowney & Company Pencils Ltd (Regno Unito); Rowney (Artists Brushes) Ltd (Regno Unito).

(2) - Eurholdam USA (Inc); Canson Inc (U.S.A).

(3) - Lodi 12 SAS (Francia); Canson Australia PTY LTD (Australia); Canson Qingdao Ltd.(Cina); Canson Italy (Italia).

(4) - St. Cuthberts Holding (Regno Unito); St. Cuthberts Mill (Regno Unito)

With regard to the main considerations upon the change in the year of the discount rates used, reference should be made to “Note 1 - Intangible Assets” of the Notes to the Consolidated Financial Statements at December 31, 2017.

Considering the existence of indicators of impairment, impairment tests were carried out on the following subsidiaries:

- Industria Maimeri S.p.A. (Italy);
- F.I.L.A. SA PTY LTD (South Africa);
- FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey);
- FILA Stationary O.O.O. (Russia);
- Renoir Topco Ltd (United Kingdom);
- Eurholdam USA Inc. (U.S.A.);
- Canson Brasil I.P.E. LTDA.

The analysis did not indicate any impairment.

Note 5 – Deferred Tax Assets

“Deferred Tax Assets” amount to Euro 5,431 thousand at December 31, 2017 (Euro 5,371 thousand at December 31, 2016).

Note 5.A - CHANGES IN DEFERRED TAX ASSETS

Euro thousands	
December 31, 2016	**5,371**
Provisions	543
Utilisations	(482)
December 31, 2017	**5,431**
Change	**60**

The balance at December 31, 2017 concerns temporary differences deductible in future years. They are recognised as there is a reasonable certainty of the existence, in the years in which the temporary differences will reverse, of taxable profit not lower than the amount of these differences.

The breakdown of "Deferred Tax Assets" is illustrated below.

NOTE 5.B - BREAKDOWN OF DEFERRED TAX ASSETS

	Statement of Financial Position		Income Statement		Equity	
Euro thousands	2017	2016	2017	2016	2017	2016
Deferred tax assets relating to:						
Intangible Assets	104	102	2	(18)	-	-
Property, Plant and Equipment	274	369	(95)	(22)	-	-
Directors' Remuneration	354	304	50	8	-	-
Doubtful Debt Provision not deductible	579	461	118	67	-	-
Inventories	119	112	7	(11)	-	-
Agent leaving indemtiers	234	234	0	(29)	-	-
Exchange Rate adjustments	127	53	74	2	-	-
Provisions for risks and charges	272	136	136	136	-	-
Other	-	0	0	(9)	-	-
Tax Losses	-	0	0	(641)	-	-
Deferred deductible costs	102	325	(223)	(257)	-	-
ACE	3,266	3,275	(9)	1,009	-	-
Total deferred tax assets	**5,431**	**5,371**	**60**	**235**	**0**	**0**

The "ACE" account includes deferred tax assets calculated on the excess of the ACE which may be carried forward to subsequent years, for a total amount of Euro 475 thousand, in addition to the portion used in coverage of IRES taxable profit generated in 2017 (Euro 482 thousand).

The "Deferred deductible costs" related to deferred tax assets on costs for the listing incurred by the company Space S.p.A. in the years 2013 and 2014 and subject to deferred tax deduction and broken down into fifths.

"Tax Losses" of Euro 0 thousand include the reversal of deferred tax assets calculated on the part of the tax loss generated by F.I.L.A. S.p.A. in 2016 between the effective merger date and year-end (June 1, 2016 - December 31, 2016), following the usage of this prior year tax losses in coverage of IRES assessable taxes for 2016.

The deferred tax asset calculation was made by F.I.L.A. S.p.A., evaluating the projected future recovery of these assets based on updated strategic plans, together with the relative tax plans.

In accordance with the 2016 Stability Law, reducing the IRES rate from the current 27.5% to 24% from the tax period subsequent to December 31, 2016, the company, for the identifiable elements, applied the new rate for the calculation of deferred taxes.

Note 6 - Current Tax Assets

"Current Tax Assets" amount to Euro 2,930 thousand at December 31, 2017 (Euro 1,387 thousand at December 31, 2016). The change on December 31, 2016 principally concerns payments on account issued in June and November 2017 (Euro 2,036 thousand), offset by the IRAP tax charge calculated according to the existing legal provisions (Euro 509 thousand).

Note 7 - Inventories

Inventories at December 31, 2017 amount to Euro 28,124 thousand (Euro 29,453 thousand at December 31, 2016).

The breakdown of inventories is as follows:

Note 7.A - INVENTORIES

Euro thousands	Raw Materials, Ancillary and Consumables	Work-in-progress and Semi-finished Products	Finished Products and Goods	Total
December 31, 2016	4,055	3,650	21,748	29,453
December 31, 2017	3,825	3,517	20,782	28,124
Change	(230)	(133)	(966)	(1,329)

The values reported in the previous table are shown net of the provision for write down of inventory relating to raw materials, products in work-in-progress and finished products, amounting respectively at December 31, 2017 to Euro 47 thousand (Euro 78 thousand at December 31, 2016), Euro 90 thousand (Euro 25 thousand at December 31, 2016) and Euro 288 thousand (Euro 295 thousand at December 31, 2016), which refer to obsolete or slow moving materials for which it is not considered possible to recover through sales.

No inventory is provided as a guarantee on liabilities.

The changes in the provision for write down of inventory in the year were as follows:

Note 7.B- CHANGE IN PROVISION FOR WRITE-DOWN OF INVENTORY

Euro thousands	Raw Materials, Ancillary and Consumables	Work-in-progress and Semi-finished Products	Finished Products and Goods	Total
December 31, 2016	**78**	**25**	**295**	**398**
Provisions	0	120	0	120
Utilisations	(31)	(55)	(7)	(92)
December 31, 2017	**47**	**90**	**288**	**425**
Change	**(31)**	**65**	**(7)**	**27**

During 2017 the provision was utilised for disposals and product scrapping. The allocation in the year was made against obsolete materials and slow-moving inventories at December 31, 2017.

Note 8 – Trade and Other Assets

These totalled Euro 19,140 thousand and decreased on the previous year Euro 1,102 thousand.
The breakdown is illustrated below.

Note 8.A - TRADE AND OTHER RECEIVABLES

Euro thousands	December 31, 2017	December 31, 2016	Change
Trade Receivables	12,047	12,328	(281)
Tax Receivables	440	929	(489)
Other Receivables	438	505	(67)
Prepayments and Accrued Income	495	104	391
Third parties	**13,420**	**13,866**	**(445)**
Trade Receivables - Subsidiaries	5,720	6,376	(656)
Subsidiaries	**5,720**	**6,376**	**(656)**
Associates	**-**	**-**	**-**
Total	**19,140**	**20,242**	**(1,102)**

“Trade Assets - Subsidiaries” amount to Euro 5,720 thousand at December 31, 2017 (Euro 6,376 thousand at December 31, 2016). For further information, reference should be made to the “Directors’ Report - Transactions with Related Parties”.

The movement is related to business levels in the year.

The amounts of the previous table are shown net of the allowance for impairment.

At December 31, 2017, there were no trade receivables pledged as guarantees.

All of the above receivables are due within 12 months.

The breakdown by geographical region of trade receivables (by customers) are illustrated in the table below:

Note 8.B - TRADE RECEIVABLES THIRD PARTIES - REGIONAL BREAKDOWN

Euro thousands	December 31, 2017	December 31, 2016	Change
Europe	11,566	11,869	(303)
Asia	474	363	111
Rest of the World	7	96	(89)
Third parties	**12,047**	**12,328**	**(281)**

The changes in the allowance for impairment to cover difficult recovery positions are illustrated in the table below.

Note 8.C - CHANGES IN DOUBTFUL DEBT PROVISION

Euro thousands	Doubtful debt provision
December 31, 2016	**2,020**
Provisions	630
Utilisations	(137)
December 31, 2017	**2,513**
Change	**493**

"Tax Asset" includes V.A.T. and other local taxes other than income taxes.

Current tax asset amount to Euro 440 thousand at December 31, 2017 (Euro 929 thousand at December 31, 2016) and include the tax asset arising from the reimbursement request for IRES relating to IRAP on personnel expeses in previous years.

"Other Receivables" includes personnel and social security receivables and payments on account to suppliers. At December 31, 2017 the account amounts to Euro 438 thousand (Euro 505 thousand at December 31, 2016).

The carrying amount of "Other assets" represents the "fair value" at the reporting date.

All of the above receivables are due within 12 months.

Note 9 - Cash and Cash Equivalents

“Cash and Cash Equivalents” at December 31, 2017 amount to Euro 6,996 thousand (Euro 19,193 thousand at December 31, 2016).

The breakdown and comparison with the previous year is illustrated in the table below.

Note 9.A - CASH AND CASH EQUIVALENTS

Euro thousands	Bank and Post Office Deposits	Cash in hand and similar	Cheques	Total
December 31, 2016	**19,172**	**8**	**13**	**19,193**
December 31, 2017	**6,980**	**7**	**9**	**6,996**
Change	**(12,192)**	**(1)**	**(4)**	**(12,197)**

"Bank and Post Deposits" consist of temporary liquid funds as part of treasury management and concern the ordinary current accounts of F.I.L.A. S.p.A..

The carrying amount approximates the “fair value” at the reporting date.

Bank and post deposits are remunerated at rates which approximate the Euribor.

There are no bank and post deposits subject to restrictions.

For comments on cash flows in the year reference should be made to the statement of cash flows.

Note 10 - Net Financial Debt

The "Net Financial Debt" at December 31, 2017 was as follows:

	Euro thousands	December 31, 2017	December 31, 2016	Change
A	Cash	16	21	(5)
B	Other cash equivalents	6,980	19,172	(12,192)
C	Securities held-for-trading	-	-	-
D	**Cash and Cash Equivalents (A + B + C)**	**6,996**	**19,193**	**(12,197)**
E	**Current financial receivables**	**46,032**	**45,911**	**121**
F	Current bank loans and borrowings	(12,537)	(6)	(12,531)
G	Current portion of non-current debt	(18,000)	(23,268)	5,268
H	Other current financial loans and borrowings	(8,075)	(15,598)	7,523
I	**Current financial debt (F + G + H)**	**(38,612)**	**(38,872)**	**260**
J	**Net current financial debt (I + E+ D)**	**14,416**	**26,232**	**(11,816)**
K	Non-current bank loans and borrowings	(171,256)	(188,295)	17,039
L	Bonds issued	-	-	-
M	Other non-current loans and borrowings	-	-	-
N	**Non-current financial debt (K + L + M)**	**(171,256)**	**(188,295)**	**17,039**
O	**Net financial debt (J+N)**	**(156,840)**	**(162,063)**	**5,223**
P	**Loans issued to third parties**	**1,761**	**1,200**	**561**
Q	**Net financial debt (O + P) - F.I.L.A. Group**	**(155,078)**	**(160,863)**	**5,784**

Note:
1) The net financial debt calculated at point "O" complies with Consob Communication DEM/6064293 of July 28, 2006, which excludes non-current financial assets. Consolidated net financial position
2) At December 31, 2017 there were no transactions with related parties which impacted the net financial debt.

Compared to the net financial debt at December 31, 2016, a decrease of Euro 13,284 thousand is reported, excluding the extraordinary effect of Euro 7,500 thousand concerning the Earn-out to be recognised for the acquisition of the Canson Group, principally due to, as indicated in the Statement of Cash Flows:

- the generation of net cash flows from operating activities of Euro 6,941 thousand (generation of cash flows of Euro 12,299 thousand in 2016), thanks to operating income and strong "Net Working Capital" management;
- net investments in intangible assets and property, plant and equipment of Euro 2,820 thousand (Euro 3,596 thousand in 2016);
- the generation of cash from "Investing activities" related to the equity stake by the subsidiary Renoir Topco in 2017 for Euro 5,556 thousand;
- the absorption of cash from the distribution of dividends to shareholders of Euro 3,710 thousand;
- the generation of cash totalling Euro 10,389 thousand from dividends received from subsidiaries;

- the payment of financial expenses of Euro 3,038 thousand.

