

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

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

CONSOLIDATED NON-FINANCIAL STATEMENT

as per Legislative Decree no. 254/2016



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

Website: www.filagroup.it

Reporting period: 2017

Report approval date: March 21, 2018

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CHAIRMAN'S LETTER

Attention to raw material quality, product safety and proper working conditions, as well as support for recreational/educational initiatives and the arts and culture, have always been at the core of how F.I.L.A. S.p.A. does business. The Group's growth and development has relied on these principles.

As a matter of fact, Corporate Social Responsibility is an integral part of our history and of our Group's culture.

This document provides an organic, transparent and comprehensive view of our enterprise, the practices and policies that we pursue and the risks we face in terms of the environment, our staff, society, the communities we interact with and in respecting human rights and fighting corruption.

1 INTRODUCTORY NOTE

1.1 REPORTING MODEL

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

In this document, the FILA Group, an industrial group headed by F.I.L.A. S.p.A., reports its approach and policies regarding sustainability, providing statistics and information upon the Group's operations in 2017 in this regard.

The Consolidated Non-Financial Statement (hereinafter also the "Statement" or "NFS") was prepared in accordance with the provisions of the Decree and, insofar as needed to make complete and effective disclosure, also with the 2016 GRI Standards issued by the Global Reporting Initiative (hereinafter "GRI"), today the best known international set of standards for reporting on sustainability. This report has been prepared in accordance with the GRI Standards criteria for the Core option.

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

This Consolidated Non-Financial Statement as at December 31, 2017 is separate from the Directors' Report, but is an integral part of the documentation underpinning the 2017 Financial Statements.

As required by the Decree, information is furnished in accordance with the “comply or explain” principle (Article 3 of the Decree). Accordingly, if no policy exists for any material topic, the Statement must explain this gap.

The Consolidated Non-Financial Statement was approved by the Board of Directors on March 21, 2018.

1.2 REPORTING AND CONSOLIDATION PROCESS

This Statement was drafted with the assistance of the heads of various departments of the Group, plus the Chief Executive Officers and the Chief Financial Officers of the subsidiaries, in order to identify the material aspects, the principal risks, the projects implemented and the performance indicators used.

This Statement was prepared by a dedicated team at the parent made up of the Executive Director, the Manager in Charge of the Financial Reporting, the Group Reporting Manager, the Internal Audit Manager and the Corporate Affairs Department. Information on subsidiaries was usually supplied by their CEOs or their respective deputies, who must certify in writing the accuracy of the reporting package sent for consolidation purposes, and including the statistics and the information referred to the subsidiary under their responsibility.

The reporting process started with an analysis of the Decree’s requirements and of the indicators deemed applicable and relevant according to the 2016 GRI Standards. Details are provided in paragraph 1.3 beneath, which deals with materiality analysis. Aside from this Introductory Note and the Chairman’s letter, the FILA Group’s Consolidated Non-Financial Statement deals with the following matters:

- Business identity and the Group’s business model
- Material environmental topics
- Material employment topics
- Material societal and local community topics
- Material topics concerning human rights
- Material topics concerning the combating of active and passive corruption.

Since this is the Group’s first reporting period on non-financial matters, and major corporate transactions took place in 2016, this Statement includes neither the comparative data nor the detailed aspects of the supply chain that the Decree requires. However, the Directors believe that these omissions will not significantly impair the picture that the report conveys of the Group’s performance, its results, its current situation and the impact of its policies.

The reporting process is mainly structured on an information gathering system based on a template developed using Tagetik software, which the Group also uses for financial reporting. Specific instructions help make the gathering process more accurate, consistent and uniform. Any information that Tagetik does not handle comes from the F.I.L.A. Group’s stakeholders and was obtained through interviews and questionnaires whenever suitable.

The information is broken down by macro-region, as is customary in financial reporting.

1.3 MATERIALITY ANALYSIS

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

Accordingly, the level of risk, in terms of the completeness and quality of information, was determined for each company included in the scope of consolidation at December 31, 2017 and for each indicator specified by the reporting methodology adopted.

The methodology for gathering the data was defined depending on the nature of each company belonging to the Group and its core business (e.g. manufacturing, wholesale, holding company, etc.). The materiality of every matter set forth in the Decree was assessed by analysing each company's key parameters and its business (staff number, geographical region, processing steps performed, etc.). Indicators were then selected from such international standards, as the 2016 GRI Standards to best measure the matters listed in the Decree.

The material topics are as follows:

Decree topic	Material topics
Environment	Use of raw materials Consumption of energy resources Emissions into the atmosphere Water consumption
Personnel	Equal opportunities Occupational health and safety
Social / Local communities	Product quality and safety Relations with suppliers Protecting diversity
Human Rights	Respect for human rights Freedom of association and collective bargaining
Corruption	Combating active and passive corruption

1.4 SCOPE OF REPORTING

The scope of non-financial reporting was chosen to match that of the Consolidated Financial Statements at December 31, 2017, in order to gather relevant, useful and comparable enough

data to portray the Group's performance, its results, its current situation and the impact of its operations. Changes from the prior year are marked.

Since the Decree applies to the year ended December 31, 2017, this Statement covers the first reporting year and will be issued every year. Unless otherwise indicated, the information refers to the F.I.L.A. Group at December 31, 2017. However, the scope of reporting for each indicator was adjusted in accordance with the materiality analysis of the relevant aspects required by the legislation in question. The table beneath summarises the relevance of each category of indicators by reporting topic (environment, social, personnel, human rights and corruption) and by type of company (manufacturing, distribution, holding). Finally, to determine materiality, an additional aspect was considered, namely the importance of subsidiaries in terms of their sales volume, workforce, etc.

Indicators	Environment	Social	Personnel	Human Rights	Corruption
Type of Company					
Production	●	●	●	●	●
Distribution	◐	●	●	◐	●
Holding			◐		◐

A detailed list of the companies belonging to the Group that are included in the scope of reporting, grouped by reporting topic, is annexed.

Since this is the first reporting period, no information was restated in this document.

1.5 INTERNAL CONTROL AND INDEPENDENT AUDIT

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

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

The Consolidated Non-Financial Statement was audited under a limited assurance engagement by the independent auditor KPMG SpA. Its report is attached hereto and lists the procedures it followed in conducting its audit.

1.6 CONTACTS

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

2 GROUP IDENTITY AND BUSINESS MODEL

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

2.1.1 Vision and Mission

With a product range including more than 20 well-known brands and thousands of products sold on all continents, FILA is one of the leading global enterprises devoted to the research, design, manufacture and sale of tools for creative expression. The FILA Group makes and packages tools and supports for drawing, colouring and painting, in addition to modelling clays, for use by children, youths and adults.

Vision

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

Mission

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

2.1.2 Strategy

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

Organic growth involves developing high-potential markets by:

- monitoring markets

- seeking contact with the end consumer
- sound, healthy and sustainable growth over the long term.

In order to consolidate its market share, the Group:

- starts up its own branches in order to control distribution
- strengthens its brand
- boosts distribution in terms of range and product numbers

Its acquisitions policy focuses on:

- brands that are present and renown at continent level
- manufacturing companies
- complementary products and segments (focus on colour)
- "value" targets,

in order to:

- achieve significant distribution and manufacturing synergies to drive growth in sales and margins, and
- develop new markets.

2.1.3 Corporate Social Responsibility (CSR) policy

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

CSR issues are rooted in F.I.L.A. S.p.A.'s history and culture. Paying attention to input quality, product and workplace safety and to supporting art and culture are patterns that have marked the history of F.I.L.A. S.p.A. and underlie the Group's growth and development. The parent issued its corporate social responsibility policy in 2016, while preparing its Manual of Processes and Procedures.

The Group has not adopted any industry-wide codes of conduct, principles or initiatives. Instead, it has created its own CSR policy. This policy was announced in late 2017 and made available to all Group personnel. It contains specific provisions for each related company and is designed to stress the Group's commitment to:

- do business while assuring respect for its staff's human rights, adjust its remuneration scale so as to abide by applicable laws, and pay wages that at least suffice to cover basic needs
- refrain from using or encouraging forced or child labour
- refrain from practicing discrimination based on race, gender and religious or political belief

- ensure healthy workplaces that comply with health and safety laws, progressively approaching the strictest international standards
- develop and protect equal opportunities for all employees regardless of job description/title
- comply with best practices for assuring the quality and safety of its products by conforming to international standards and also to rules that have not yet been standardised
- comply with standards for environmental protection, waste disposal and minimising pollution
- persist in seeking and implementing methods of operation aimed at reducing the environmental impact of products throughout their life cycle
- not tolerate corrupt practices in any form or manner
- comply with tax obligations, guarantee transparency, information exchange and fair tax competition
- develop and transfer knowledge and assets for the benefit of its stakeholders and local communities.

2.1.4 Group stakeholders

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

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

The material topics that concern each category of stakeholder subject to reporting are listed in paragraph 1.4 "Materiality analysis" above, and are elaborated upon in the following chapters. They cover matters relating to the environment, society, personnel, human rights and combating corruption.

2.1.5 Engaging in dialogue with the Group's stakeholders

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

- dialogue with trade unions

- communication with consumers and customers
- regular meetings with investors
- a channel for submitting anonymous reports.

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

In particular, dialogue with trade union officials is conducted in accordance with applicable local law and varies greatly from subsidiary to subsidiary, depending on the size business activities of each. The main topics dealt with are organisational matters, the Group's strategic vision and how it is adjusted to circumstances at each location, the setting of goals, choosing the right approach, occupational health and safety, its implications for structuring work processes and how achievement of those goals is assessed with a view to continuous improvement.

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

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

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

Meetings with investors began in 2016. In 2017 the Company attended Borsa conferences (Milan and London) and held one-on-one meetings and road shows in Britain, Denmark and Switzerland, at which it met more than 140 investors and over 110 companies in 11 days.

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

The parent F.I.L.A. S.p.A. belongs to two Italian trade associations, Assoscrittura and Federvarie (Confindustria) and plays a leadership role in both. The process of gathering this information both also at the level its subsidiaries will be implemented as from next reporting period.

2.2 HISTORY OF THE F.I.L.A. GROUP

2.2.1 From foundation to the present day

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

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

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






















In **1964** Alberto Candela succeeded his father Renato. Under his guidance, the company embarked on a manufacturing path focused on new products, images and style.

The **Giotto Fibra** brand introduced coloured markers, while the **Tiziano** line targeted professional and amateur painters.

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

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

In **1994** the Group began to grow through acquisitions and internal expansion. The milestones on this path were:

<p>1920 F.I.L.A. is founded</p> 	<p>1923 First Giotto colored pencils</p> 	<p>1950 First Giotto paints</p> 
<p>1956 Candela family joins F.I.L.A.</p> 	<p>1960 First Giotto felt-tip pens</p> 	<p>1970 F.I.L.A. launches Tratto line for writing</p> 
<p>1979 Tratto Pen wins "Compasso d'oro"</p> 	<p>1994 F.I.L.A. acquires Adica Pongo</p> 	<p>1997 F.I.L.A. opens Spanish branch</p> 
<p>1998 Extension to design tools line</p> 	<p>2000 F.I.L.A. acquires Omyacolor France</p> 	<p>2001 F.I.L.A. acquires Suger</p> 
<p>2004 F.I.L.A. acquires Dixon Ticonderoga (USA, Canada and Mexico)</p> 	<p>2005 F.I.L.A. launches Giotto Bebé line</p> 	<p>2008 F.I.L.A. acquires Lyra Germany</p> 
<p>2010 F.I.L.A. acquires Lapimex (Mexico)</p> 	<p>2011 F.I.L.A. opens Turkish branch</p> 	<p>2012 F.I.L.A. enters Indian and Brazilian markets</p> 
<p>2013 F.I.L.A. opens Russian and Greek branches</p> 	<p>2014 F.I.L.A. opens South African branch and acquires Maimeri</p> 	<p>2016 F.I.L.A. acquires Canson, St. Cuthberts Mill and Daler Rowney</p> 

Over the last 20 years, a number of strategic acquisitions have taken place - in 1994 the Italian **Adica Pongo**, in 2005 the US **Dixon Ticonderoga Group**, in 2008 the German **LYRA Group**, in 2010 the Mexican **Lapiceria Mexicana**, in 2012 the Brazilian **Licyn** and in 2014 the **Maimeri** business unit. In 2011, FILA acquired an equity interest in an Indian company, **Writefine Products Pvt Ltd**, and in 2015 bought a controlling stake in it and changed its name to **DOMS Industries Pvt Ltd**.

During 2016 FILA continued growing through strategic acquisitions in the arts & crafts sector, aspiring to become the market leader in this sector by acquiring control of the **Daler-Rowney Lukas Group**, a classic brand that since 1783 has produced and sold goods and accessories for the arts & crafts sector. It has 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.

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

Since 2015, F.I.L.A. S.p.A. has been listed on the MTA-STAR segment of the Italian Stock Exchange. The Group's shareholder structure at the end of the year is shown in paragraph 2.2.2 below.

The Group experienced no significant changes in the course of 2017.

2.2.2 Group size

At the end of 2017, F.I.L.A. Group's numbers were the following:

- Total number of employees: 8,439
- Total number of operations: 35 branches on 5 continents, with 19 manufacturing plants
- Number of countries in which the Group does business: more than 150
- Number of products and services provided: 20 iconic brands and over 20 product categories

The following tables provide information on F.I.L.A. Group's financial and earnings performance for 2016 and 2017:

December 31, 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 PPE and Intangible Assets	177,828	19,512	10,084	88,733	365	(76)	296,446
of which Intragroup	(76)						
Inventories	76,251	48,103	31,761	26,074	3,166	(6,656)	178,699
Trade and Other Assets	78,285	44,305	55,515	11,595	1,189	(58,121)	132,768

December 31, 2017	Europe	North	Central/	Asia	Rest	Consolidation	
Trade and Other Liabilities	(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 Intragroup	(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 Intragroup		117					

2017	Europe	North	Central/	Asia	Rest of the	Consolidation	F.I.L.A. Group
		America	South		World		
Euro thousands			America				
Core Business Revenue	294,357	174,845	101,481	100,690	5,200	(166,219)	510,354
of which Intragroup	(74,328)	(19,509)	(33,901)	(38,407)	(74)		
Gross operating profit (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 Intragroup	16,308	(2,578)	296	-	107		
Profit/(Loss) for the year	(14,893)	15,462	472	2,758	(916)	14,484	17,367
Profit for the year pertaining to non controlling interests	499	-	-	1,080	21		1,600
Profit/(Loss) fir the year pertaining to owners of the parent	(15,392)	15,462	472	1,678	(937)	14,484	15,767

F.I.L.A. S.p.A.'s share capital at December 31, 2017 is outlined in the following tables:

	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%	Non-listed

Shareholders	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	

Shareholders	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	

2.2.3 F.I.L.A. Group production sites

Details on the F.I.L.A. Group's production sites are provided below:

SUBSIDIARY	Year of incorp.	Employees	PRODUCTION SITE	PRODUCTS
EUROPE				
F.I.L.A. S.p.A.	1920	215	Rufina, Florence	Felt-tip pens Modelling clay Writing tools
INDUSTRIA MAIMERI	1923	65	Bettolino di Mediglia, Milan	Colours for the fine arts
OMYACOLOR	1960	82	St Germain La Ville, France	Chalk School-use paints Glues
CANSON S.A.S.	1557	251	Grand Mourier, Annonay, France	Paper for the fine arts School-use paper
			Moulin du Roy, France	Paper rolls
LYRA	1806	90	Nuremberg, Germany	School pencils Fine art pencils
DALER-ROWNEY	1783	228	Bracknell, Great Britain	Fine art colours
			Wareham, Great Britain	Paper for the fine arts
ST. CUTHBERTS	1700	39	Wells, Great Britain	High grade fine art paper

SUBSIDIARY	Year of incorp.	Employees	PRODUCTION SITE	PRODUCTS
THE AMERICAS				
DIXON MEXICO	1953	1,223	Tultitlán, Mexico	Graphite and coloured pencils Extruded pencils School-use paints Wax crayons Modelling clay Industrial use crayons Chalk
			Oaxaca, Mexico	Timber slats for the production of pencils
CANSON USA	1986	74	South Hadley, USA	Paper for the fine arts
DALER-ROWNEY BRIDESHORE	1969	481	La Romana, Santo Domingo	Brushes and canvases
CANSON BRAZIL	2007	65	Indaiatuba SP, Brazil	Paper for the fine arts School-use paper Modelling clay School-use paints
F.I.L.A. ARGENTINA	1996	25	San Isidro, Argentina	Extruded pencils
ASIA				
F.I.L.A. DIXON	2013	584	Kunshan, China	Graphite and coloured pencils
F.I.L.A. DIXON ART & CRAFT	2015	34	Yixing, China	School-use paints
CANSON QINDAO	1997	26	Qingdao, China	Paper for the fine arts
DOMS	1974	4,576	Umargan, India	Graphite and coloured pencils Extruded pencils Sharpeners Erasers Felt-tip pens School-use paints Modelling clay Compasses Rulers and set squares Wax crayons Oil crayons Writing tools Glues
			Jammu, India	Timber slats for the production of pencils
CANSON AUSTRALIA	1985.	21	Melbourne, Australia	Paper for the fine arts

2.3 BUSINESS MODEL

2.3.1 F.I.L.A. Group business

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

Its business model is the sum total of the organisational and strategic solutions that the company deploys in order to gain a competitive advantage. The F.I.L.A. Group's business model is based on its growth path guided by three criteria: product, marketing and communication and distribution.

For F.I.L.A. Group's management, geographical location is the principal criterion for analysis and decision-making, and the company's internal reporting is structured accordingly. The geographical segments into which the Group divides its activities are the following:

- Europe
- North America
- Central and South America
- Asia
- Rest of the World.

F.I.L.A.'s operations are divided into two Business Units:

- School/office/industry
- Fine arts.

Products, although separated by use target, function served, price and margin, have the same uniform quality and production process, and - despite variations from country to country - the same internal (sales networks) or external (customer network) distribution system.

Consequently, the Group's management believes that its operating sector shows a moderate and controlled diversification, in consideration of the significant risks and benefits related to the F.I.L.A. Group's products.

Since 2005, the F.I.L.A. Group has grown exponentially outside of Italy. Its distribution network grew from 3 to 35 branches and now generates over 80% of the Group's turnover. The number of manufacturing plants has risen to 19 in recent years. This permits production of virtually the entire product range at plants owned by the Group.

The F.I.L.A. Group's acquisition strategy is successful because it is based on the following guidelines:

- restructuring and centralisation of corporate functions
- establishing uniform manufacturing processes to make factories/plants increasingly interchangeable
- reorganising manufacturing facilities and product warehouses
- analysing synergies of costs and revenues so as to increase profit margins

- restructuring product and brand portfolios
- focusing on proprietary brands, reducing private labels, which will be used only strategically
- expanding successful manufacturing lines
- eliminating sales intermediaries in order to grow closer to the market and to consumers.

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

Apart from new manufacturing plants and machinery and industrial equipment, 2017 investments were made in the expansion of the French warehouse and the implementation of the SAP system, which, in line with the roll-out road map, will enable the whole Group to use a single ERP system.

2.3.2 Production, R&D, Quality Assurance, brands and products

F.I.L.A. manufactures at 19 factories located on 5 continents. A summary of the manufacturing plants by geographical segment, year of start-up and product lines is shown in paragraph 2.2.3 above.

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

Specifically, R&D is mainly conducted in Europe, Central and South America and Asia, where the main manufacturing plants are located. R&D is performed by experts whose skills are honed by frequent training courses in appropriate subjects.