Reference should be made to the "Directors' Report - Financial Overview" for comments on the Net Financial Debt of F.I.L.A. S.p.A.

We report the absence of balances concerning related parties both for 2017 and 2016

Note 11 - Other Current Assets

"Other Current Assets" totalling Euro 0 thousand (Euro 117 thousand at December 31, 2016), relates to the receipt of the receivable from the subsidiary FILA Hellas S.A. (Greece) against dividends approved in 2016 and received in 2017.

Note 12 - Share Capital and Equity

Share capital

The share capital, fully-paid in, amounts to Euro 37,261,144.00 and comprises 41,332,477 shares:

- 34,765,969 ordinary shares, without nominal amount;
- 6,566,508 class B shares, without nominal amount, which attribute 3 votes exercisable at the ordinary and extraordinary Shareholders' Meeting of F.I.L.A. S.p.A.;

The breakdown of the share capital of F.I.L.A. S.p.A. is illustrated below.

	No. of Shares	% of Share Capital	Listing
Ordinary shares	34,765,969	*84.11%*	MTA - STAR Segment
Class B Shares (multiple votes)	6,566,508	*15.89%*	Unquoted Shares

The availability and distributability of equity is outlined in the following table:

Note 12.A ORIGIN, POSSIBILITY FOR UTILISATION AND DISTRIBUTION OF EQUITY						
					Summary of Utilisations in the Last 3 Years (2015-2017)	
Euro thousands	Equity Accounts	Balance at December 31, 2017	Possibility of Utilisation	Available Portion	to cover losses	from other reasons
	Share capital	**37,261**		-	-	-
	Capital Reserves:					
	Legal Reserve	7,434	B	7,434	-	-
	Share Premium Reserve	65,348	A, B, C	50,296	(41,599)	(7,434)
	IAS 19 Reserve	(352)		-	-	-
Current Financial Asset	Other Reserves	26,003	A, B, C	26,003	-	(3,711)
	Retained Earnings	25,655	A, B, C	25,655	-	(3,711)
Total		**161,349**		**109,388**	**(41,599)**	**(14,856)**

The “Available Portion” presents the distributable equity reserves and the related restrictions, including the restriction on the distribution of the share premium reserve related to the revaluation of the investment held in the company Writefine Products PVT Ltd (Euro 15,052 thousand), in accordance with Article 6, paragraph 1, letter a) of Legislative Decree No. 38 of February 28, 2016, following the purchase of the controlling investment and recorded under financial income in 2016.

In relation to utilisations, in addition, we report the presence in the “Other Reserves” of reserves taxable on distribution for Euro 3,885 thousand at December 31, 2017 not released.

Share Premium Reserve

The account at December 31, 2017 amounts to Euro 65,348 thousand (Euro 65,348 thousand at December 31, 2016) and did not report any movement.

Other Reserves

The account at December 31, 2017 amounts to Euro 26,003 thousand (Euro 22,832 thousand at December 31, 2016), increasing Euro 3,171 thousand.

The increase relates to the following events:

- the accounting treatment of the extraordinary bonus regarding the ordinary shares of F.I.L.A. S.p.A., in addition to the “*2017-2019 Performance Shares Plan”* concerning ordinary F.I.L.A. S.p.A. shares reserved for Group executives and managers for a total of Euro 2,310 thousand;
- the allocation of part of the same reserve for the accounting treatment related to derivative hedges for Euro 591 thousand (“cash flow hedges”). For further information, reference should be made to “Note 3 - Financial Assets”;

- the recognition of the currency effect on the reduction of the investment in Renoir Topco Ltd (United Kingdom) for Euro 270 thousand.

IAS 19 Reserve

The account at December 31, 2017 amounts to Euro 352 thousand (Euro 311 thousand at December 31, 2016) and reports a decrease in the year of Euro 56 thousand as well as an increase of Euro 15 thousand relating to deferred tax liabilities recognised directly to equity.

Retained Earnings/(losses carried farward)

This amounts to Euro 25,655 thousand at December 31, 2017 (losses carried farward for Euro 17,940 thousand at December 31, 2016). The movement of Euro 7,715 thousand relates to the application of the Shareholders' Meeting Resolution of April 27, 2017 concerning the allocation of the 2016 net profit of Euro 11,426 thousand to "Retained Earnings" for Euro 7,715 thousand net of dividend distributed of Euro 3,711 thousand.

Dividends

In 2017, F.I.L.A. S.p.A. distributed to shareholders of the company dividends totalling Euro 3,711 thousand.

F.I.L.A. S.p.A. received in 2017 approx. Euro 10 million from subsidiary companies.
Over the last three years and in its forecasts, the F.I.L.A. Group coordinates its dividend policy in line with the financial needs of non-recurring acquisitions.

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The Board of Directors of F.I.L.A. S.p.A. have proposed:

1. to allocate the profit for the year to "Retained Earnings" for Euro 3,213,206.92;
2. to distribute the residual "Profit for the year" of Euro 3,719,923 as dividend and, therefore, to distribute a dividend of Euro 0.09 for each of the 41,332,477 ordinary shares currently outstanding, while it should be noted that in the case where the total number of shares of the Company currently outstanding should increase, the total amount of dividend will remain unchanged and the unitary amount will be automatically adjusted to the new number of shares; the dividend will be issued with coupon, record and payment dates of May 21, 22 and 23, 2018 respectively.

Note 13 - Financial Liabilities

The balance at December 31, 2017 was Euro 209,868 thousand compared to Euro 227,167 thousand at December 31, 2016.

The account includes both the current portion of loans issued by other lenders and bank overdrafts concerning ordinary operations.
The breakdown at December 31, 2017 is illustrated below.

Note 13.A - FINANCIAL LIABILITIES

	Banks		Other Lenders: Third Parties		Bank Overdrafts		Total
Euro thousands	Principal	Interest	Principal	Interest	Principal	Interest	
December 31, 2016	**216,361**	**(4,798)**	**15,598**	**-**	**-**	**6**	**227,167**
non-current portion	193,161	(4,866)	-	-	-	-	188,295
current portion	23,200	68	15,598	-	-	6	38,872
December 31, 2017	**192,656**	**(3,400)**	**8,075**	**-**	**12,428**	**109**	**209,868**
non-current portion	174,656	(3,400)	-	-	-	-	171,256
current portion	18,000	-	8,075	-	12,428	109	38,612
Change	**(23,705)**	**1,398**	**(7,523)**	**-**	**12,428**	**103**	**(17,299)**
non-current portion	(18,505)	1,466	-	-	-	-	(17,039)
current portion	(5,200)	(68)	(7,523)	-	12,428	103	(260)

On February 2, 2016, F.I.L.A. S.p.A. signed a loan contract (hereafter the “Facility Agreement”) issued by a banking syndicate comprising UniCredit S.p.A. as “Global Coordinator”, Intesa Sanpaolo S.p.A., Mediobanca Banca di Credito Finanziario S.p.A. and Banca Nazionale del Lavoro as “Mandated Lead Arranger” and UniCredit Bank AG as “Security Agent”, for a total of Euro 109,357 thousand against a total underwritten amount of Euro 130,000 thousand (hereafter “Facility A1”).
The loan disbursed was for the acquisition of the Daler-Rowney Lukas Group on February 3, 2016.
We report the extension of the loan in May 2016 for a total nominal amount of Euro 236,900 thousand, following the acquisition of the Canson Group (hereafter “Facility A2” and “Facility B”), including Euro 20,000 thousand of the Revolving Original Facility.

“Bank Loans and borrowings – non-current portion” for a total amount of Euro 174,656 thousand includes:

- the non-current portion of Facility A1 for Euro 76,550 thousand (amortising line);
- the non-current portion of Facility A2 for Euro 7,876 thousand (amortising line);
- the non-current portion of Facility B for Euro 88,750 thousand (bullet line);

- the fair value of the negotiation charges related to the derivative financial instruments of Euro 1,480 thousand underwritten in 2017 (details reported below).

"Bank Loans and borrowings – current portion" for a total amount of Euro 18,000 thousand includes:

- the current portion of Facility A1 for Euro 16,404 thousand (amortising line);
- the current portion of Facility A2 for Euro 1,596 thousand (amortising line);

We indicate the repayment of the current portion of the additional credit line (hereafter "Revolving Original Facility") for Euro 10,000 thousand in December 2017.

The loan stipulates a Euribor at 3 months interest rate, plus a spread of 1.50% on Facility A and on the Revolving Original Facility, in addition to a spread of 2% on Facility B, with quarterly calculation of interest. The spread applied will be subject to changes based on compliance with the covenants established for the loan.

The following is reported with regards to the loan repayment plan:

Note 13.B - BANK LOANS AND BORROWINGS INTEREST RATE AND MATURITY

Euro thousands	Interest Rate	Maturity	December 31, 2017	December 31, 2016
Non-current liabilities: bank borrowings				
Facility A	Euribor 3 month + spread	February 2021	84,426	102,426
Facility B	Euribor 3 month + spread	February 2022	88,750	88,750
Total non-current financial liabilities			**173,176**	**191,176**
Current liabilities: bank borrowings				
Facility A	Euribor 3 month + spread	September 2018	18,000	13,200
Revolving Original Facility	Euribor 3 month + spread	Decembere 2017	0	10,000
Total current financial liabilities			**18,000**	**23,200**
Total current financial liabilities			**191,176**	**214,376**

The repayment plan establishes for settlement by February 2, 2022 ("Termination Date") through half-yearly principal instalments to be repaid from March 31, 2018. The instalments maturing in March and September 2017 were repaid for a total amount of Euro 13,200 thousand regarding *Facility A1*.

The repayment plan by maturity is outlined below:

Note 13.C - BANK LOANS AND BORROWINGS: LOAN REPAYMENT PLAN		
Euro thousands	**Facility**	**Principal**
March 31, 2018	Facility A	8,400
September 30, 2018	Facility A	9,600
Total current financial liabilities		**18,000**
March 31, 2019	Facility A	13,200
September 30, 2019	Facility A	15,600
March 31, 2020	Facility A	18,000
September 30, 2020	Facility A	18,000
March 31, 2021	Facility A	19,626
February 2, 2022	Facility B	88,750
Total non-current financial liabilities		**173,176**

F.I.L.A. S.p.A., exposed to future cash flow fluctuations in relation to the interest rate indexing mechanism under the loan agreed (hereafter "hedged instrument"), considered a hedge based on the payment of a fixed rate against the variable rate necessary (base parameter of the loan contract) to stabilise future cash flows.

The derivative instruments, qualifying as hedges and represented by Interest Rate Swaps, present characteristics in line with those of the hedged instrument, such as the same maturity and the same repayment plan broken down into quarterly instalments with interest in arrears, in addition to a variable interest rate indexed to the Euribor at 3 months. Derivative financial instruments, in the form of 8 Interest Rate Swaps, were signed with the same banks issuing the loan, concerning a total 32 contracts.

The amount stated in "Financial Liabilities – Banks loans and borrowings - non-current portion" of Euro 1,479 thousand includes the fair value of negotiation charges, expressed in terms of the discounted future cash flows at December 31, 2017, applied on "inception" by the banks, related to the elimination of the floor to zero on the hedged instrument.

The accounting treatment adopted for hedges, based on IAS 39, centres on hedge accounting and in particular that concerning "cash flow hedges" and involving the recognition of a financial asset or liability and an equity reserve with reference to pure cash flows (fixed and variable rate) which establishes the efficacy of the hedge (reference should be made to "Note 3 - Financial Assets" and "Note 12 - Share Capital and Equity"), while the negotiating charges incurred against the contractual amendment to the hedged instrument (elimination of the floor at zero) were subject to amortised cost and bank financial liabilities, with subsequent reversal to the income statement for the amount accrued each year until conclusion of the contract.