It is conducted centrally by the Group's R&D department, which comprises 46 employees and devotes most of its efforts to the following activities:

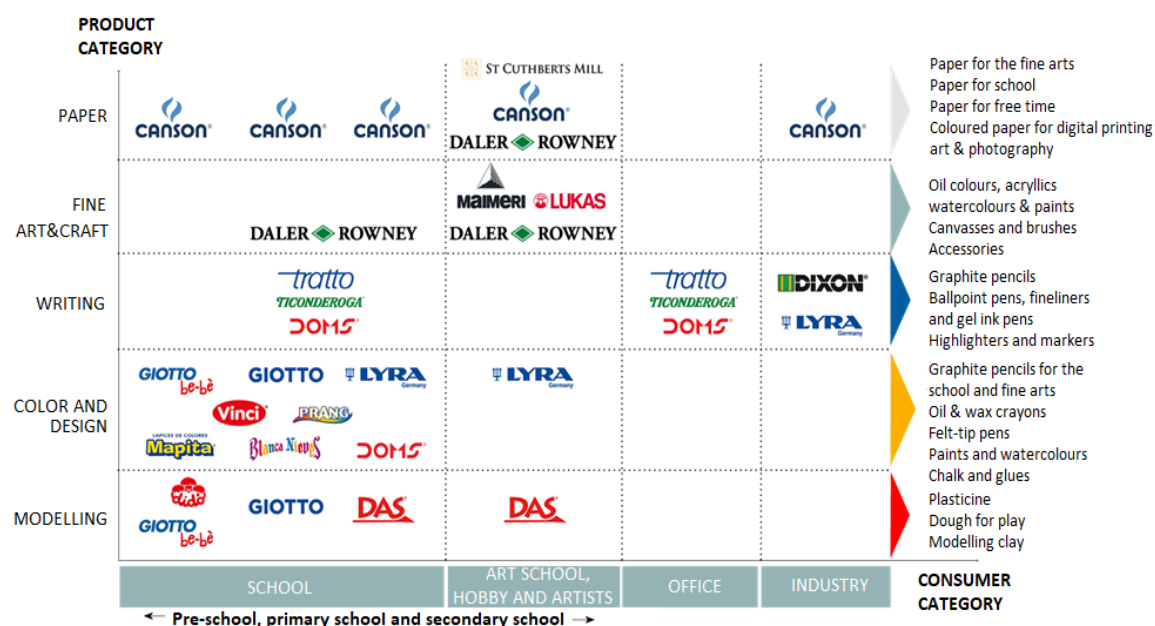
- study and design of new materials and new technical solutions intended to drive innovation or create new products and/or packaging
- determine product quality
- conduct comparisons with competing products
- innovate manufacturing processes jointly with the production research office, with a view to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

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

The Quality Assurance department is coordinated by the parent and employs 139 staff. It is responsible for enforcing uniform quality standards at the Group's facilities. In smaller facilities

the Quality Assurance department is often also in charge of R&D. In order to comply with the laws governing the physical and chemical traits of products, the team constantly monitors legislative changes (such as those affecting use of preservatives in different formulations) and assists the R&D department in adjusting formulations to comply with altered requirements. In view of the attention that the F.I.L.A. Group devotes to product safety issues, the Quality Assurance team strives to enforce the Group's safety guidelines for its products.

Today the F.I.L.A. Group offers one of the most complete range of products on the market, both in terms of its breadth and its depth. It comprises a portfolio of iconic brands that enjoy widespread recognition on the market. The chart beneath shows the F.I.L.A. Group's brands and products arranged by product and consumer type.

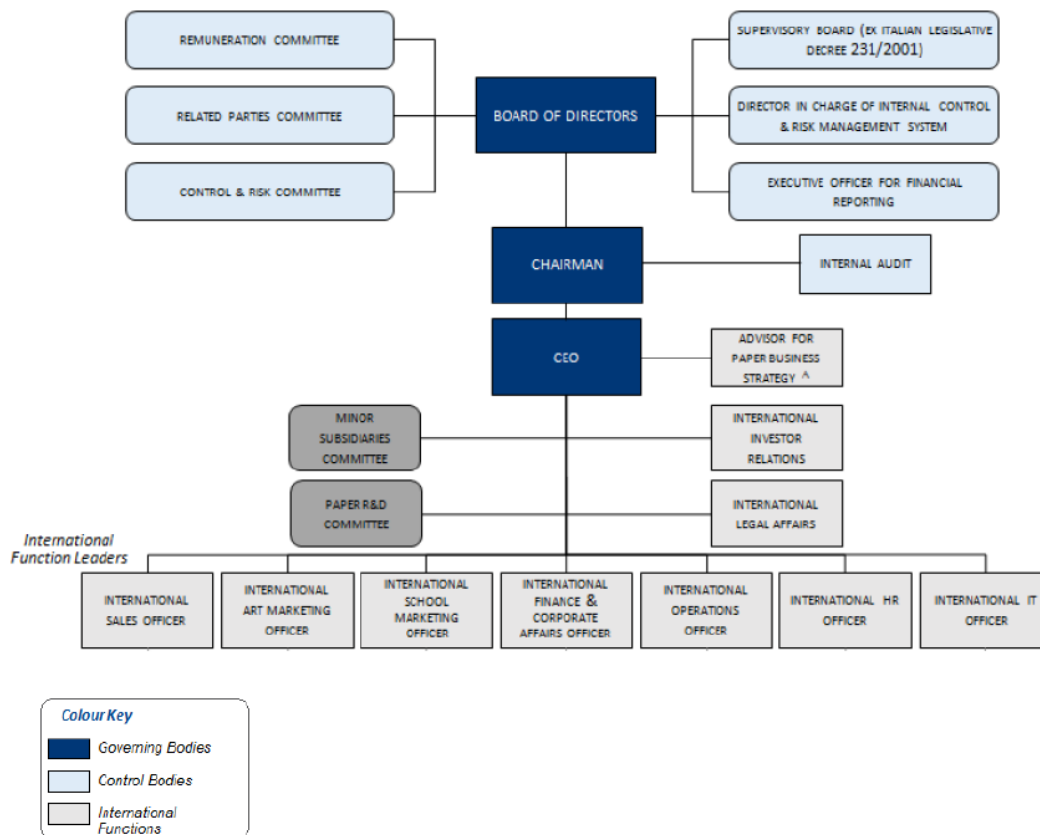


2.4 CORPORATE GOVERNANCE

2.4.1 Governance structure

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

The current model is structured as follows:



On March 15, 2016, F.I.L.A. S.p.A. adopted the Self-Governance Code published on the Borsa Italiana website and all of the measures and controls to guarantee the effective implementation of the recommendations contained therein. For further details on corporate governance, reference should be made to the **“2017 Corporate Governance and Ownership Structure Report as per Article 123-bis of Legislative Decree 58/1998”** available on the company website: <http://www.filagroup.it/governance/>.

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

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

With regards to the Board of Directors, the By-Laws (Article 11) sets out provisions with regards to the composition, appointment, duration and replacement of the members of the Board of Directors, on the basis of the indications established by law and other applicable provisions, also with regards to gender parity. The company is governed by a Board of Directors, chaired by Gianni Mion, comprising 9 members (its number is set by the Shareholders’ Meeting on the basis of the By-Laws): 2 directors are executives and 7 non-executive, of which 3 independent. All directors must satisfy the eligibility and good standing requirements established by applicable law and other provisions.

The election of the Board of Directors is made on the basis of slates presented by shareholders, according to the procedure laid down in the By-Laws. The directors are elected for a period, established by the Shareholders Meeting, of not greater than three years from the acceptance of their office and until the date of the Shareholders' Meeting for the approval of the financial statements for the last year of their appointment.

The Board of Directors is tasked also with drawing up the Code of Ethics, the applicable values and this Non-Financial Statement, which outlines the policies, risks and performances with regards to environmental, personnel, societal, human rights and anti-corruption topics. As part of its activities, also with regards to the voluntary adoption of the Corporate Governance Code of Borsa Italiana, the Board of Directors carries out a periodic self-assessment, reporting such in the Corporate Governance and Ownership Structure Report.

With regards to the Board of Statutory Auditors, the By-Laws (Article 17) sets out provisions with regards to the composition, appointment, duration and replacement of the members of the Board of Statutory Auditors, on the basis of the indications established by law and other applicable provisions, also with regards to gender parity. The Board of Statutory Auditors comprises 3 statutory auditors and 1 alternate auditor, appointed on the basis of slates presented by shareholders according to the procedures outlined in the By-Laws. Statutory Auditors shall hold office for three years, may be re-elected, and their term expires on the date of the shareholders' meeting for the approval of the financial statements related to the third year of their appointment.

With regards to gender parity, the Board of Directors of F.I.L.A. S.p.A. comprises 2 female and 7 male members, in full compliance with the applicable legal and regulatory provisions and the Group's Diversity Policy. Similarly, the Board of Statutory Auditors comprises 1 female and 2 male members.

The following tables present the members of the Corporate Boards and Committees of F.I.L.A. S.p.A. in office at December 31, 2017, as indicated in the Corporate Governance and Ownership Structure Report.

BOARD OF DIRECTORS								
OFFICE	MEMBER	Year of birth	Executive	Non-Executive	Independent	COMMITTEE		
						Control and Risks	Remuneration	Related Parties
Chairperson	Gianni Mion	1943		X				
Chief Executive Officer	Massimo Candela	1965	X					
Executive Director	Luca Pelosin	1966	X					
Director (Honorary Chairman)	Alberto Candela	1939		X				
Director	Annalisa Barbera	1969		X			Member	
Director	Francesca Prandstraller	1962		X	X		Chairperson	
Director	Fabio Zucchetti	1966		X		Member		Member
Director	Sergio Ravagli	1962		X	X	Member	Member	Member
Director	Gerolamo Caccia Dominioni	1955		X	X	Chairperson		Chairperson

BOARD OF STATUTORY AUDITORS		
OFFICE	NAME AND SURNAME	DATE OF APPOINTMENT
Chairperson	Claudia Mezzabotta	July 22, 2015
Standing Auditor	Stefano Amoroso	July 22, 2015
Standing Auditor	Pietro Michele Villa	April 27, 2017
Alternate Auditor	Sonia Ferrero	July 22, 2015

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

In order to prevent the committal of the relevant crimes as per Legislative Decree 231 of 2001 (hereafter also the “Legislative decree no. 231/2001”) and in compliance with the regulation

adopted by CONSOB and Corporate Governance Code of Italian Stock Exchange, the Board of Directors of F.I.L.A. S.p.A. adopted its Organisation, Management and Control Model (hereafter also the “Model”), updated in 2017.

The Model was drawn up to respond to the following requirements identified by Legislative Decree 231/2001:

- identify at risk activities
- set out protocols for the prevention of the relevant crimes as per Legislative Decree no. 231/2001
- identify the means for the management of financial resources and the prevention of relevant crimes
- establish disclosure obligations to the body controlling the function and compliance of the models (Supervisory Board)
- introduce an internal disciplinary system to sanction failure to comply with the measures indicated in the Model.

The criteria for the prevention of the commission of crimes is based on “acceptable risk” i.e. residually “*possibility to commit a crime only by fraudulently violating a preventative protocol*”. The key objective of the Model is to ensure that all Addressees are fully aware that F.I.L.A.’s operations are based on strict compliance with applicable laws and regulations and that such observance is undertaken to ensure that the physical persons and the companies of the F.I.L.A. Group do not run the possibility of committing the cited crimes.

Compliance with the Model is obligatory and any violations constitute non-fulfilment of mandate in terms of the members of the boards of directors and statutory auditors and, for employees, violation of their employment contract obligations, resulting in the application of the penalties established by the disciplinary system.

Except for application of the Code of Ethics and the Group policies and procedures, the subsidiaries are not direct addressees of the Model adopted by F.I.L.A. S.p.A., but are required by the parent to adopt adequate management and control systems to ensure the legal and regulatory compliance and correctness of the respective activities. The subsidiaries have adopted a similar organizational model to that of the parent, in terms of functions, roles and reporting lines.

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

The Supervisory Board - appointed by the Board of Directors, to whom it reports periodically - oversees the updating and correct functioning of the 231 Model. Compliance with the Code of Ethics and the 231 Model are monitored through a specific procedure for the reporting of potential violations and internal audits on 231 compliance for all company areas, also with regards to environmental and worker health and safety aspects.

3 MATERIAL TOPICS CONCERNING THE ENVIRONMENT

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

The F.I.L.A. Group has a global presence and manufactures goods at its 19 facilities located on several continents. The following paragraphs are devoted to analysing and reporting on various aspects of the company's business and manufacturing operations.

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

ENVIRONMENTAL PROTECTION

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

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

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

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

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

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

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

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

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

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

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

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

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

The F.I.L.A. Group's 2017 consultations with its various stakeholder groups did not deal with environmental issues, since no arrangements have yet been made to conduct dialogue on such topics.

3.2 USE OF RAW MATERIALS

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

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

The main raw materials used in the production process of the F.I.L.A. Group are:

- timber to manufacture pencils and canvas frames
- plastic materials used in the production of writing and drawing products, in sharpeners, rulers and other drawing products, in packaging and extruded pencils
- calcium carbonate used in the production of chalks, paints and modelling clay

- flours used in the production of play dough
- graphite used in the production of pencil leads
- wax used in the production of wax crayons and in pencil leads
- cellulose fibres used in paper production
- clay used in the production of modelling clay
- calcium sulphate used in the production of chalks.

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

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

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



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



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

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

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

Timber purchased in 2017 and certifications				
	Measurement unit	Amount	of which certified (%)	Type of certificate
Logs	Cubic meters	23,925	7%	FSC
Slats	Cubic meters	25,634	55%	FSC
Planks	Cubic meters	18,182	100%	PEFC
Total		67,741		

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

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

Recovering timber is a practice consolidated by the F.I.L.A. Group, and specifically numerous stages in the production of the timber slats involve the re-use of timber rejects to manufacture products using the “finger joint” technique whereby timber rejects are recovered to produce the eco-friendly pencil product ranges (e.g. The Ticonderoga Envirostik).

The timber rejects from the timber plank production line in the Oaxaca factory in Mexico are used to manufacture the canvas frames which are then assembled in the Brideshore facility in the Dominican Republic.

The F.I.L.A. Group has made a significant investment in a plantation of approximately 250,000 poplar trees in Xianjiang in north-west China, with the aim of ensuring in future at least a partial use of timber from its own renewable forests. This investment, if successful, will result in the use of the first cycle of trees in 2019/2020. The forecast is that the plantation could produce 40% of supplies required for the Chinese factory's production needs, i.e. 15% of the F.I.L.A. Group's total supply requirements, whilst simultaneously reducing exposure to the volatility in the cost of raw materials, as well as improving the environmental sustainability of its production processes. The project envisages progressively harvesting the timber with the subsequent planting of new trees for at least five cycles.

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

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

Also the Oaxaca factory in Mexico uses log bark and saw dust as fuel to generate heat through two proprietary systems. The annual average production of energy from this source is 95 million MJ.

In various factories of the Group, the production process involves, upstream to the various production phases, either the re-entry of the primary production rejects into the production

process or their sale for use by third parties. These materials are not considered recyclable materials. It would be highly complex to assess the impact of this recycling process.

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

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

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

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

The table below list the main raw material purchases by the F.I.L.A. Group in 2017.

Other materials purchased in 2017	
	kg
Non-treated plastic raw material (PHE/PHEG/ABSI/ECC)	3,086,575
Calcium carbonate	10,249,504
Calcium sulphate	818,166
Clay	8,372,379
Kaolin	400,273
Graphite dusts	1,155,800
Cellulose fibre	13,667,100
Paper rolls	19,826
Wax	1,607,949
Purchased Semi-processed inks	553,896
Talc	992,895
Corn starch	168,249
Flour	457,007
All other raw materials purchased in 2017	41,549,619

The materials below used by the F.I.L.A. Group and listed in the table above are classified as renewables based on GRI definitions: timber, cellulose fibre, paper rolls, wax, flour and corn starch.

3.3 CONSUMPTION OF ENERGY RESOURCES

Energy sources are the available energy sources on Earth i.e. natural resources that humans use to generate heat, move industrial systems, and for light and warmth. Energy sources are classified in accordance with the available technology and by acquired scientific knowledge. The main energy sources are:

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

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

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

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

The energy sources used by the F.I.L.A. Group in its production processes are:

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

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

The following table shows per energy source, the volumes of energy purchased by the F.I.L.A Group.

Energy purchased by source of energy in 2017		
	Measurement unit	Energy consumption
Electricity	Mwh	67,483
Thermal energy	Mega Joules	288,000
Steam	Mega Joules	39,590,252

Regarding the consumption of fossil fuels by the Group, in 2017, natural gas was the main source of non-renewable energy used, followed by diesel oil (representing one fifth of the consumptions of the year). Natural gas is mainly used for heating and in some production processes.

Fossil fuels purchased in 2017	
	Mega Joules
Fuel oil	1,166,961
Diesel	6,393,123
Carbon	0
Natural gas	183,462,236
Total fossil fuels purchased in 2017	191,022,320

Overall, based on the information shown in the previous table, the F.I.L.A Group in 2017 purchased 67,483 MWh of electricity and 326,185,319 MJ of energy from other sources, totalling 569,123,273 MJ of energy purchased.

In terms of the project to reduce energy consumption, the parent launched several initiatives to reduce the electricity used in lighting, saving over 850,000 MJ of energy in 2017. In Dixon Mexico and in Canson, USA, similar projects were also implemented, but with more limited results.

Reduction of energy consumption in 2017			
	Mega Joules	Energy sources	Companies involved
Savings on lighting	852,509	Electricity	F.I.L.A.SPA

The reduction in energy consumption derives from the energy efficiency project replacing LED lights at the Rufina facility.

As already stated, in order to reuse production rejects to generate energy, Dixon Mexico at its plant in Oaxaca operates a steam generation system which uses the sawdust generated from the production process as its fuel. The average annual self-generated power from this source is approximately 95,294,784 MJ.

3.4 ATMOSPHERIC EMISSIONS

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

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

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

Although there are no significant gas emissions arising from the production processes and there are no internal systems in order to self-generate electricity, in such a global and current context, the Group believes it is important to monitor greenhouse gas emissions and any other emissions to determine positive choices to curb its own carbon footprint.

The standard expression for greenhouse gas emissions is the CO₂ equivalent, to determine the contribution of the main gases directly responsible for the greenhouse effect as defined by the Kyoto Protocol; gases such as methane (CH₄), nitrous oxide (N₂O) and carbon dioxide (CO₂). These gases are categorised as a CO₂ equivalent under the specific GWP (global warming potential value). Furthermore, it is emphasised there is a separate calculation of other detrimental and increasingly significant greenhouse gases in the ozone, such as sulphur dioxide (SO₂) and nitrogen oxide (NO₂).

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

Greenhouse gas emissions in 2017

	Tons of CO ₂
Direct emissions (scope 1)	21,525
Indirect emissions (scope 2)	37,387
Total CO₂ emissions	58,912

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

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

The F.I.L.A Group does not purchase or use substances which deplete the ozone layer (better known as ozone-depleting substances (ODS), excluding 8.7 tons of hydrochlorofluorocarbons (HCFCs) used in the Canson facility in France.

The table below shows the F.I.L.A. Group's other polluting emissions in 2017, expressed in kilos. The Group's production processes do not generate any hazardous air pollutants (HAPs) nor any other category of air pollutants identified by local applicable regulations. Significant pollutant emissions detected in 2017 related to persistent organic pollutants (POPs), volatile organic compounds (VOCs) and particulate matters (PMs).

Other significant emissions in 2017

	(kg)
Persistent organic pollutants (POP)	340
Volatile Organic Compounds (VOC)	35,951
Hazardous air pollutants (HAP)	0
Particulate matters (PM)	12,370
Total other significant emissions in 2017	48,661

In terms of geographic segment, as predicted, significant quantities of air pollutants occur in regions where the facilities are located. Volatile Organic Compounds (VOCs) are derived from the use of solvent-based varnishes, particularly in India and in South America in the production of pencils.