We breakdown below by bank the notionals subject to hedging under derivative instruments, of the relative fair values, in addition to the relative contractual conditions:

NOTE 17.A FINANCIAL INSTRUMENTS

Euro						Intesa Sanpaolo S.p.A.		Banca Nazionale del Lavoro S.p.A.		Mediobanca Banca di Credito Finanziario S.p.A.		UniCredit S.p.A.			
IRS	Date agreed	Loan	% Hedge	Fixed Rate	Variable Rate	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional
IRS 1	09/06/2016	Facility A1	50%	0.06%	-0.329%	(47,333)	11,623,750	(28,384)	6,974,250	(57,127)	13,948,500	(56,742)	13,948,500	(189,586)	46,495,000
IRS 2	08/07/2016	Facility A1	50%	-0.08%	-0.329%	(14,425)	11,623,750	(8,649)	6,974,250	(17,637)	13,948,500	(17,272)	13,948,500	(57,983)	46,495,000
IRS 3	03/11/2016	FacilityTLA2	50%	-0.035%	-0.329%	(2,443)	1,184,047	(1,466)	710,428	(2,968)	1,420,856	(2,930)	1,420,856	(9,807)	4,736,187
IRS 4	28/10/2016	FacilityTLA2	50%	0.056%	-0.329%	(4,676)	1,184,047	(2,806)	710,428	(5,648)	1,420,856	(5,609)	1,420,856	(18,739)	4,736,187
IRS 5	03/11/2016	FacilityTLB1a_B1b	50%	0.10%	-0.329%	4,094	10,237,500	1,300	6,142,500	3,953	12,285,000	3,440	12,285,000	12,787	40,950,000
IRS 7	28/10/2016	FacilityTLB1a_B1b	50%	0.196%	-0.329%	(36,863)	10,237,500	(23,246)	6,142,500	(45,199)	12,285,000	(45,655)	12,285,000	(150,963)	40,950,000
IRS 6	03/11/2016	FacilityTLB2A	50%	0.10%	-0.329%	342	856,250	109	513,750	331	1,027,500	288	1,027,500	1,070	3,425,000
IRS 8	28/10/2016	FacilityTLB2A	50%	0.196%	-0.329%	(3,083)	856,250	(1,944)	513,750	(3,780)	1,027,500	(3,819)	1,027,500	(12,626)	3,425,000
Total						**(104,387)**	**47,803,094**	**(65,086)**	**28,681,856**	**(128,075)**	**57,363,712**	**(128,299)**	**57,363,712**	**(425,847)**	**191,212,374**

Financial liabilities are initially recognised at Fair Value, including directly attributable transaction costs. The initial carrying amount is subsequently adjusted to account for redemptions in principal and interest calculated under the effective interest rate method represented by the rate equal to, at the moment of initial recognition, the present value of expected cash flows and the initial carrying amount (amortised cost method) and the interest paid. The effect at December 31, 2017 of the amortised cost method was Euro 960 thousand of interest.

"Financial liabilities - Other Lenders" includes the payables of F.I.L.A. S.p.A. to factoring companies for advances on transfer of receivables (Ifitalia), in addition to financial liabilities related to the price adjustment on conclusion of the acquisition of the Canson Group (for further details, reference should be made to the "Directors' Report").

The balance at December 31, 2017 of payables to other lenders was Euro 8,075 thousand (Euro 15,598 thousand at December 31, 2016).

Details on the timing of cash flows and "Other Lenders" at December 31, 2017 concerning F.I.L.A. S.p.A. are illustrated in the following table:

Note 13.D - LOANS AND BORROWINGS FROM OTHER LENDERS

Description	General information								Loan Repayment plan	Guarantees Granted
	Amount		Total	Year	Curr.	Country	Interest		Current Financial Liabilities	
Euro thousands	Principal	Interest					Variable	Spread	2018	
Ifitalia S.p.A.	575	-	575	2017	EUR	Italy	0.75%	-	575	None
Financial liability acquisition Canson Group (Price Adjustment)	7,500	-	7,500	2017	EUR	Italy	0.00%	-	7,500	None
Total	**8,075**	**-**	**8,075**						**8,075**	

“Bank Overdrafts” at December 31, 2017 amounted to Euro 12,428 thousand corresponding to the principal portion.

Note 13.E - BANK OVERDRAFTS

Description	General information								Loan Repayments	Guarantees Granted
	Amount		Total	Year	Curr.	Country	Interest		Cur. Fin. Liabilities	
Euro thousands	Principal	Interest					Variable	Spread	2018	
Banking Institutions	12,428	109	12,537	2017	EUR	Italy	0.80%	Included in Variable Interest rate	12,537	None
Total amount	**12,428**	**109**	**12,537**						**12,537**	

Reference should be made to “Note 10 - Net Financial Debt” and the “Directors’ Report – Key Financial Highlights of the F.I.L.A. Group – Financial Debt” in relation to the net financial debt at December 31, 2017.

As per IFRS 7, the accounting treatment by class of financial liabilities at December 31, 2017 was as follows:

		December 31, 2017	Bank Loan and Receivables	Asset available for sales	Asset Measured at Equity	Asset and liabilities measurement at FV booked in OCI	Amortized Cost	Fair Value
Non-Current liabilities								
Non-Current financial liabilities	Nota 13	**(171,256)**					(171,256)	**(171,256)**
Current liabilities								
Current financial liabilities	Nota 13	**(38,612)**					(38,612)	**(38,612)**
Trade paybles and other paybles	Nota 19	**(23,865)**					(23,865)	**(23,865)**

		December 31, 2017	Bank Loan and Receivables	Asset available for sales	Asset Measured at Equity	Asset and liabilities measurement at FV booked in OCI	Amortized Cost	Fair Value
Non-Current liabilities								
Non-Current financial liabilities	Nota 13	**(188,295)**					(188,295)	**(188,295)**
Current liabilities								
Current financial liabilities	Nota 13	**(38,872)**					(38,872)	**(38,872)**
Trade paybles and other paybles	Nota 19	**(24,735)**					(24,735)	**(24,735)**

Pursuant to the latest amendments made to IAS 7, the following spreadsheet shows the changes in liabilities (and any related activities) recorded in the statement of financial position, whose cash flows are or will be reflected in the cash flow statement as cash flows in the future financing activities.

Euro Thousand	Bank loans	Other Loans	Bank Overdrafts	Hedging Derivates Assets	Total
	Note 13	*Note 13*	*Note 13*	*Note 13*	
December 31. 2016	**(211,563)**	**(15,598)**	**(6)**	**462**	**(226,706)**
Cash Flows	**23,268**	**7,523**	**(12,530)**	**-**	**18,260**
Other Variations:					
Traslation differences	-	-	-	-	-
Fair value variations	(960)	-	-	591	(369)
Consolidation scope variation effects	-	-	-	-	-
December 31. 2017	**(189,256)**	**(8,075)**	**(12,537)**	**1,053**	**(208,815)**

Note 14 - Employee Benefits

The benefits recognised to employees of F.I.L.A. S.p.A. concern salary based Post-Employment Benefits, governed by Italian legislation and in particular Article 2120 of the Italian Civil Code. The amount of these benefits is in line with the contractually-established compensation agreed between the parties on hiring.

The Post-Employment Benefits matured at December 31, 2006 are considered a defined benefit plan as per IAS 19. The benefits guaranteed to employees, under the form of the Post-Employment Benefits, paid on the termination of employment, are recognised in the period the right vests. The relative liability is based on actuarial assumptions and the effective payable accrued and not settled at the reporting date. The discounting process, based on demographic and financial assumptions, is undertaken applying the “Projected Unit Credit Method” by professional actuaries.

The Post-Employment Benefits accrued since January 1, 2007 are considered a defined contribution plan and therefore contributions accrued in the period were fully recognised as a cost and recorded as a payable in the account “Other Current Liabilities”, after the deduction of any contributions already paid.

The amounts at December 31, 2017 were as follows:

Note 14.A - POST-EMPLOYMENT BENEFITS	
Euro thousands	
December 31, 2016	**1,755**
Disbursements	(616)
Financial Expense	22
Pension Cost for Service	612
IAS 19 Reserve	6
December 31, 2017	**1,779**
Change	**24**

The "Actuarial Loss" recorded in 2017 amounts to Euro 6 thousand. The actuarial changes in the year, net of the tax effect, are recognised directly to equity.

The tables below report that required under IFRS with regards to "Employee Benefits".

DEFINED BENEFIT PLANS

1. Obligations for Employee Benefits	December 31, 2017	December 31, 2016
Present Value of Obligations Not Covered by Plan Assets	1,779	1,755
Total	**1,779**	**1,755**

There are no financial assets at December 31, 2017 invested by F.I.L.A. S.p.A. to cover financial liabilities relating to Post-Employment Benefits.

The table below highlights the net cost recognised to the profit or loss in 2017 and 2016:

2. Cost Recognised in Profit and Loss	December 31, 2017	December 31, 2016
Pension Cost for Service	(612)	(548)
Financial Expense	(22)	(38)
Cost Recognised in Profit and Loss	**(634)**	**(622)**

The obligations deriving from the above-mentioned plans are calculated based on the following actuarial assumptions:

3. Main Actuarial Assumptions at Reporting Date (average values)	December 31, 2017	December 31, 2016
Annual Technical Discounting Rate	1.3%	1.3%
Increase in Cost of Living index	1.5%	1.5%
Future Increase in Pensions	2.6%	2.6%

For comparative purposes we illustrate the actuarial assumptions applied in 2017.

Details on the timing of cash flows relating to post-employment benefits at December 31, 2017 are illustrated in the following table:

Note 14.B - POST-EMPLOYMENT BENEFITS: TIMING OF CASH FLOWS

Nature *Euro thousands*	Amount	Timing of cash flows 2018	2019	2020	2021	Beyond 2021
Post-Employment Benefits	1,779	80	100	80	100	1,419
Total	**1,779**					

Note 15 - Provision for Risks and Charges

The "Provision for Risks and Charges" amounts to Euro 1,895 thousand and increased Euro 661 thousand on the previous year.

Note 15.A - PROVISION FOR RISKS AND CHARGES

Euro thousands		Risks Provisions for Legal Disputes	Provisions for Pensions and Similar Obligations	Other Provisions	Total
Balance at December 31, 2016		**39**	**572**	**623**	**1,234**
	non-current portion	-	572	586	1,158
	current portion	39	0	37	76
Balance at December 31, 2017		**39**	**655**	**1,201**	**1,895**
	non-current portion	-	655	1,164	1,819
	Current Financial Asset	39	-	37	76
Change		**0**	**83**	**578**	**661**
	non-current portion	-	83	578	661
	current portion	-	-	-	-

The change in the account "Provision for Risks and Charges" at December 31, 2017 was as follows:

Note 15.B - PROVISION FOR RISKS AND CHARGES

Euro thousands	Risks Provisions for Tax Disputes	Provisions for Pensions and Similar Obligations	Other Provisions	Total
December 31, 2016	**39**	**572**	**623**	**1,234**
Provisions Accrued	-	33	578	611
Discounting	-	50	-	50
December 31, 2017	**39**	**655**	**1,201**	**1,895**
Change	**-**	**83**	**578**	**661**

The relative “Provisions for Risk and Charges” are classified, by nature, in the related profit or loss account.

Provisions for Tax Disputes

This provision represents the best estimate by management supported by tax consultants of liabilities, principally concerning a tax assessment by the tax authorities concerning year 2004 and relating, in particular, to direct and indirect taxes.

Provisions for Pensions and Similar Obligations

The provision for pensions and similar obligations concerns the agents’ leaving indemnity. The “Actuarial Loss” in 2017 amounts to Euro 50 thousand. The actuarial changes in the year, net of the tax effect, are recognised directly in equity.

Other Provisions

This provision was established, taking account of the information available and the best estimate made by management, for Euro 1,201 thousand mainly against liabilities deriving from the medium/long-term variable remuneration plan for the Chief Executive Officer and Executive Director of the company. The plan, approved by the Remuneration Committee and ratified by the Board of Directors, is indexed to quantitative and qualitative parameters. As this is a medium/long-term provision, the expected future cash flows are discounted at a rate of 9.935%.

Details on the timing of cash flows relating to the provisions for risks and charges at December 31, 2017 are illustrated in the following table:

Note 15.C - PROVISIONS FOR RISKS AND CHARGES: TIMING OF CASH FLOWS

Nature *Euro thousands*	Amount	Actuarial Value Year 2017	Discount Rate Applied for Actuarial Value	Timing of cash flows		
				2018	2019	2020
Provisions for Tax Disputes						
Assessment Year 2004	39	-	-	39	-	-
Provisions for Agents						
Agents’ Supplementary Indemnity Provision	655	655	1.30%	175	0	480
Other Provisions						
Other Provisions for Risks and Charges	1,201	1,131	9.94%	37	-	1,164
Current Financial Asset	**1,895**	**1,786**		**251**	**0**	**1,644**

Note 16 - Deferred tax liabilities

The account amounts to Euro 1,105 thousand (Euro 1,464 thousand at December 31, 2016).

Note 16.A CHANGES IN DEFERRED TAX LIABILITIES

Euro thousands	
December 31, 2016	**1,464**
Provisions	4
Utilisations	(348)
Change in Equity	(15)
December 31, 2017	**1,105**
Change	**(359)**

The nature of the deferred tax liabilities and the relative effects on the Statement of Financial Position, profit or loss and Equity are illustrated in the table below.

NOTE 16.B - BREAKDOWN OF DEFERRED TAX LIABILITIES

	Statement of Financial Position		Income Statement		Equity	
Euro thousands	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Deferred tax liabilities relating to:						
Intangible Assets	(8)	(8)	-	-	-	-
Property, Plant and Equipment	1,243	1,336	(93)	(93)	-	-
Personnel - IAS 19	16	31	-	-	(15)	(35)
Dividends	289	285	4	285	0	0
Other	(435)	(180)	(255)	(89)	-	-
Total deferred tax liabilities	**1,105**	**1,464**	**(343)**	**103**	**(15)**	**(35)**

In 2017, charges on deferred tax liabilities were recorded directly through Profit or Loss for Euro 343 thousand and in Equity for Euro 15 thousand (positive change). The deferred tax liabilities recorded directly in Equity relate to “Actuarial Gains/Losses” on the Post-Employment Benefits.

“Deferred Tax Liabilities” on “Property, Plant and Equipment” mainly relate to the application of IAS 17 (Leases) to the production plant at Rufina Scopeti (Florence); the temporary differences refer to the difference between the lease payments and deducted until the redemption date and the carrying amount of the assets.

Deferred tax liabilities were recognised on expected dividends to be received in 2017-2019 three-year period under the approved industrial plan.

In accordance with the 2016 Stability Law, reducing the IRES rate from the current 27.5% to 24% from the tax period subsequent to December 31, 2016, the company, for the identifiable elements, applied the new rate for the calculation of deferred taxes.

Nota 18 - Current Tax Liabilities

The account totalled Euro 1,805 thousand at December 31, 2017 (Euro 1,567 thousand at December 31, 2016) and includes the tax charge of Article 167 of Presidential Decree 917/1986 concerning "Controlled Foreign Companies".

An analysis was conducted on the foreign subsidiaries in order to establish whether concerning parties qualifying as "Controlled Foreign Companies" For companies for which these requirements were considered met, the national tax charge borne by FILA S.p.A. was calculated in relation to income earned abroad (Euro 42 thousand).

In addition, we report the tax charge against the German tax representation of the subsidiary Lyra KG (Germany - Euro 196 thousand).

Note 19 - Trade and Other Liabilities

The breakdown of "Trade and Other Liabilities" of F.I.L.A. S.p.A.is reported below:

Note 19.A - TRADE AND OTHER PAYABLES

Euro thousands	December 31, 2017	December 31, 2016	Change
Trade Payables	16,708	19,411	(2,704)
Tax Payables	743	370	373
Other Payables	3,429	3,407	22
Accrued Liabilities & Def.Income	0	84	(84)
Third parties	20,880	23,272	(2,393)
Trade payables - Subsidiaries	2,773	1,406	1,366
Other Payables - Subsidiaries	0	57	(57)
Accrued Income and Prepayment	212	0	(212)
Subsidiaries	2,985	1,463	1,097
Total	**23,865**	**24,735**	**(1,296)**

"Trade and Other Liabilities" at December 31, 2017 amount to Euro 23,865 thousand (Euro 24,735 thousand at December 31, 2016).

The movement is related to business levels in the year.

The breakdown of trade payables by geographical segment is reported below:

Note 19.B - TRADE PAYABLES THIRD PARTIES - GEOGRAPHICAL SEGMENT BREAKDOWN

Euro thousands	December 31, 2017	December 31, 2016	Change
Europe	14,546	18,792	(4,246)
North America	40	39	1
Central/South America	188	12	176
Asia	1,934	565	1,369
Rest of the World	0	3	(3)
Total	**16,708**	**19,411**	**(2,703)**

The carrying amount of trade payables at the reporting date approximates their "fair value".

The trade payables reported above are due within 12 months.

Trade payables from subsidiaries at December 31, 2017 amount to Euro 2,985 thousand (Euro 1,463 thousand at December 31, 2016).

The movement is related to business levels in the year.

"Tax Liabilities" to third parties includes taxes other than income tax. Other tax payables refer to withholding taxes of self-emplyed work.

Current tax liabilities amount to Euro 743 thousand at December 31, 2017 (Euro 370 thousand at December 31, 2016).

"Other Payables" amount to Euro 3,429 thousand at December 31, 2017 (Euro 3,407 thousand at December 31, 2016).

- social security contributions to be paid amount to Euro 630 thousand (Euro 465 thousand at December 31, 2016);
- employee payables for additional remuneration amounts to Euro 1,228 thousand (Euro 1,234 thousand at December 31, 2016);
- Payables for short-term variable compensation of the Chief Executive Officer and the Executive Director (Euro 1,170 thousand) related to the achievement of the targets setby board's resolutions.

The carrying amount of "Other Payables" and "Tax Liabilities" at the reporting date approximate their fair value.

Note 20 – Core Business Revenue

Core business revenue in 2017 amounted to Euro 83,905 thousand (Euro 85,272 thousand in 2016).

Revenue was broken down as follows:

Note 20.A - CORE BUSINESS REVENUE

Euro thousands	December 31, 2017	December 31, 2016	Change
Revenue from Sales and Service	90,246	91,565	(1,319)
Adjustments on Sales	(6,341)	(6,293)	(48)
Returns on Sales	(913)	(746)	(167)
Discounts, Allowances and Premiums	(5,428)	(5,547)	119
Total	**83,905**	**85,272**	**(1,367)**

The breakdown of revenue by geographical segment is reported in the following table:

Note 20.B - CORE BUSINESS REVENUE BY GEOGRAPHICAL SEGMENT

Euro thousands	December 31, 2017	December 31, 2016	Change
Europe	78,480	80,167	(1,687)
North America	728	378	350
Central/South America	2,160	1,586	574
Rest of the World	2,537	3,141	(604)
Total	**83,905**	**85,272**	**(1,367)**

Note 21 – Other Revenue and Income

The account other income relates to ordinary operations and does not include the sale of goods or the provision of services.

"Other Revenue and Income" in 2017 amounted to Euro 3,175 thousand (Euro 2,569 thousand in 2016).

Note 21 – OTHER REVENUE AND INCOME

Euro thousands	December 31, 2017	December 31, 2016	Change
Gains on Sale of Property, Plant and Equipment	4	18	(14)
Unrealised Exchange Rate Gains on Commercial Transactions	4	96	(92)
Realised Exchange Rate Gains on Commercial Transactions	77	158	(81)
Other Revenue and Income	3,090	2,297	793
Total	**3,175**	**2,569**	**606**

“Other Revenue and Income” (Euro 3,090 thousand) mainly includes:

- recharges for services and consultancy provided by F.I.L.A. S.p.A. in favour of Canson SAS (France - Euro 346 thousand), Canson Italy S.r.l. (Italy - Euro 276 thousand), Dixon Ticonderoga Company (U.S.A. - Euro 265 thousand), Qingdao Canson Paper Products Co., Ltd (China – Euro 136 thousand), Daler Rowney Ltd (United Kingdom – Euro 107 thousand), Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico - Euro 99 thousand), Industria Maimeri S.p.A. (Italy – Euro 75 thousand), Fila Dixon Stationery (Kunshan) Co, Ltd. (China - Euro 64 thousand), Lyra KG (Germany - Euro 56 thousand), Omyacolor S.A. (France - Euro 51 thousand), DOMS Industries Pvt Ltd (India –Euro 50 thousand), Canson Inc. (U.S.A. – Euro 42 thousand), Canson Australia PTY Ltd. (Australia – Euro 37 thousand) and F.I.L.A. Hispania S.L. (Spain - Euro 32 thousand);
- recharges for costs incurred by F.I.L.A. S.p.A. against Group insurance coverage principally related to the companies Canson SAS (France – Euro 130 thousand), Daler Rowney Ltd. (United Kingdom – Euro 75 thousand), Omyacolor S.A. (France - Euro 62 thousand), Lyra KG (Germany - Euro 41 thousand) and F.I.L.A. Hispania S.L. (Spain - Euro 10 thousand);
- recharges of costs incurred by F.I.L.A. S.p.A. related to the ERP roll out at the FILA Group, principally related to Canson Inc. (U.S.A. - Euro 43 thousand), Dixon Ticonderoga Company (U.S.A. – Euro 41 thousand), Qingdao Canson Paper Products Co., Ltd (China – Euro 41 thousand), Lyra KG (Germany - Euro 19 thousand), Canson Australia PTY Ltd. (Australia – Euro 18 thousand), Industria Maimeri S.p.A. (Italy – Euro 17 thousand), F.I.L.A. Iberia S.L. (Spain – Euro 14 thousand) and Omyacolor S.A. (France – Euro 14 thousand);
- recharges of costs to subsidiaries for sureties granted in favour of FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey - Euro 13 thousand) and Canson Brasil I.P.E. LTDA (Brazil - Euro 5 thousand) by F.I.L.A. S.p.A., in guarantee of credit lines taken out with Banca Nazionale del Lavoro S.p.A. and in favour of FILA Stationary O.O.O. (Russia - Euro 13 thousand) in guarantee of the credit lines taken out with Banca Intesa Sanpaolo.

Note 22 - Costs for Raw Materials, Ancillary, Consumables and Goods

The account includes all purchases of raw materials, semi-processed products, transport for purchases, goods and consumables for core operating activities.

The breakdown is provided below:

Note 22 - COSTS FOR RAW MATERIALS, ANCILLARY, CONSUMABLES AND GOODS

Euro thousands	December 31, 2017	December 31, 2016	Change
Raw materials, Ancillary, Consumables and Goods	(34,818)	(34,064)	(754)
Shipping Expenses on Purchases	(1,602)	(1,652)	50
Packaging	(269)	(285)	16
Other Accessory Charges on Purchases	(2,500)	(2,867)	367
Total	**(39,188)**	**(38,868)**	**(320)**

"Cost for Raw Materials, Ancillaries, Consumables and Goods" includes purchases for production and the provision of adequate inventory for future sales.

"Other Accessory Charges and Other Raw Material, Consumable and Goods Purchases" include all accessory charges, such as outsourcing and consortium fees.

"Raw Materials, Semi-Finished, Work in Progress and Goods" at December 31, 2017 decreased Euro 1,329 thousand (increase of Euro 745 thousand at December 31, 2016), due to:

- decrease in "Raw Materials, Ancillary, Consumables and Goods" for Euro 231 thousand;
- decrease in "Work in Progress and Semi-Finished products" of Euro 12 thousand;
- decrease in "Finished Products" of Euro 1,086 thousand.