3.5 WATER CONSUMPTION

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

In the F.I.L.A. Group's production process, water is mainly used in:

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

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

In 2017, the Group's water supply was mainly from groundwater, which exceeded 59% of the total water withdrawn, and surface water (approximately 32%), while municipal water supplies accounted for 8% percent, and waste waters of other operator-sourced water supplies and recycled waters were limited. Specifically, withdrawals of groundwater occur in the F.I.L.A. Group's Asian companies (India and China) where there is a significant use of water resources from aquifers. Again in Asia, the recorded use of waste waters from other organisations and the use of recycled waters was very limited.

Hydro resources in 2017	
	Cubic meters
Surface waters	715,856
Groundwater (from aquifers)	909,418
Rainwater - collected directly and stored	n.a.
Municipal water supplies or water supplies from other public/private suppliers	128,869
Waste waters from other organisations or companies	2,500
Total withdrawn	1,756,643

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

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

The effluents produced by the F.I.L.A Group are constantly monitored on a regular basis, both internally and externally, to ensure compliance with the prescribed limits. In the majority of

cases, industrial effluents are discharged indirectly into local sewage systems and to external treatment plants.

However, there is no data on rainwater collected, as at present, there is no system to effectively collect data reliably.

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

In terms of the quantity and quality of the wastewaters, the table below outlines the F.I.L.A. Group's final data for 2017 (in cubic metres). In most cases, the Group's effluents are discharged indirectly to local sewage systems and to external treatment plants. The remainder is discharged into the aquifer through internal treatment systems.

Water effluents in 2017	
	Cubic meters
Sub surface waters (excluding groundwater)	0
Surface waters	773,534
Waste water discharged into treatment plants	41,655
Groundwater aquifer waters	18,745
Total waste waters	833,934

In 2017 no significant spillages of polluting substances were recorded.

3.6 OTHER ENVIRONMENTAL TOPICS

Other environmental topics for the Group are:

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

3.6.1 Waste management

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

Solid waste products produced by the Group in 2017 are almost entirely non-hazardous wastes, as shown in the table below

Waste produced		
(kg)	Hazardous	Non-hazardous
Solid wastes	46,656	6,081,517
Liquid wastes	50,696	994,705
Total	97,352	7,076,222

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

Over 95% of the Group's liquid wastes are produced in Europe, and almost all of these are composed of non-hazardous liquid wastes.

Liquid wastes in 2017 accounted for approximately 15% of the total waste produced by the Group. 95% of the liquid wastes produced do not fall under the hazardous or special waste category. The geographic segments with the most liquid hazardous/special wastes are Central/South America.

3.6.2 Environmental protection investments

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

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

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

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

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

The F.I.L.A. Group recently launched a programme to obtain environmental certifications for its production facilities. As of December 31, 2017, only Canson France holds an ISO 14001 certification for its own specific Environmental Management System.

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

3.6.3 Compliance with environmental standards

For the F.I.L.A. Group, compliance with applicable standards, including environmental standards, is paramount.

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

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

In terms of non-compliance with environmental laws and regulations, in 2017, there was only one recorded incident of non-compliance in China at the Dixon Kunshan factory, resulting in a €13,000 sanction for a formal error due to lack of communication concerning an air-emission treatment plant.

3.6.4 Biodiversity

Biodiversity or biological diversity, is the diversity of living things on Earth and is measured in terms of genus, species, populations and ecosystems. Biodiversity is the guarantor of the Earth's survival. Some of the main causes of biodiversity loss are pollution, the introduction of alien species, the loss and fragmentation of habitats, and climate change which not only irreversibly alter the delicate balances of our ecosystem, but may also amplify the effects of this process.

None of the operation sites of the F.I.L.A Group are located in protected regions or in high-value biodiversity zones, or in any areas close to them. Therefore, there are no significant impacts on biodiversity or protected habitats.

4 MATERIAL EMPLOYMENT TOPICS

4.1 RESPECT FOR THE INDIVIDUAL AND MATERIAL TOPICS FOR THE F.I.L.A. GROUP

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

Globally, there are over 8,400 employees at the F.I.L.A. Group, spanning 5 continents across 35 branches. The main risks identified in terms of employee management are low productivity and low-quality work (e.g. due to high levels of turnover or absenteeism), as well as little training or professional upskilling. In order to manage these risks, practices and procedures were implemented locally implementing the Group's guidelines to better manage the potential negative impacts and to propose solutions for improvements where required.

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

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

In 2017, the Group issued a Human Rights Policy document (detailed in section 6 below) which describes, also for its own employees, the general behavioural principles in terms of respecting human rights, valuing diversity, ensuring non-discrimination, providing suitable working conditions, combating forced labour and trafficking human beings, compliance with working times, remuneration and child labor regulations, the provision of safe and secure workplaces, the freedom of association and entitlement to collective bargaining agreements, the respect of integrity, privacy and relations with the local community.

From the materiality analysis and from the process of collecting non-financial type data and information, topics of major relevance for employees of the F.I.L.A Group are the following:

- Equal opportunities
- Occupational health and safety

Before going into the specifics on the actual employee-related topics, we outline below some data regarding the composition of the F.I.L.A workforce in terms of turnover, remuneration and training programmes in 2017, both on a Group-wide basis as well as per geographic segment.

Composition of the workforce

The F.I.L.A Group at the end of 2017 had 8,439 employees, of which over 99% on full-time contracts. The workforce is 47% female and who represent over 80% of part-time contracts.

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

Gender breakdown of the workforce at December 31, 2017			
<i>Number of employees</i>	Male	Female	Total
Full-time employees	4,427	3,935	8,362
Part-time employees	15	62	77
Total workforce at December 31, 2017	4,442	3,997	8,439
% of total	52.6%	47.4%	100%

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 is based in the countries in which the main production facilities are located (India, China and Mexico), as outlined at paragraph 2.2.3 above.

Outside of Europe, the Company's workforce grew hand in hand with the Group's acquisition process, initiated in 2005 (see paragraph 2.2.1 above). The geographic segment with the greatest percentage of women in the workforce is Central/South America (over 55%).

Employee breakdown per gender and geographic segment at December 31, 2017									
<i>Number of employees</i>	Full-time employees			Part-time employees			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Europe	654	379	1033	11	55	66	665	434	1,099
North America	113	92	205	1	0	1	114	92	206
Central/South America	814	1,020	1834	0	2	2	814	1022	1,836
Asia	2,829	2,432	5261	0	2	2	2829	2434	5,263
Rest of the World	17	12	29	3	3	6	20	15	35
Total	4,427	3,935	8,362	15	62	77	4,442	3,997	8,439

In terms of the composition of the workforce per contractual category, Group-wide, at the end of 2017 a little over three quarters of employees were blue-collars and 22% white-collars, with the remainder in management.

In Asia, over 80% were blue-collar, in Central/South America over three quarters, whereas in Europe there account for half of the workforce. Levels were slightly lower in North America, followed by the Rest of the World, with less than one third of the workforce. This data coincides with the location of the Group's operations in places with a significant level of manufacturing i.e. Asia and Central/South America.

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

Employee breakdown per category and geographic segment at December 31, 2017				
<i>Number of employees</i>	White-collar	Blue-collar	Management	Total
Europe	442	558	99	1,099
North America	74	95	37	206
Central/South America	411	1,410	15	1,836
Asia	873	4,366	24	5,263
Rest of the World	19	10	6	35
Total	1,819	6,439	181	8,439

In terms of the composition of the workforce per age group, it emerges that at December 31, 2017 almost half of the employees at Group level were under 30, with almost a quarter aged between 31 and 40. 72% of the total workforce was composed of employees under 40.

In terms of geographic segment, at the end of 2017, Europe saw an increase of employees aged over 40 (73%). Almost half of the North American workforce is aged between 31 and 50, whereas in Central/South America 57% of the population was under 40, a percentage which increases to 88% in Asia and reaches 54% in the Rest of the World.

Employee breakdown by age and geographic segment at December 31, 2017					
<i>Number of employees</i>	Less than 30	31-40 years	41-50 years	over 50 years	Total
Europe	115	189	380	415	1,099
North America	32	51	51	72	206
Central/South America	678	378	439	347	1,836
Asia	3,218	1,425	527	93	5,263
Rest of the World	8	11	8	8	35
Total	4,045	2,054	1,405	935	8,439

For the purposes of this Statement, only employees with short-term/long-term contracts per gender and geographic segment were listed.

Employee turnover in 2017

In 2017, staff turnover (i.e. the net result between new employee hires and employees leaving) at Group level had less than a 10% impact on staff numbers at the beginning of the year. During this period, worldwide, 4,600 new employee hires were recorded (54% of the active personnel at the end of 2017), compared to 3,900 leavers (equal to 46% of active personnel at the end of 2017), including retirees.

The employee category with the biggest turnover in terms of numbers, although without much difference in terms of percentage compared to other categories, is the blue-collar category (10% blue-collar, 8% management and 7% white-collar). Despite the F.I.L.A Group's best efforts, the high turnover of blue-collar in Asia and in Mexico can be explained by the inherent nature of the labor market in these countries. Here work is considered by employees as something temporary, resulting in low levels of staff loyalty. The Indian facility, which is located in a rural area, shows employees leaving during the harvest period or employees re-locating to industrial areas. It can also be highlighted that a good portion of the blue-collar working in the Chinese industrial agglomerations come from rural areas and return there during Chinese New Year celebrations and very often do not necessarily return to the Company. Employee-retention initiatives implemented by the F.I.L.A. Group specifically focused on potentially critical roles, whereas the Group does not believe it necessary to take action in relation to roles which have no impact on product quality and safety (for example manual packaging operations).

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

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

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

Group-wide, turnover in 2017 for men was 10% with women at 7%, with a total turnover of 11%.

The table below provides a Group-wide breakdown of turnover in 2017, per gender, contract category and geographic segment.