Note 23 - Service Costs and Rent, Leases and Similar Costs

"Service Costs and Rent, Leases and Similar Costs" amounted in 2017 to Euro 23,042 thousand (Euro 25,621 thousand in 2016).

Services costs are broken down as follows:

Note 23 - SERVICE COSTS AND RENT, LEASES AND SIMILAR COSTS

Euro thousands	December 31, 2017	December 31, 2016	Change
Sundry services	(3,950)	(4,189)	239
Transport	(3,936)	(3,988)	52
Maintenance	(364)	(384)	20
Utilities	(1,016)	(1,033)	17
Consulting	(3,052)	(5,140)	2,088
Directors and Statutory Auditors Fees	(3,478)	(3,507)	29
Advertising, Promotions, Shows and Fair	(1,228)	(1,593)	365
Cleaning	(83)	(86)	3
Bank Charges	(369)	(292)	(77)
Agents	(2,148)	(2,209)	61
Sales representatives	(649)	(704)	55
Sales Commissions	(823)	(770)	(53)
Insurance	(552)	(331)	(221)
Other Service Costs	(249)	(259)	10
Hire Charges	(433)	(391)	(42)
Rental	(252)	(220)	(32)
Operating Leases	(84)	(80)	(4)
Royalties and Patents	(376)	(445)	69
Total	**(23,042)**	**(25,621)**	**2,579**

The decrease in "Service Costs and Rent, Leasing and Similar Costs" principally concerns the significant reduction in consultancy costs incurred compared to 2016, in which the acquisitions concerning the Daler Group and the Canson Group were concluded.

"Operating Leases" amount to Euro 84 thousand, concerning operating leases undertaken by F.I.L.A. S.p.A. for company cars. Operating lease instalments to be paid in the following year amount to Euro 148 thousand and those to be paid within the next 5 years amount to Euro 226 thousand.

Note 24 – Other Costs

"Other Costs" in 2017 totalled Euro 740 thousand (Euro 614 thousand in 2016).

Note 24 – OTHER COSTS

Euro thousands	December 31, 2017	December 31, 2016	Change
Unrealised Exchange Losses on Commercial Transactions	(225)	(2)	(223)
Realised Exchange Losses on Commercial Transactions	(282)	(382)	100
Other Operating rate Charges	(233)	(230)	(3)
Total	**(740)**	**(614)**	**(126)**

"Other Operating Charges" include residual costs such as municipal property tax (IMU - Euro 76 thousand).

Note 25 – Personnel Expenses

"Personnel Expenses" include all costs and expenses incurred for employees.
These costs are broken down as follows:

Note 25.A - PERSONNEL EXPENSES

Euro thousands	December 31, 2017	December 31, 2016	Change
Wages and Salaries	(8,596)	(8,406)	(190)
Social Security Charges	(2,739)	(2,732)	(7)
Last - employment benefits	(612)	(584)	(28)
Other Personnel Expenses	(1,978)	(284)	(1,694)
Total	**(13,925)**	**(12,006)**	**(1,919)**

For comparative purposes, we indicate the recognition to "Other Personnel Costs" of costs related to the extraordinary bonus concerning ordinary F.I.L.A. S.p.A. shares and the "*2017-2019 Performance Shares Plan*" concerning ordinary F.I.L.A. S.p.A. shares reserved for Group executives and managers.

At December 31, 2017, the workforce of F.I.L.A. S.p.A. was as follows:

Note 25.B - PERSONNEL

	Manager	White-collars	Blue-collars	Number Total Amount
Total at December 31, 2016	**7**	**88**	**127**	**222**
Increases	4	4	15	23
Decreases	0	(6)	(25)	(31)
Total at December 31, 2017	**11**	**86**	**117**	**214**
2017 Average headcount	**11**	**86**	**130**	**227**

Turnover in 2017 related to normal staffing changes, which mainly involved the blue-collar category. At the same time, the main company functions were strengthened in terms of white-collars and managers, as described above.

Note 26 – Amortisation and Depreciation

Amortisation and depreciation in 2017 and 2016 are reported below:

Note 26 – AMORTISATION AND DEPRECIATION

Euro thousands	December 31, 2017	December 31, 2016	Change
Depreciation of Property, Plant and Equipment	(1,503)	(1,853)	350
Amortisation of Intangible Assets	(182)	(114)	(68)
Total	**(1,685)**	**(1,967)**	**282**

For further details, reference should be made to “Note 1 – Intangible Assets” and “Note 2 – Property, Plant and Equipment”.

No impairment losses were recognised in the year.

Note 27 – Financial Income

Financial income, together with the comment on the main changes on the previous year, was as follows:

Note 27 – FINANCIAL INCOME			
Euro thousands	**December 31, 2017**	**December 31, 2016**	**Change**
Investment Income	10,272	8,504	1,768
Dividends	*10,272*	*8,504*	*1,768*
Interest and Income from Group Companies	1,490	1,673	(183)
Bank interest Income	23	0	23
Other Financial Income	9	822	(813)
Realised Exchange Rate Gains on Financial Transactions	256	61	195
Total	**12,050**	**11,060**	**990**

"Investments Income" includes the dividends distributed by the subsidiary Dixon Ticonderoga Co. (U.S.A. - Euro 5,594 thousand), by the subsidiary Omyacolor S.A. (France – Euro 2,089 thousand), by the subsidiary Lyra KG (Germany – Euro 1,294 thousand), by the subsidiary F.I.L.A. Hispania S.L. (Spain – Euro 1,151 thousand) and by the subsidiary DOMS Industries PVT Ltd (India – Euro 144 thousand).

"Interest and Income from Group companies" includes financial income recharged principally to the subsidiaries of the Canson Group (Euro 1,274 thousand), to the subsidiary Daler Rowney Ltd. (United Kingdom – Euro 95 thousand), to the subsidiary FILA S.A. (Pty) Ltd. (South Africa – Euro 28 thousand) and to the subsidiary FILA Stationery O.O.O. (Russia – Euro 21 thousand) calculated on the loans granted by F.I.L.A. S.p.A..

For further information, reference should be made to "Note 3 - Financial Assets".

Note 28 - Financial Expense

Financial expense, together with the comment on the main changes on the previous year, was as follows:

Note 28 - FINANCIAL EXPENSE			
Euro thousands	December 31, 2017	December 31, 2016	Change
Interest on Bank Overdrafts	(88)	(86)	(2)
Interest on Bank Loans and borrowings	(4,451)	(2,408)	(2,043)
Other Financial Expenses	(1,902)	(1,602)	(300)
Realised Exchange Rate Losses on Financial Transactions	(1,247)	(686)	(561)
Total	**(7,688)**	**(4,782)**	**(2,906)**

"Other Financial Expense" amounted to Euro 1,902 thousand in 2017 (Euro 1,602 thousand in 2016) and are broken down as follows:

- charges in 2017 relating to the amortised cost (Euro 960 thousand) (for further details, reference should be made to "Note 13 - Financial Liabilities").
- financial commissions (Euro 174 thousand) applied by credit institutions issuing the loan for the acquisitions carried out in 2016.

"Interest expense on Bank Loans and Borrowings" include interest matured on loans undertaken by F.I.L.A. S.p.A. (Euro 3,672 thousand) against the acquisitions executed in 2017. In addition, the account includes the interest differentials paid following the issue of interest rate hedging instruments on the notional of the overall loan (Euro 779 thousand). For further details, reference should be made to "Note 13 - Financial Liabilities".

Note 29 - Foreign Currency Transactions

Exchange rate differences on financial and commercial transactions in foreign currencies in 2017 are reported below.

Note 29 - FOREIGN CURRENCY TRANSACTIONS			
Euro thousands	**December 31, 2017**	**December 31, 2016**	**Change**
Unrealised Exchange rate Losses on Commercial Transactions	4	96	(92)
Realised Exchange rate Losses on Commercial Transactions	77	158	(81)
Unrealised Exchange rate Gains on Commercial Transactions	(225)	(2)	(223)
Realised Exchange rate Gains on Commercial Transactions	(282)	(382)	100
Total exchange differences on commercial transactions	**(426)**	**(130)**	**(296)**
Unrealised Exchange rate Gains on Financial Transactions	-	0	0
Realised Exchange rate Gains on Financial Transactions	256	61	195
Unrealised Exchange rate Losses on Financial Transactions	-	-	-
Realised Exchange rate Losses on Financial Transactions	(1,247)	(686)	(561)
Total exchange differences on financial transactions	**(991)**	**(625)**	**(366)**
Total net value of exchange differences	**(1,417)**	**(755)**	**(662)**

Exchange rate differences in 2017 arose from transactions in US Dollars against the Euro, in addition to the movement in the year of assets and liabilities in foreign currencies, following commercial and financial transactions.

Note 30 – Write-downs of Investments Valued at Cost

"Write-downs of Investments Valued at Cost" include the write-down of the investment held by F.I.L.A. S.p.A. in the subsidiary Lycin Mercantil Industrial Ltda (Brazil) for an amount of Euro 3,348 thousand following the merger by incorporation on August 31, 2017 into the company Canson Brasil I.P.E. Ltda (Brazil) with effect from September 1, 2017.

Note 31 - Income Taxes

They amount to Euro 608 thousand in 2017 (Euro 2,267 thousand in 2016) and concern current taxes for Euro 1,011 thousand (Euro 2,399 thousand in 2016) and a net deferred tax income of Euro 403 thousand (net expense Euro 132 thousand in 2016).

Note 31.A – Current Taxes

The breakdown is as follows.

Note 30.A - CURRENT TAXES			
Euro thousands	**December 31, 2017**	**December 31, 2016**	**Change**
Current taxes	(1,011)	(2,399)	1,388
Total	**(1,011)**	**(2,399)**	**1,388**

Current income taxes in 2017 refer to IRES and IRAP calculated on the taxable profit in accordance with current legislation (Euro 509 thousand) and foreign taxes related to the subsidiary Lyra KG (Germany - Euro 196 thousand), in addition to the tax charge as per Presidential Decree 917/1986 concerning “Controlled Foreign Companies” for Euro 42 thousand.

IRES was fully offsetted by the use of ACE accrued.

In addition, “Current Income Taxes” include tax assets for income produced overseas (principally dividends) for Euro 279 thousand under Article 165 of the Income Tax Act following the absence of an IRES tax charge.

Note 31.B - Deferred Tax Income and Expense

The breakdown is provided below:

Note 30.B DEFERRED TAX INCOME & EXPENSES			
Euro thousands	**December 31, 2017**	**December 31, 2016**	**Change**
Deferred Tax Income	60	235	(175)
Deferred Tax Charges	343	(103)	446
Total	**403**	**132**	**271**

The overall tax effects in the year, compared to the previous year, are reported below.

Note 30.C TOTAL INCOME TAXES IN YEAR

Euro thousands	2017 I.R.E.S.	2017 I.R.A.P.	Total Income Taxes
Assessable Tax Base	7,542	25,189	-
Tax adjustments	(5,532)	(12,143)	-
Taxable profit	2,010	13,046	-
Total current income taxes	**-**	**(509)**	**(509)**
IRES tax credit on overseas income	(279)	-	(279)
Lyra KG (Germany) German tax representation	(196)	-	(196)
Controlled Foreign Company	(42)	-	(42)
Other changes	15	-	15
Total current income taxes	**(502)**	**(509)**	**(1,011)**
Deferred Tax Asset in Year on Temporary Differences	59	1	60
Deferred Tax Liability in Year on Temporary Differences	343	-	343
Total deferred tax income & expenses	**402**	**1**	**403**
Total income taxes	**(100)**	**(508)**	**(608)**

The breakdown of current and deferred taxes recognised to the profit and loss was as follows:

Note 30.D - DEFERRED AND CURRENT TAXES

Euro thousands	December 31, 2017	December 31, 2016
Current taxes	(1,011)	(2,399)
Current taxes	**(1,011)**	**(2,399)**
Deferred Taxes	403	132
Deferred tax charges	**403**	**132**
Total	**(608)**	**(2,267)**

In relation to deferred tax liabilities recorded through equity, reference should be made to “Note 16 - “Deferred Tax Liabilities”.