Turnover by geographic segment									
<i>Number of employees</i>	Male			Female			Total		
	New Hires	Departures	Total	New Hires	Departures	Total	New Hires	Departures	Total
Europe	88	(100)	(17)	41	(44)	(5)	129	(144)	(15)
North America	40	(24)	16	46	(27)	19	86	(51)	35
Central/South America	459	(408)	51	448	(431)	17	907	(839)	68
Asia	2,320	(1,948)	372	1,138	(883)	256	3,458	(2,831)	627
Rest of the World	8	(4)	4	2	(6)	(4)	10	(10)	0
Total	2,902	(2,476)	426	1,672	(1,389)	283	4,590	(3,875)	715

2017 Turnover by category

Number of employees (headcount)	White-collar	Blue-collar	Management	Total
Total number of employees at the beginning of the year	1,698	5,858	168	7,724
New employee hires in 2017	554	4,000	36	4,590
Departures in 2017	(433)	(3,419)	(23)	(3,875)
Total no. of employees at December 31, 2017	1,819	6,439	181	8,439

2017 Turnover by gender

Number of employees (headcount)	Male	Female	Total
Total number of employees at the beginning of the year	4,012	3,712	7,724
New employee hires in 2017	2,915	1,675	4,590
Departures in 2017	(2,485)	(1,390)	(3,875)
Total no. of employees at December 31, 2017	4,442	3,997	8,439

In terms of distribution per geographic segment, Asia had the highest turnover in 2017 compared to the other geographic segments within the Group, with over 80% variation in the population.

Turnover 2017 by age group

Number of employees	Less than 30	31-40 years	41-50 years	over 50 years	Total
Total number of employees at the beginning of the year	3,431	1,947	1,387	959	7,724
New hires in 2017	3,153	949	366	122	4,590
Departures in 2017	(2,539)	(842)	(348)	(146)	(3,875)
Total no. of employees at December 31, 2017	4,045	2,054	1,405	935	8,439

Total turnover in 2017 by age group and geographic segment

<i>Number of employees</i>	Less than 30	31-40 years	41-50 years	over 50 years	Total
Europe	18	(11)	0	(22)	(15)
North America	11	7	10	7	35
Central/South America	63	(2)	0	7	68
Asia	521	113	5	(12)	627
Rest of the World	1	0	3	(4)	0
Total	614	107	18	(24)	715

85% of the turnover of incoming employees in 2017 were employees under 30 and approximately 15 % were employees between 31 and 40. The over 50 age group up saw a greater number of departures compared to new employees hires due to retirement. In terms of geographic segment, Asia recorded an 85% turnover during the period, as shown above, due to the significant numbers of manufacturing plants in that region and due to the characteristics of the labour market, followed by Central/South America with a 9.5% turnover.

Remuneration

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

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

The variable elements in some of the Group company payscales relate to performance-based bonuses across the board for white-collar, blue-collar and management, and are governed by "second level contracts" and individual bonuses linked to performance reviews for positions of responsibility. For countries where there is no "second level contract" for employees with positions of responsibility, there are however individual bonuses linked to achieving qualitative and quantitative objectives in line with F.I.L.A. S.p.A 's remuneration policy.

In fact, in 2016, the parent Company established and issued a remuneration policy for key management personnel and managers.

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

Training

In 2017, as in the previous years, F.I.L.A. Group employees engaged in training and upskilling programmes, particularly in the area of operations and health and safety, with over 70% of the training delivered Group-wide, in order to maintain high quality standards in compliance with the Group's training policy.

Anti-corruption training was implemented in Europe (18 hours in 2017) and in Central/South America (20 hours).

Training in 2017 by course topic			
(hours)	Male	Female	Total
Operator training	14,228	13,890	28,118
Health & Safety	6,854	4,086	10,940
Foreign languages	2,757	3,352	6,109
Other training courses	2,705	1,848	4,553
IT	1,622	948	2,570
Risk Management	177	266	443
Anticorruption & antibribery	34	4	38
Total training hours 2017	28,377	24,394	52,771

In terms of geographic segment, most of the training in 2017 was delivered in Central/South America (almost 40%), followed by Europe and Asia (30% each).

Training in 2017 by course topic			
(hours)	Male	Female	Total
Europe	11,168	5,745	16,913
North America	159	88	247
Central/South America	6,210	13,893	20,103
Asia	10,819	4,648	15,467
Rest of the World	20	20	40
Total	28,376	24,394	52,771

In Central/South America training also covered compliance with local regulations, whilst in Asia it mainly covered health and safety in the workplace.

The average number of training hours per employee in 2017 was highest in Europe (15 hours), this being also due to the requirement for more in-depth professional training on compliance

management given that the parent is a publicly-listed company and that the company issues company policies.

Training in 2017 by professional category				
(hours)	Management	White-collar	Blue-collar	Total
Operator training	387	6,491	21,240	28,118
Health & Safety	487	1,701	8,752	10,940
Foreign languages	451	5,305	353	6,109
Other training courses	421	1,631	2,501	4,553
IT	134	2,319	117	2,570
Risk Management	60	171	212	443
Anticorruption & antibribery	18	20		38
Total training hours	1,958	17,637	33,174	52,771

In relation to the training by professional category, in 2017, 60% of the total training Group-wide was delivered to blue-collars, nearly 35% to white-collars and the rest to management. Almost three quarters of the total training hours allocated were to white-collars on operation-related topics and almost 80% related to health and safety. Most of the IT training (over 90%) was provided to white-collars.

Management mainly received health and safety training courses (25%), foreign languages courses (24%) and other specific training programmes (over 20%). White-collars mainly received training on operation topics (37%) and foreign-languages (30%). Blue-collars mainly received training on operational topics (63%), as well as training on health and safety in the workplace.

Industrial relations and job protection

At the F.I.L.A. Group, industrial relationships are based on an effective collaborative relationship respectful of the reciprocal roles of the parties. F.I.L.A. S.p.A., applies the national collective employment contract (CCNL) for employees of Companies manufacturing pens, pencils, detachable parts of pens and pencils and associated articles and for employees of companies manufacturing brushes, paintbrushes, sweeping brushes and raw material preparations, as well for employees of the other Italian Chemical Industry subsidiary, thus by extension to all Italian companies. Thus, 100% of these employees are covered by the CCNL. For overseas companies, there have been no significant trade union activities. In terms of the pre-notification limits for organisational change, the contracts of the Italian Companies' employees are in line with the collective contracts outlined above.

4.2 EQUAL OPPORTUNITIES

At December 31, 2017, 40% of F.I.L.A Group employees were women and 53% men. In terms of geographic segment, Central/South America is the region with the greatest number of women in the workforce (over 55%), while the percentages in the other regions is between 40% (Europe) and 46% (Asia).

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

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

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

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

All contract options, (flexible-time, seasonal work, short working weeks and working time accounts contracts), in addition to part-time options (61 out of 1,051 employees), are available in Europe. In North America there are flexible-time contracts and part-time contract options available (1 out of 259 employees), while in Central/South America seasonal work, short working weeks and working time accounts contracts are available. In Asia, seasonal work and part-time work contract options are available, although only a limited number of employees choose the part-time contracts (2 out of 5,263 employees). In the rest of the world, there are short working week and part-time contract options available (5 out of 36 employees).

As outlined in section 2.4.1, the composition of the administrative and control bodies of the F.I.L.A. Group are compliant with legal requirements in terms of gender diversity, with 2 women on the 9-member Board of Directors, and a female Chairperson on the 3-member Board of Statutory Auditors. The educational and professional backgrounds of the Board of Directors covers experience at Board level, operational, financial, fiscal, legal, and Human Resource competencies, as well as academic teaching.

Based on the data collected at Group-level, no specific practices aimed at promoting gender equality have emerged.

4.3 OCCUPATIONAL HEALTH AND SAFETY

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

The main risk identified in relation to health and safety is non-compliance with applicable legislative standards.

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

As seen in paragraph 4.1 above, a significant amount of the total training hours allocated in 2017 related to health and safety in the workplace (over 20% of the total training hours). Occupational health and safety training programmes at Group level in 2017 were mainly delivered to workers and administrative staff (over 95% of the total training hours on this topic).

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

Reasons for absentee days in 2017			
(in days)	Male	Female	Total
Absences due to incident	2,002	1,534	3,536
Absences due to illness	9,536	8,455	17,991
Absences for other reasons	78,013	79,373	157,386
Total absentee days in 2017	89,551	89,362	178,913

In 2017 there were 137 incidents recorded at Group level, none of which were fatal. The majority of these related to cases of illnesses of less than 40 days. The majority of workplace accidents involved men, whereas for women this involved accidents on commute (accidents during the commute to and from the workplace).

Absentee rate 2017			
% of worked days	Male	Female	Total
Absentee rate due to incidents	0.1%	0.1%	0.2%
Absentee rate due to illness	0.5%	0.4%	0.9%

Reasons for absent days in 2017 by geographic segment

(in days)	Europe	North America	Central/South America	Asia	Rest of the World	Total
	Absences due to incident	1,898	44	718	876	-
Absences due to illness	11,441	714	3,587	2,083	166	17,991
Absences for other reasons	1,694	2,355	11,841	141,496	-	157,386
Total absentee days	15,033	3,113	16,146	144,455	166	178,913

In 2017 the F.I.L.A. S.p.A. parent, Omyacolor and Canson France signed social contract agreements for the benefit of their employees.

F.I.L.A. S.p.A. is certified according to the British OHSAS Standard 18001:2007 “Occupational Health and Safety Assessment Series” - for its Occupational Health and Safety Management System. During the process of managing and improving its own Occupational Health and Safety Management System, and based on the OHSAS 18001 standards, the parent identified and defined, under the scope of its Occupational Health and Safety Management System, the following processes which it monitors regularly:

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

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

5 MATERIAL SOCIAL TOPICS

5.1 THE SOCIAL ROLE OF THE F.I.L.A. GROUP AND RELATED TOPICS

The F.I.L.A Group has over 8,400 employees - spanning 5 continents - and manufactures and sells products for children, teenagers and adults. Topics of social relevance for a Group such as F.I.L.A range from relationships with stakeholders, to the integrity and the rigour of the Company’s conduct, from supplying quality and safe products, to the management of quality relationships with its supply chain as well as with the communities wherein we operate.