Subsequent events

On January 18, 2018, F.I.L.A. S.p.A., on the basis of strong operating and financial developments both at company and Group level, negotiated with the lending banks a number of amendments to the medium/long-term loan, contracted on May 12, 2016 for a total maximum amount of Euro 236,900 thousand and agreed with Intesa Sanpaolo S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A., Banca Nazionale del Lavoro S.p.A. and UniCredit S.p.A..

The amendments and supplements to the Loan Contract currently under negotiation with the lending banks related to the approval of improved conditions and terms for the company and the other Group companies, both in terms of reducing the financial charges on the loan and with regards to lessening the commitments in terms of the associated financial documentation and covenants. In addition, these amendments included the undertaking by the company F.I.L.A. S.p.A. of an additional debt of a total maximum amount of Euro 30 million from Banca Popolare di Milano, maturing on February 2, 2022, increasing the total amount set out under the loan contract to Euro 266.9 million.

Atypical and/or Unusual Transactions

In accordance with Consob Communication of July 28, 2006, during 2017, F.I.L.A. S.p.A. did not undertake any atypical and/or unusual transactions as defined by this communication, whereby atypical and/or unusual transactions refer to transactions which for size/importance, nature of the counterparties, nature of the transaction, method in determining the transfer price or time period (close to the year-end) may give rise to doubts in relation to: the correctness/completeness of the information in the financial statements, conflicts of interest, the safeguarding of the company's assets and the protection of non-controlling shareholders.

The Board of Directors
THE CHAIRMAN
Mr. Gianni Mion
(signed in original)

Final Considerations

These notes, as is the case for the financial statements, as a whole, of which they are an integral part, provide a true and fair view of the financial position of F.I.L.A. S.p.A. at December 31, 2017 and the result of operations for the year ended.

These separate financial statement comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes and reflect the underlying accounting records.

Statement of the manager in Charge and Corporate Bodies

Fabbrica Italiana Lapis ed Affini

F.I.L.A. S.p.A.
Via XXV Aprile, 5
20016 Pero (Milan)

March 21, 2018

Statement of the Manager in Charge of Financial Reporting and the Corporate Bodies - Separate Financial Statements (ref. Article 154-bis, paragraph 5)

The undersigned Massimo Candela, as Chief Executive Officer, and Stefano De Rosa, as Manager in Charge of Financial Reporting of F.I.L.A. S.p.A., confirm, and also in consideration of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for the preparation of the financial statements as at and for the yeat ended December 31, 2017.

The assessment of the adequacy of the administrative-accounting procedures for the preparation of the separate financial statements at December 31, 2017 is based on a process defined by F.I.L.A. S.p.A. in accordance with the Internal Control - Integrated Framework model defined by the Committee of the Sponsoring Organisations of the Treadway Commission, a benchmark framework generally accepted at international level.

It is also declared that:

1. The 2017 Separate Financial Statements of F.I.L.A. S.p.A.:
   - have been drawn up in conformity with the applicable IFRS endorsed by the European Union in conformity with Regulation (CE) No. 1606/2002 of the European Parliament and the Commission of 19 July 2002;
   - correspond to the underlying accounting documents and records;
   - provide a true and fair view of the financial position and results operations of the Issuer.
2. The Directors' Report includes a reliable analysis on the performance and operating result, as well as on the situation of the issuer, together with a description of the principal risks and uncertainties to which they are exposed.

The Chief Executive Officer	Manager in Charge of Financial Reporting
Massimo Candela	Stefano De Rosa
(signed in original)	(signed in original)

F.I.L.A. - Fabbrica Italiana Lapis ed Affini Società per Azioni.

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GIOTTO GIOTTO bé-bé tratto DAS PONGO LYRA

Board of Statutory Auditors' Report on the Separate Financial Statements at December 31, 2017 prepared as per Article 2429 of the Italian Civil Code.

BOARD OF STATUTORY AUDITORS'

REPORT TO THE SHAREHOLDERS' MEETING
OF F.I.L.A. FABBRICA ITALIANA LAPIS ED AFFINI S.p.A

AS PER ART. 153, LEGS. DECREE 58/1998

Dear Shareholders,

this Report was drawn up by the Board of Statutory Auditors of F.I.L.A Fabbrica Italiana Lapis ed Affini S.p.A (hereafter also: "FILA S.p.A." or "the Company"), appointed for three years from the Shareholders' Meeting of July 22, 2015.
Preliminarily, the Board, originally comprising Ms. Claudia Mezzabotta, Chairperson, Mr. Stefano Amoroso and Ms. Rosalba Casiraghi, statutory auditors, changed composition during 2017. Statutory Auditor Casiraghi in fact resigned from the date of the Shareholders' Meeting of April 27, 2017; the same Shareholders' Meeting appointed, following verification of compliance with Article 148, paragraph 2 of Legislative Decree No. 58/1998 ("CFA"), as a statutory auditor Mr. Pietro Michele Villa, previously an alternate auditor of the company. With regards to the activities carried out by the previous Board, these are based on documented results.
The Board of Statutory Auditors, in its current composition, will remain in office until the approval of the 2017 Annual Accounts, in compliance with applicable legal and regulatory provisions. Shareholders are therefore invited to appoint the new Board of Statutory Auditors for the three-year period 2018-2020 at the next Shareholders' Meeting, called to approve the 2017 Annual Accounts.
The Board of Statutory Auditors, in accordance with Article 153 of Legislative Decree No. 58/1998 (hereafter the "CFA") and Article 2429, paragraph 2 of the Civil Code, is called to report to the Shareholders' Meeting on the supervisory activities carried out and on any omissions or citable events arising. The Board of Statutory Auditors may also make observations and proposals upon the financial statements, with regard to their approval and on any matters within their remit.

1. Independence of the members of the Board of Statutory Auditors and activities carried out

The Board verified the absence of grounds for loss of office, in accordance with Article 148 of the CFA, with regard to its members, in addition to their independence as per point 10.C.2 of the current Self-Governance Code for listed companies (hereafter the "Self-Governance Code"), which the Company adopted with Board of Directors' motion of March 15, 2016.

The members of the Board of Statutory Auditors complied with the limit on the cumulative number of offices established by Article *144-terdecies of* the Issuers' Regulation.

The Board of Statutory Auditors fulfilled its oversight duties, as set out by Article 2403 of the Civil Code and Article 149 of the CFA and, in addition, carried out the oversight functions of Article 19 of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, concerning its role as the Internal Control and Audit Committee, taking account also of the conduct rules for the Board of Statutory Auditors of listed companies issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili); it, in addition, carried out supervisory activities in compliance with the principles and communications issued by Consob concerning company controls and the activities of the Board of Statutory Auditors.

This report was prepared in compliance with the indications provided by Consob with Communication DAC/RM/97001574 of February 20, 1997 and with Communication DEM/1025564 of April 6, 2001, amended and supplemented by Communications DEM/3021582 of April 4, 2003 and DEM/6031329 of April 7, 2006. The audit appointment, as per Legislative Decree 58/1998 and Legislative Decree 39/2010, was carried out by KPMG S.p.A. (hereafter also: "KPMG" or "the Independent Audit Company"), as awarded by the Shareholders' Meeting of February 20, 2015 for a period of nine years (for the financial years 2015 to 2023). With regards to that outlined above, and within its assigned scope, during the year the Board of Statutory Auditors declares to having:

- attended the Shareholders' Meeting of April 27, 2017 and the meetings of the Board of Directors, obtaining from the directors sufficient information on the general operating performance and outlook, in addition to significant operations in terms of size and characteristics carried out by the company and its subsidiaries;
- acquired the information necessary to carry out the verification of compliance with law, the By-Laws, the principles of correct administration and regarding the adequacy of the organisational structure of the company, through

the acquisition of documents and information from the managers of the relative functions and periodic exchanges of information with the Independent Audit Firm;

- attended, at least through its Chairman or a differing member, the meetings of the Control and Risks Committee and the Remuneration Committee (meeting respectively on 9 and 4 occasions);
- met the members of the Supervisory Board, also at the joint meeting with the Control and Risks Committee;
- supervised the functioning and efficacy of the internal control systems and the adequacy of the administrative and accounting system, in particular concerning the reliability of this latter to represent operational events;
- exchanged in a timely manner with the managers of the Independent Audit Firm the data and information required to execute their respective duties as per Article 150 of Legislative Decree 58/98, also through a review of the results of the work carried out and through receipt of the reports required as per Article 14 of Legislative Decree 39/2010 and Article 11 Regulation EC 537/2014;
- reviewed the content of the additional Report as per Article 11 of Regulation EC 537/2014 which will be sent to the Board of Directors, and whose review did not indicate any aspects requiring highlighting in this report;
- monitored the functioning of the control system on the Group companies and the adequacy of the directions provided, also in accordance with Article 114, paragraph 2 of Legislative Decree 58/1998;
- noted the preparation of the Remuneration Report as per Article 123-*ter* of Legislative Decree 58/1998 and Article 84-*quater* of the Issuers' Regulation, without indicating any observations;
- declared compliance of the By-Laws with the legal and regulatory provisions;
- monitored the implementation of the corporate governance rules adopted by the company in accordance with the Self-Governance Code for listed companies promoted by Borsa Italiana S.p.A., with which the company - as previously indicated - complied by means of motion of the Board of Directors on March 15, 2016;
- oversaw compliance of the internal policy regarding Related Party Transactions with the principles indicated in the regulation approved by Consob with motion No. 17221 of March 12, 2010 and subsequent amendments,

in addition to compliance, as per Article 4, 6th paragraph, of the same Regulation, attending all of the periodic meetings of the Related Parties Committee at least through its Chairman or a differing member (meeting on 6 occasions);

- oversaw the company disclosure process, verifying compliance by the directors with the procedural rules for the preparation, approval and publication of the statutory financial statements and consolidated financial statements;
- declared the adequacy, in terms of the method and impairment process approved by the Board of Directors to establish any impairments on assets recognised to the financial statements;
- verified that the Directors' Report for 2017 complied with the applicable regulation, and was consistent with the motions taken by the Board of Directors and with the facts presented in the statutory and consolidated financial statements;
- noted the content of Consolidated Half-Year Report, upon which no observations were expressed, in addition to declaring that this latter was made public according to the means established by law;
- noted that the company continued to publish on a voluntary basis the Quarterly Reports according to the deadlines established by the pre-existing rules;
- carried out, as previously indicated in its role as the Internal Control and Audit Committee, as per Article 19, paragraph 1 of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, the specific functions of disclosure, monitoring, control and verification established therein, fulfilling the duties established by the stated regulation;
- oversaw compliance with the provisions established by Legislative Decree 254/2016, examining, among other matters, the Consolidated non-financial report, declaring in addition compliance with the provisions governing its preparation in accordance with the stated decree;
- attended the induction programme for Directors and Statutory Auditors, broken down into a training session and a production site visit, in order to provide adequate knowledge upon the sector and its main dynamics and regulatory framework;

- verified the correct application of the assessment criteria and procedures adopted by the Board of Directors to assess fulfilment of the requirement regarding the professionalism and independence of its members on initial appointment and, thereafter, on an ongoing basis.

The supervisory activities carried out by the Board of Statutory Auditors according to the means described above, on the basis of information and data acquired, did not result in the emergence of any matters indicating non-compliance with law and the incorporation deed of the company or of any matters requiring reporting to the Supervisory Authority or indication in this report.

In addition, the Board of Statutory Auditors, on the basis of the information made available to it, reasonably consider that these operations comply with law and the By-Laws and were not manifestly imprudent, hazardous or against the motions undertaken by the Shareholders' Meeting or such as to compromise the integrity of the company's assets;

With regards to the execution of duties by the current Board of Statutory Auditors, it met on 13 occasions (of which 7 in its current composition) and its members attended all meetings, as highlighted in detail in the table presented in a specific section of the 2017 Corporate Governance Report.