From the analyses of the content and from the process of collecting non-financial data and information, topics of increasing relevance for the F.I.L.A Group are the following:

- product safety
- integrity of the supply chain

- diversity.

The section below presents an analysis of the following aspects:

- product quality and safety
- relationships with the supplier chain
- protecting diversity
- other social topics

5.2 PRODUCT QUALITY AND SAFETY

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

PRODUCT QUALITY

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

It is essential that in the conduct of its business operations there is complete and timely knowledge of the standards applicable to product safety overall, and more specifically to the safety of toys/cosmetic toys, both in terms of their production and their sale. Given that the majority of the F.I.L.A. Group's products' end-consumers are children, the risks associated with product non-compliance are closely monitored and managed.

The main risks related to the quality and safety of the products launched on the market are failed compliance with all of the product safety standards. To mitigate these risks, the products manufactured by the Group are assessed for safety and compliance before their market launch.

In addition to internal tests to verify product safety, the F.I.L.A. Group also uses external, and fundamentally accredited laboratories to obtain third-party safety standard compliance certificates. Furthermore, in 2017, the Group issued a specific Product Safety Policy. Each of the Group's production site liaises with and continues an ongoing relationship with its own historical reference institute, whilst subsidiaries outside the European Union obtain certificates issued by globally accredited institutes.

The management of product safety takes product category into account (products classified as toys, products classified as “cosmetic toys”, products classified neither as toys nor as cosmetics).

Products classified as toys

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

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

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

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

All products classified as toys by the F.I.L.A. Group and sold on the European market are compliant in relation to the relevant standards and bear the "CE" compliance marking.

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

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

For all other markets, reference is generally made to any potential specific requirements by local distributors, in addition to the European standards. A useful reference tool is the International Council of Toy Industries website detailing, nation by nation, the toy industry standards in effect as well as the accreditation Entities.

<http://www.toyicti.org/info/toysafetystandards.html>.

Products classified as "cosmetic toys"

Some of the F.I.L.A. Group's products are classified as cosmetic toys, thus, in addition to regulatory standards applicable to toys, these toys are also subject to regulation 1223/2009 EC (Cosmetic Directive). This Directive requires a toxicological assessment of the product's safety, as well as compliance with good manufacturing processes practices (GMP), established under UNI EN ISO 22716:20084 for cosmetic products.

Other aspects relating to product safety

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

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

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

Management of product safety topics

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

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

In 2017 no actions were required to be taken to review product compositions due to non-compliances arising from the market or from controls by external authorities

During the reporting period there were no significant cases of non-compliance in terms of health and safety, product information, labelling and marketing.

5.3 SUPPLIER RELATIONS

The Group's supplier relations are based on loyalty, correctness, transparency and equality of treatment.

The F.I.L.A. Group's business model entails the verticalisation of production operations involving a high degree of intragroup exchanges.

With regard to its own operations, the main risks identified by the Group in its relations with its own suppliers, are the risks of disruption to the supply chain, indiscriminate price increases or material supplies not complying with pre-defined qualitative standards or non-compliances with regulatory standards.

To mitigate these risks, the company adopted a diversification policy of its supply sources requiring that any main supply material is purchased from a lead supplier with at least one alternative supplier to be used if required, as well as an inward inspection plan of the purchased materials themselves.

Supplier screening is based on the technical, qualitative and quantitative requirements of the purchased products as ordered, the reputation and the reliability of the third-party company (including an ability to comply with the supply-plan so as to avoid delays in production schedules), as well as finding the best quality/price ratio. Suppliers are selected based on an objective assessment of quality, price, service as well as their ability to guarantee sufficient support, and in all cases of benefit to the F.I.L.A. Group. Additionally, and where possible, supplier screening prioritises suppliers capable of demonstrating attention to the working conditions of their own employees, as well as having a focus on their impact on local communities of reference and on the natural environment where they operate.

In terms of Group suppliers, not only timber suppliers, in 2017, there were over 3,200 suppliers listed (3,216 to be precise). At the moment, environmental and social criteria are not integrated into the supplier screening process.

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

5.4. PROTECTION OF DIVERSITY

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

The Group has identified discrimination of minorities to be the main risk within its own operations. In order to mitigate this risk, the Group issued a Policy document which is distributed on a Group-wide basis.

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

5.5 OTHER SOCIAL TOPICS

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

The Group's operations in 2017 had no significant negative impacts on local communities.

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

F.I.L.A. S.p.A. in Italy:

- supports "GOLD FOR KIDS", the Umberto Veronesi Foundation for child and

adolescent cancer care; an initiative to fund treatment procedures, providing young patients instant access to the best treatments available internationally. F.I.L.A.'s support comes in the form of two ad hoc boxes of special colouring pencils signed "GIOTTO GOLD Limited Edition², with a percentage of the sales being donated to the Umberto Veronesi Foundation to fully finance a research bursary.

- sponsors the La Scala Theatre project named "Grandi Spettacoli per Piccoli", (Big Shows for Little ones), a special project showcasing the works of the greatest Italian authors, revisiting them in terms of their language and adapting them to modern times.
- supplies free colouring and modelling materials to workshops, including the MuBa Children's Museum in Milan, the Venice Art and Architecture Biennial and the Milan Triennial.
- supports the creative and the "colourful" development of children through a consolidated partnership with M.U.S.E, an Association responsible for the enhancement of the Florentine Civic Museums through a series of workshops - Short stories on colour - for families with children aged between 4-7.
- supports the activities of the Istituto degli Innocenti di Firenze, one of the oldest Italian institutes dedicated to protecting children, which has operated continuously since 1445 to support children, mothers and families.

Industria Maimeri, through the Maimeri Foundation in Italy:

- organises events, exhibitions and projects connected to the famous artist Gianni Maimeri (1884-1951) founder of Maimeri Industries, "GIANNI MAIMERI, ANTHOLOGICAL EXHIBITION", St. Petersburg, The Russian Academy Museum of Fine Arts, the Moscow State Institute of Culture, the Tsaritsyno Museum of History, Architecture, Art and Landscapes, a permanent exhibition, part of the collection "I MUSICISTI E DEI NOTTURNI" ("NOCTURNE COMPOSERS AND GODS") at La Verdi Auditorium in Milan (since September 20, 2012, ongoing).
- organises events, exhibitions and projects with contemporary artists such as "ASFISSIA" – a private exhibition by Massimiliano Alioto (February 15-17, 2017) at the M.A.C. Space in Milan; "CRICETI" a private exhibition by Rudy van der Velde (June 7-9, 2017) at the M.A.C. Space in Milan.
- realises social intervention *site projects* with artists in schools, hospital emergency departments, paediatric wards, and in prisons, such as "RIDIAMO EMOZIONI AI BAMBINI", (THRILLS FOR KIDS) where some of the artists chosen by the Maimeri Foundation decorated the paediatric wing of the San Matteo Hospital in Pavia.
- promotes competitions and international awards for students and professionals; The National Maimeri painting Award – "Colour in an era of digital vision", Collective exhibition at the Maimeri Space in Milan.
- supports scientific and humanistic research on colour and the history of colour.

Canson in France:

- since 2006, sponsor of the Louvre Museum in Paris, with whom it has collaborated also on the restoration of works of art. The sponsorship of goods in kind (artist notebooks with high quality paper) are part of the educational and social support programmes for artistic learning.

- since 2010 it has also supported the Department of Graphic Arts in the restoration of works of art, as well as supporting scientific projects, to help in the conservation and dissemination of works of art.

Dixon Mexico in Mexico:

- organises workshops with teachers and schoolchildren across various Mexican cities (in 2017 over 70 workshops took place involving over 350 teachers and 1,150 children)
- collaborates with the Museo Nacional de San Carlo national museum, with the XXI Century National Medical Centre, as well as with the Hospital 20 Noviembre, organising a workshop for terminally-ill children in disadvantaged areas (over 500 children involved)
- donates materials and organises special workshops with the En la Casa Hogar de Niñas (92 children over 2 days), with the Museo Numismático, and the Museo de la Acuarela, (Watercolour Museum), as well as with the Franz Mayer Museum and the National Palace (with over 3,000 children taking part in July and August)
- sustains various breast cancer research initiatives by the Cimab Foundation
- works with the media (newspapers, magazines and television) to support social and environmental communication initiatives, in addition to distributing colouring materials.
- supports the Fondazione Dibujando un mañana to secure the future for disadvantaged children.

Dixon US in the USA:

- supports the "Kids in Need Foundation" set up in 1995 in Chicago to support the neediest students by providing them with educational materials and active across the US in 40 Resource Centres. Dixon Ticonderoga represents the National Pencil Sponsor and supports the Foundation both financially (USD 70,000 p.a.) and in kind through supplies of materials. In 2017 KINF supported close to 6 million students and 200,000 teachers;
- funds the Junior Achievement project and is involved in preparing students in managing their educational and career choices. In 2017, it reached out to almost 5 million students in over 200,000 classes;
- supports the Orlando Magic Youth Foundation, the most important support programme partnering with the state of Florida to help primary and secondary schools. Through weekly lessons in the schools, the Orlando Youth Foundation is the main communication channel for public school in Florida;
- produces pencils (Ticonderoga Renew Pencils) from timber production rejects (finger joints);
- supports the "BackPack Program" in Ohio, providing schoolchildren with food;
- donates a portion of its pencil sales - Ticonderoga Breast Cancer Awareness Pencils - to support breast cancer research;
- supplied USD 200,000 of school materials after the Hurricane in Texas;

- supports the Terracycle Recycle Program allowing consumers to take part in recycling programmes for used writing materials which are collected at recycling centres in the school districts.

Lyra in Germany:

- supports young Italian talent by using their work on the some of its products' packaging
- supports local institutions through products donations mainly to nurseries, kindergartens, day care centres and to the Nuremberg family home;
- supports the “Gift with Heart project”, through the donation of materials, a project promoted by Humedica, an NGO founded in Kaufbeuren (Bavaria) in 1969 which provides humanitarian assistance across 90 countries worldwide. The mission of the Humedica projects is assisting people in crisis due to natural disasters or structural poverty;
- provides technical material to the student art studio at the University of Nuremeberg's Faculty of Design.

6 SIGNIFICANT HUMAN RIGHTS TOPICS

6.1 RESPECT FOR HUMAN RIGHTS

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

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

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

Paragraph 5.4 discusses topics related to anti-discrimination, protecting and valuing diversity in relations with the Group's external stakeholders, whilst paragraph 2.4.1 deals with the corporate bodies and paragraph 4.2 with employees.

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

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

The main risks identified by the Group within this scope are risks of forced labour, child labour (pursuant to local and applicable legislative regulations), the presence of discriminatory behaviours (based on gender, sexual orientation, religious and political beliefs) or sexual harassment.

In 2017, it was determined that there were no Group operations or relations with suppliers with high risks of forced labour or a significant risk of child labour.

During this period there were no reported cases of discrimination, harassment, or child labour at Group level.

In 2017, the F.I.L.A Group did not conduct any business combinations, nor make any significant investment, nor sign any agreements with clauses on human rights.

6.2 FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

The Policy on Human Rights and Work Practices reiterates the importance of disseminating and promoting the Group's core ethical values which also relates to the employees' choice to join collective bargaining associations or trade unions without fear of intimidation or reprisal. It is not believed that the Group operates or interacts with suppliers where the freedom of association may be at risk.

7 SIGNIFICANT TOPICS CONCERNING THE COMBATING OF ACTIVE AND PASSIVE CORRUPTION

7.1 MATERIAL ANTI-CORRUPTION TOPICS

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

The F.I.L.A. Group bases its own operations on the respect of the values defined in its Code of Ethics, with the understanding that the business cannot remove itself from ethics in business affairs. The respect of human rights is essential for the Group's long-term sustainability as it is for the communities wherein it operates. Our operations are founded on the respect of human rights as non-negotiable and fundamental values.

From the materiality analyses and from the process of collecting non-financial data and information, the topic of combatting corruption is of increasing relevance for the F.I.L.A. Group and includes measures to combat both active and passive corruption.

7.2 MEASURES TO COMBAT ACTIVE AND PASSIVE CORRUPTION

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

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

3. Relations with the Public Administration (P.A.)

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

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

The Addressees of the Code are not authorised to offer, accept or promise to any party (public or private), on their own behalf or on behalf of others, any form of donation, compensation, benefit or service, of any nature, also of a non-financial nature, provided to influence, or,

however, to gain from favourable treatment in the course of their duties. Acts of commercial courtesy are permitted, as long as concerning gifts of a moderate value and which may not be interpreted as provided to obtain improper or illegitimate advantage.

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

“4. Relations with Inspecting and Supervisory Authorities:

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

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

With reference to this scope of activity, the main risks identified are reputational risk (in terms of damage to the F.I.L.A. image) linked to subsequent sanctions and/or the interruption of commercial relations with the relevant partners of the Group, the application of disqualification sanctions (for offences within the scope of the application of Legislative Decree 231 of 2001).

No corruption risk-assessments regarding the Group's operations were conducted in 2017.

7.3 OTHER TOPICS

The Code of Ethics which outlines the Group's key principles and its values was distributed to all employees and was included in training programmes in accordance with each individual company's procedures. Specifically, at parent level, all employees based at the headquarters and in the facilities received classroom training on Legislative Decree 231.

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

In 2017, 27 Group employees, mainly from the parent received training on active and passive anti-corruption topics and related procedures. Fewer than half of these are management employees, 44% were white-collars and 4% were members of the governing bodies.

In terms of geographic segment, anti-corruption training involved 18 employees in Europe (of which 14 managers and 4 white-collar employees at the parent), 9 in Central/South America (of which 1 was a member of the Board of Directors in Chile and 8 were white-collar employees in Argentina).


In 2017, there were no recorded incidents of active or passive corruption.

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 FILA <small>Fabbrica Italiana Lenti ed Attori</small>	Reporting scope					
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FILA Benelux SA	Belgium	NO	YES	YES	NO	YES
Canson SAS	France	YES	YES	YES	YES	YES
Lodi 12 SAS	France	NO	NO	NO	NO	YES
Omyacolor S.A.	France	YES	YES	YES	YES	YES
Daler Rowney GmbH	Germany	NO	YES	YES	NO	YES
Johann Froeschels Lyra Bleistift-Fabrik GmbH & Co. KG	Germany	YES	YES	YES	YES	YES
Lyra Bleistift-Fabrik Verwaltungs GmbH	Germany	NO	NO	NO	NO	YES
Lukas-Nerchau GmbH	Germany	NO	YES	YES	NO	YES
Nerchauer Malifarben GmbH	Germany	NO	YES	NO	NO	YES
FILA Hellas SA	Greece	NO	YES	YES	NO	YES
Canson Italy	Italy	NO	YES	NO	NO	YES
FILA S.p.A.	Italy	YES	YES	YES	YES	YES
Industria Malmieri S.p.A.	Italy	YES	YES	YES	YES	YES
FILA Polska Sp.Z.o.o	Poland	NO	YES	YES	NO	YES
FILA Stationary O.O.O.	Russia	NO	YES	YES	NO	YES
FILA Hiberia S.L.	Spain	NO	YES	NO	NO	YES
FILA Hispania S.A.	Spain	NO	YES	YES	NO	YES
Fila Nordic AB	Sweden	NO	YES	YES	NO	YES
FILA Stationary and Office Equipment Industry Ltd. Co.	Turkey	NO	YES	YES	NO	YES
Daler Rowney Ltd	UK	YES	YES	YES	YES	YES
St. Cuthberts Mill Limited Paper	UK	YES	YES	YES	YES	YES
St Cuthberts Holding Limited	UK	NO	NO	NO	NO	NO
Renoir Topco Ltd	UK	NO	NO	NO	NO	YES
Renoir Midco Ltd	UK	NO	NO	NO	NO	YES
Renoir Bidco Ltd	UK	NO	NO	NO	NO	YES
Daler Rowney Group Ltd	UK	NO	NO	NO	NO	YES
Longbeach Arts Ltd	UK	NO	NO	NO	NO	YES
Daler Holdings Ltd	UK	NO	NO	NO	NO	YES
Daler Board Company Ltd	UK	NO	NO	NO	NO	NO
Rowney (Artist Brushes) Ltd	UK	NO	NO	NO	NO	NO
Daler Designs Ltd	UK	NO	NO	NO	NO	NO
Lastmill Ltd	UK	NO	NO	NO	NO	NO
Rowney & Company Pencils	UK	NO	NO	NO	NO	NO
FILA Art Products AG	Switzerland	NO	NO	NO	NO	NO
Dixon Ticonderoga Inc.	Canada	NO	YES	YES	NO	YES
Grupo F.I.L.A.-Dixon, S.A. de C.V.	Mexico	YES	YES	YES	YES	YES
Brideshore srl	Dominican Republic	YES	YES	YES	YES	YES
Canson Inc.	USA	YES	YES	YES	YES	YES
Daler Rowney USA Ltd	USA	NO	NO	NO	NO	NO
Dixon Ticonderoga Company	USA	YES	YES	YES	NO	YES
Eurholdham USA Inc.	USA	NO	NO	NO	NO	YES
FILA Argentina S.A.	Argentina	NO	YES	YES	YES	YES
Canson Brasil I.P.E. LTDA	Brasil	YES	YES	YES	YES	YES
F.I.L.A. Chile Ltda	Chile	NO	YES	YES	YES	YES
Canson Qingdao Ltd	China	YES	YES	YES	YES	YES
Beijing F.I.L.A.-Dixon Stationery Company Ltd.	China	NO	NO	YES	YES	YES
FILA Dixon Stationery (Kunshan) Co., Ltd.	China	YES	YES	YES	YES	YES
FILA Dixon Art & Craft Yixing Co. Ltd	China	YES	YES	YES	YES	YES
Xinjiang F.I.L.A.-Dixon Plantation Company Ltd.	China	YES	YES	YES	YES	YES
DOMS Industries Pvt Ltd	India	YES	YES	YES	YES	YES
PT. Lyra Akrelux	Indonesia	NO	YES	YES	YES	YES
FILA SA PTY LTD	South Africa	NO	YES	YES	YES	YES
Canson Australia PTY LTD	Australia	YES	YES	YES	YES	YES

10 ANNEX - INDEPENDENT AUDITOR'S REPORT

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

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

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

Pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 (the "decree") and article 5 of Consob (the Italian Commission for listed companies and the stock exchange) Regulation no. 20267, we have been engaged to perform a limited assurance engagement on the 2017 consolidated non-financial statement of the F.I.L.A Group (the "Group") prepared in accordance with article 4 of the decree and approved by the board of directors on 21 March 2018 (the "NFS").

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

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

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

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

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

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

Auditors' independence and quality control

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

Auditors' responsibility

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

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

Specifically, we carried out the following procedures:

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

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

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

Specifically, we held interviews and discussions with the Company's management personnel and personnel of Industria Maineri S.p.A. and Canson SAS. We also performed selected procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit non-financial data and information to the office that prepares the NFS.

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

- at company and subsidiaries level
 - a) we held interviews and obtained supporting documentation to check the qualitative information presented in the NFS and, specifically, the business model, the policies applied and main risks for consistency with available evidence,
 - b) we carried out analytical and selected procedures to check, on a sample basis, the correct aggregation of data in the quantitative information;
- we visited F.I.L.A. S.p.A., Industria Maineri S.p.A. and Canson SAS, which we have selected on the basis of their business, contribution to the key performance indicators at consolidated level and location, to meet their management and obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2017 consolidated non-financial statement of the F.I.L.A Group has not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the decree and the GRI Standards - Core option.

Milan, 29 March 2018

KPMG S.p.A.

(signed on the original)

Domenico Bellini
Director of Audit