During the Reporting period, the Board of Statutory Auditors indicates that as part of the supervisory activities within its scope upon the adequacy of the organisational, administrative and accounting structure of the company, significant focus was dedicated to the fact that during the year the company acquired the Daler-Rowney-Lukas Group on February 3, 2016, the Canson Group (France) on October 5, 2016 and the company St. Cuthberts Holding Limited on September 14, 2016.

The Board of Statutory Auditors, throughout 2017, therefore continued to supervise particularly closely the integration of the Groups and the companies acquired in the year, from a logistical-organisational viewpoint and with regards the flow of operating and financial information, and on the basis of the information provided by the company does not highlight any particular issues in this regard.

The Board of Statutory Auditors underlines in addition that the company in 2017 made further progress on the means to ensure the proper functioning of its corporate governance bodies, referring to best practices employed by listed companies.

The Board of Statutory Auditors consistently supervised with particular attention the functioning of the corporate governance bodies.

2. Oversight of atypical or unusual operations and related party transactions

In 2017, the Board of Statutory Auditors did not note any atypical or unusual transactions with Group companies, third parties or with other related parties.

The Board of Statutory Auditors had not received at the date of the present report any communication from the control boards of the subsidiaries, associates or investees, or from the independent audit firm containing issues which require disclosure in this report.

The Board of Statutory Auditors, in addition, noted that the characteristics of the inter-company transactions and those with related parties undertaken by the company and its subsidiaries in 2017, the parties involved and the relative economic effects are indicated in the "Balance sheet with indication of transactions with related parties in accordance with Consob Motion No. 15519 of July 27, 2006", in the "Statement of comprehensive income with indication of transactions with related parties in accordance with Consob Motion No. 15519 of July 27, 2006" and in the "Annex 1 - Related party transactions" of the 2017 Consolidated Financial Statements" to which reference should be made. In this regard, all transactions were executed according to market conditions.

The Board of Statutory Auditors comprehensively assessed the adequacy of the information provided according to the means indicated with regards to the stated transactions and considered that, on the basis of the data so acquired, they appeared consistent and in the company's interest. The Related Party Transactions, identified on the basis of international accounting standards and Consob's provisions, were governed by an internal policy (the "Policy"), adopted by the Board of Directors of Space S.p.A. (now F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A.) on October 15, 2013 and subsequently amended by the Board of Directors of FILA S.p.A. on March 21, 2017 and May 10, 2017 - in accordance with that established by Article 2391-*bis* of the Civil Code and the rules issued by Consob - and amended, latterly, on November 12, 2014.

The Board of Statutory Auditors examined the Policy, declaring its compliance with Consob Regulation No. 17221 of March 12, 2010, amended with motion No. 17389 of June 23, 2010 and interpreted with motion No. 78683 of September 24, 2010.

3. Relations with the independent audit firm, in accordance with Legislative Decree 39/2010 and observations on its independence

The Board of Statutory Auditors supervised the efficacy of the audit, examining in specific meetings with the Independent Audit Firm KPMG S.p.A. the audit plan and discussing the activities carried out.

The above-stated Audit Firm communicated the fees invoiced to F.I.L.A. S.p.A. for the audit of the 2017 Consolidated Annual Accounts, in addition to the limited audit of the half-year financial statements and the control activities on the proper maintenance of accounting records. The 2017 fees for the services provided to F.I.L.A. by the Independent Audit Firm and entities belonging to its network (including non-audit services) are reported, with a breakdown of the various appointments in the paragraph "Disclosure as per Article 149-*duodecies* of the Consob Issuers' Regulation" in the *Explanatory Notes to the Consolidated Financial Statements of the F.I.L.A. Group* for 2017, in compliance with the above-stated Article 149-*duodecies* of the Issuers' Regulation.

The Independent Audit Firm also communicated to the Board of Statutory Auditors that, taking account of the regulatory and professional requirements for audit activities, on the basis of the best information available, it has maintained in the period considered by this Report, its independence and objectivity towards F.I.L.A. S.p.A. and that no changes occurred in terms of the absence of any causes of incompatibility, particularly with regards to the situations and parties considered by Article 17, Legislative Decree No. 39/2010 and by the Articles of Heading I-bis ("Incompatibility") of Section VI ("Audit") of the Issuers' Regulation.

The verifications carried out by the Board of Statutory Auditors were also executed in accordance with Regulation EC 537/2014 of the European Parliament and Council of April 16, 2014. During its verifications, the Board of Statutory Auditors also took account in this regard, among other matters, of: a) the "Position Paper" on "Interpretative questions on the application of the Regulation (EC)No. 537/2014 and of Legislative Decree No. 39 of January 27, 2010, as amended by Legislative No. 135 of July 17, 2016, in enactment of Directive 2014/56/EC", published by Assirevi on January 23, 2017 and updated on January 5, 2018; b) in Assonime Circular No. 28 on December 22, 2016 on "the new EU and domestic auditing regulatory framework".

For all matters highlighted by the auditor for its attention as per Article 4 and Article 5 of the stated EU Regulation, the Board of Statutory Auditors in its analysis considered, in each case, in addition to the specific rules applicable, the overall rationale of the state of rules, in the service of prudency and to guarantee the independence of the auditor.

In 2017, in particular, on the basis of that reported by the Independent Audit Firm, FILA S.p.A., and a number of its subsidiaries assigned the Independent Audit Firm and the parties belonging to its network on behalf of the parent company and some of the Group subsidiaries, services other than the auditing of accounts.

The fees for these assignments, according to that confirmed by the Independent Audit Firm, for 2017 amount to Euro 230,811, at consolidated level, of which Euro 54,000 for the services provided to the parent company FILA S.p.A. Other services provided by the Independent Audit Firm or by parties belonging to its network in favour of FILA S.p.A. or its subsidiaries in 2017 relate to assignments allocated in previous years.

The breakdown of fees paid in the year and the cost for assignments carried out - including those conferred in 2017 - regarding the Independent Audit Firm and the parties belonging to its network in favour of FILA S.p.A. and its subsidiaries, as stated above, is indicated in the consolidated financial statements of the company, as required by Article 149-*duodecies* of the Issuers' Regulation.

The Board of Statutory Auditors, in its role as the Internal Control and Audit Committee, executed the duties required by Article 19, paragraph 1, letter e) of Legislative Decree No. 39/2010 as amended by Legislative Decree 135/2016 and Article 5, paragraph 4 of Regulation EC 337/2014 regarding the prior approval of the stated assignments, verifying their compatibility with the applicable regulation, and specifically, with the provisions of Article 17 of Legislative Decree 39/2010 - as amended by Legislative Decree No. 135/2016 - in addition to the prohibitions as per Article 5 of Regulation EC 587/2014 stated therein.

In addition, the Board of Statutory Auditors:

a) verified and monitored i) the independence of the Independent Audit Firm, as per Article 10, 10-*bis*, 10-*ter*, 10-*quater* and 17 of Legislative Decree 39/2010 and Article 6 of Regulation EC No. 537/2014 declaring compliance with the applicable regulatory provisions and that the assignments for services other than the auditing of accounts assigned to this company do not appear as potentially generating risks in terms of the independence of the auditor and against the safeguards of Article 22-*ter* of Dir. 2006/43/EC and ii) that, in accordance with the stated Article 5, Regulation EC No. 537/2014, these services do not fall within the scope of those prohibited;

b) examined the transparency report and the additional report prepared by the Independent Audit Firm in accordance with the criteria as per Regulation EC 537/2014, establishing that, on the basis of the information acquired, no critical matters with regards to the independence of the Independent Audit firm emerged;
c) received the confirmation in writing that the Independent Audit Firm, during the period between January 1, 2017 and the issue of its statement, did not encounter any situation which may compromise its independence of FILA S.p.A. in accordance with the combined provisions of Article 6, paragraph 2, letter a) of Regulation EC 537/2014, 10 and 17 of Legislative Decree 39/2010, in addition to 4 and 5 of Regulation EC 537/2014;
d) discussed with the Independent Audit Firm the risks regarding its independence and the measures adopted to mitigate them, in according with Article 6, paragraph 2, letter b) of Regulation EC No. 537/2014.
On the basis of the activities stated above, the Board of Statutory Auditors does not highlight any particular issues for the Shareholders' Meeting.

4. Financial disclosure process and internal control system

The current Board of Statutory Auditors, as indicated above, supervised the adequacy of the administrative and accounting system, in addition to its reliability to correctly represent the operating events, obtaining information from the administrative department managers and exchanging information with the Control and Risks Committee, the Internal Audit department and the Independent Audit Firm.

The Board of Statutory Auditors supervised, also through periodic meetings with the Executive Officer responsible for financial reporting, the organisation and company procedures for the drawing up of the statutory financial statements, the consolidated financial statements and the periodic financial reports, in addition to other financial communications, assessing their adequacy and effective adoption.

The Board of Statutory Auditors also noted the statements issued respectively for the statutory financial statements of the company and for the consolidated financial statements of the Group on March 21, 2018 by the Executive Officer for financial reporting as per Article 145-*bis*, paragraph 5 of Legislative Decree 58/1998 and Article 36, paragraph 1, letter c), point ii) of the Markets Regulation, on the adequacy and the appropriateness of the powers and financial means made available by the Board of Directors for the execution of its appointment.

The Board of Statutory Auditors considers the administrative and accounting systems substantially adequate and reliable in view of the size and complexity of the Company and of the Group, and in this regard indicates that in 2017 the work for the adoption of a Group ERP system continued, overseen by the Executive Director Mr. Luca Pelosin.

As not having any responsibility for the audit of the accounts, the Board of Statutory Auditors supervised the general lay-out of the statutory financial statements and the consolidated financial statements and their compliance with the rules governing their formation and structure. The Board of Statutory Auditors also verified their consistency with the events and information noted during the execution of their duties. In this regard, the Board of Statutory Auditors does not highlight any particular observations.

The Board of Statutory Auditors supervised, within the extent of its remit, the adequacy of the internal control system: a) obtaining information from the managers of the respective company departments, so as to verify the existence, adequacy and proper implementation of the procedures; b) attended the meetings of the Control and Risks Committee and of the other Board-established Committees; c) met periodically with the Internal Audit manager; d) exchanged information on an ongoing basis with the Independent Audit Firm.

The Board of Statutory Auditors, on the basis of the control activities put in place and the improvement actions being implemented, considers that the internal control system should be considered in overall terms adequate to the size and complexity of the operations undertaken by the Company and by the Group. The Board of Statutory Auditors, considering the overseas acquisitions since the year prior to the period covered by this report and the consequent further expansion of the Group internationally, also in non-EU countries, again highlights (as indicated for FY 2016) the need for continual commitment by company management to further strengthen the control functions and in particular the internal audit function.

5. Supervision of the non-financial disclosure process

The Board of Statutory Auditors supervised compliance with the provisions of Legislative Decree 254/2016 with regards to the Non-financial disclosure ("NFD") within the scope of the duties assigned to it by law and on the adequacy of the organisation, administrative, reporting and control system put in place by the company for the correct and complete presentation of the non-financial disclosure.

In this regard, the Board of Statutory Auditors - in addition - received constant updates on the materiality analysis process carried out by the company to establish the relevant non-financial reporting scopes for the FILA Group.

Also based on the outcomes of the checks carried out on the competent internal structures, supported by specialised consultants, the Board of Statutory Auditors considers the procedures, processes, and structures for the production, reporting, measuring and presentation of this information to be adequate and does not highlight any particular matters for the Shareholders' Meeting.

6. Additional information required by Consob Communication No. DEM/ 1025564 of April 6, 2001 as subsequently amended.

In accordance with that required by Consob, the Board of Statutory Auditors also reports the following:

a) the current Board of Statutory Auditors did not receive any petitions as per Article 2408 of the Civil Code, nor notices from third parties;

b) the Company, during the year, did not receive disclosure requests from Consob, in accordance with Article 115 of the CFA, nor disclosure requests (to the market) from Consob in accordance with Article 114 of the CFA;

c) the current Board of Statutory Auditors, during the year, did not receive any disclosure requests from Consob, neither as per Article 115 of the CFA, nor as per Article 114 of the CFA;

d) during the year, the Board of Statutory Auditors issued opinions as per Article 2389, paragraph 3 of the Civil Code, concerning the remuneration of directors with specific offices;

e) the Board of Statutory Auditors examined the instructions imparted by the Company to the subsidiaries, in accordance with Article 114, paragraph 3 of the CFA, considering such as adequate;

f) with regard to the meetings of the Board of Directors, the Board of Statutory Auditors notes that these were carried out during the reference period of the present Report in compliance with the statutory, legislative and regulatory rules governing their functioning. During these meetings, the directors provided, in accordance with the corporate governance rules of the Company, information on the general operating performance and on the outlook.

7. Significant events indicated in the Directors' Report, in the statutory financial statements and the consolidated financial statements

Among the significant events indicated in the Directors' Report and statutory financial statements of the company, in addition to the consolidated financial statements concerning financial year 2017, we highlight the following significant transactions carried out by the company during the year, also through its subsidiaries:

a) on January 20, 2017, 52% of the share capital of FILA Art Products AG (Switzerland) was acquired, a company involved in the sale of F.I.L.A. Group writing, art and design products in Switzerland;

b) on February 8, 2017, Lyra KG (Germany), a F.I.L.A. Group company held directly by F.I.L.A. S.p.A., sold 30% of its investment in Fila Nordic AB to non-controlling interests.
The holding of Lyra KG (Germany) is 50% and therefore is considered a F.I.L.A. Group subsidiary as per the definition of control in IFRS 10.

c) On April 20, 2017, the Indian company DOMS Industries Pvt Ltd subscribed a portion of the share capital increase of Pioneer Stationery Pvt Ltd (India) for a total of INR 5.1 million (approx. Euro 65 thousand). The transaction resulted in changes in the ownership of Pioneer Stationery Pvt Ltd (India), now held 51% by DOMS Industries Pvt Ltd (India).

d) On July 21, 2017, the Indian subsidiary DOMS Industries Pvt Ltd acquired an additional 25% of Uniwrite Pens and Plastics Pvt Ltd, an Indian company specialised in writing tools and in particular ballpoint pens, previously held 35%. Consideration was approx. INR 9 million (approx. Euro 121 thousand), increasing the investment held by DOMS Industries Pvt Ltd in Uniwrite Pens and Plastics Pvt Ltd to 60%;

e) On July 24, 2017 Canson SAS (France) signed with Mediocredito Italiano S.p.A. a long-term loan contract for a total of Euro 6,350 thousand to fund the construction of a central warehouse located in Annonay, close to the city of Lyon. This loan is guaranteed by a mortgage on buildings owned by Canson and by a corporate surety issued by F.I.L.A. S.p.A. in guarantee of the payment obligations undertaken by Canson SAS in accordance with the loan contract.

f) On July 26, 2017, F.I.L.A. S.p.A. announced the new composition of its share capital following the full execution of the share capital increase approved on April 27, 2017 by the Extraordinary Shareholders' Meeting, in accordance with Article 2349 of the Civil Code, for a nominal value of Euro 90,314, through the issue of 100,181 new ordinary shares, without nominal value, to be released through the use of a corresponding part of the existing retained earnings, allocated free of charge to employees of F.I.L.A. S.p.A. and its subsidiaries, beneficiaries of the extraordinary bonus approved by the ordinary shareholders' meeting of the same date.

g) On August 31, 3017, the company Licyn Mercantil Industrial Ltda (Brazil) was merged by incorporation into Canson Brasil I.P.E. Ltda (Brazil), effective from September 1, 2017.

On the basis of the information provided by the company and the data acquired concerning the above transactions, the Board of Statutory Auditors declared their compliance with law, the deed of incorporation and the principles of correct administration, establishing that they were not manifestly imprudent or hazardous, in potential conflict of interest, against the motions taken by the Shareholders' Meeting or such as to compromise the company's assets.

3. *Significant events after the end of the year*

With regards to significant events after year-end, as stated in the 2017 Directors' Report, the Board of Statutory Auditors noted the following.

On January 18, 2018, F.I.L.A. S.p.A., on the basis of strong operating and financial developments both at company and Group level, negotiated with the lending banks a number of amendments to the medium/long-term loan, contracted on May 12, 2016 for a total maximum amount of Euro 236,900 thousand and agreed with Intesa Sanpaolo S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A., Banca Nazionale del Lavoro S.p.A. and UniCredit S.p.A..

The amendments and supplements to the Loan Contract currently under negotiation with the lending banks related to the approval of improved conditions and terms for the company and the other Group companies, both in terms of reducing the financial charges on the loan and with regards to lessening the commitments in terms of the associated financial documentation and covenants. In addition, these amendments included the undertaking by the company F.I.L.A. S.p.A. of an additional debt of a total maximum amount of Euro 30 million from Banca Popolare di Milano, maturing on February 2, 2022, increasing the total amount set out under the loan contract to Euro 266.9 million.

9. Report of the Independent Audit Firm and related Board of Statutory Auditor obligations

The Independent Audit Firm issued, on March 29, 2018, the Reports in accordance with Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation EC 537/2014, by which it declared that:

- the statutory financial statements of the company and the consolidated financial statements of the Group at December 31, 2017 provide a true and fair view of the financial statements at December 31, 2017, the net result and of the cash flows for the year, in compliance with International Financial Reporting Standards adopted by the European Union, in addition to the provisions issued in enactment of Article 9 of Legislative Decree 38/05;
- the Directors' Report and some specific information contained in the Corporate Governance and Ownership Structure Report indicated in Article 123-*bis*, paragraph 4 of Legislative Decree 58/1998 are consistent with the separate financial statements of the company and with the consolidated financial statements of the Group and have been prepared in compliance with law;
- the opinion on the statutory financial statements and on the consolidated financial statements expressed in these Reports is in line with that indicated in the additional Report as per Article 11 of Regulation EC 337/2014 and in accordance with Article 19 of Legislative Decree 39/2010.

For informational purposes alone, the Independent Audit Firm in its Reports identified for the statutory financial statements of FILA S.p.A. the following key audit matters: assessment of investments valued at cost.

For the Group consolidated financial statements, however, the Independent Audit Firm identified the following key audit matters: a) assessment of the recoverability of goodwill; b) inventories.

In the Report on the consolidated financial statements audit, the Independent Audit Firm in addition declared to having verified approval by the directors of FILA S.p.A. of the 2017 Non-Financial Report of the FILA Group.

In the above Reports of the Independent Audit Firm, no issues or disclosures were raised, nor were declarations issued in accordance with Article 14, paragraph 2, letters d) and e) of Legislative Decree 39/2010.

Also on March 29, 2018, the Independent Audit Firm:

- sent to the Board of Statutory Auditors, as the Internal Control and Audit Committee, the additional Report as per Article 11 of Regulation EC 537/2014, which does not contradict the opinions presented in the Reports on the financial statements indicated above, reporting in fact on other significant aspects;
- issued, as per Article 3, paragraph 10 of Legislative Decree 254/2016 and Article 5 of Consob Regulation 20267/2018, the Independent Audit Firm Report on the Consolidated Non-Financial Report. In this Report, the Independent Audit Firm declared that elements that would indicate to it that the FILA Group's Non-financial report for 2017 had not been prepared, in terms of all significant aspects, in compliance with Articles 3 and 4 of the Decree and selected GRI Standards, did not come to its attention.

At the periodic meetings held by the Board of Statutory Auditors with the Independent Audit Firm, in accordance with Article 150, paragraph 3 of Legislative Decree 58/1998, no aspects emerged requiring indication in this report.

In addition, the Board of Statutory Auditors did not receive from the Independent Audit Firm information on events requiring investigation during the course of its audit upon the statutory and consolidated financial statements.

10. Concluding observations

On the basis of that stated above, the Board of Statutory Auditors does not raise specific critical matters, omissions, reportable events or irregularities, nor observations or proposals to be submitted to the Shareholders' Meeting in accordance with Article 153 of Legislative Decree 58/1998, to the extent of its remit, and therefore does not indicate any reasons to prevent approval of the proposals drawn up by the Board of Directors for the Shareholders' Meeting.

Milan, March 29, 2017

Claudia Mezzabotta, Chairperson

Stefano Amoroso

Pietro Michele Villa

Independent Auditors' Report pursuant to Article 14 of Legislative Decree No. 39 of January 27, 2010

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

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
F.I.L.A. S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of F.I.L.A. S.p.A. (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of F.I.L.A S.p.A. as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of F.I.L.A S.p.A. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

F.I.L.A. S.p.A.
Independent auditors' report
31 December 2017

Measurement of equity investments at cost

Notes to the separate financial statements: section "Accounting policies of the Separate Financial Statements" and note 4 "Equity Investments Measured at Cost"

Key audit matter	Audit procedures addressing the key audit matter
The carrying amount of equity investments measured at cost at 31 December 2017 is €284.9 million. Specifically: — as a result of the 2015 acquisition of 51% of the Indian company DOMS Industries Pvt Ltd., the Company recognised an equity investment measured at cost with a carrying amount of €57.3 million at 31 December 2017; — as a result of the 2016 acquisitions of 100% of the British company Renoir TopCo, holding company of the Daler-Rowney Lukas Group, and 100% of the French Canson Group, the Company recognised equity investments measured at cost with a carrying amount of €103.6 million (Renoir TopCo) and €68.6 million (Canson group companies, namely Canson S.A.S., Lodi 12 S.A.S., Eurholdham USA Inc. and Canson Brasil Industria Papeis Especiaia Ltda), respectively, at 31 December 2017. When they identify indicators of impairment, the directors test these equity investments for impairment, checking their recoverability by comparing their carrying amounts with their value in use calculated using the discounted cash flow model. Calculating the recoverable amount of these equity investments is complex and requires significant estimates by directors. Specifically, in addition to the uncertainty inherent in any forecast, this process has the following characteristics: — valuation assumptions affected by the reference market trends, especially with reference to the Indian market, due to the specific economic and political conditions that are difficult to predict and unstable, and the UK market, due to the possible effect of the Brexit;	Our audit procedures, which also involved our own valuation specialists, included: — understanding the process adopted to prepare the impairment tests approved by the Company's board of directors. — understanding the process adopted to prepare the forecasts from which the expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the assumptions used by the Company to prepare the forecasts; — checking any discrepancies between the previous year forecast and actual figures, in order to check the accuracy of the estimation process; — checking the consistency of the expected cash flows used for impairment testing with those used for the forecasts and analysing the reasonableness of any discrepancies; — analysing the expected cash flows and main assumptions used to calculate value in use, especially the key assumptions, which include: the revenue increase in India, France, the United States and the United Kingdom, expected synergies and the calculation of the discount and long-term growth rates; — assessing the appropriateness of the disclosures provided in the notes about the measurement of equity investments at cost and the related impairment tests.

Key audit matter	Audit procedures addressing the key audit matter
— assumptions about the synergies expected, as set out by the directors in the business plan; — a high level of directors' judgement about the estimated long-term growth rate and the discount rate applied to the projected cash flows. For the above reasons, we believe that the recoverability of the equity investments measured at cost mentioned above is a key audit matter.	

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

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The "*Collegio Sindacale*" is responsible for overseeing, within the terms established by the Italian law, the Company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 20 February 2015, the shareholders of F.I.L.A. S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2015 to 31 December 2023.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the Collegio Sindacale, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of F.I.L.A S.p.A. are responsible for the preparation of the Company's directors' report and report on corporate governance and ownership structure at 31 December 2017 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Company's separate financial statements at 31 December 2017 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the separate financial statements of F.I.L.A S.p.A. at 31 December 2017 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 29 March 2018

KPMG S.p.A.

(signed on the original)

Domenico Bellini
Director of Audit