



**CONSOLIDATED FINANCIAL STATEMENTS OF THE F.I.L.A.
GROUP
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2018**

**SEPARATE FINANCIAL STATEMENTS OF F.I.L.A. S.p.A.
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2018**

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

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Contents

I - General Information	4
Board of Directors.....	4
Overview of the F.I.L.A. Group.....	5
Organisational structure.....	7
II - Directors' Report	9
Economic overview	9
Key Financial Highlights	11
F.I.L.A Group Key Financial Highlights.....	15
Normalised operating performance.....	15
Business seasonality.....	18
Statement of Financial Position	19
Financial Overview	22
Segment reporting.....	25
Geographical segments – Statement of financial position	26
Geographical segments – Statement of comprehensive income	27
Geographical Segments – Other Information	28
Investments	29
Other Information	30
Management and control.....	30
Treasury Shares.....	30
Research and development and Quality Control.....	30
Transactions with Related Parties	32
Key Events in the year	32
Subsequent events.....	36
Outlook	36
Going Concern.....	36
Risk Management	37
Environment and Safety.....	51
Personnel.....	52
Corporate Governance	54
Reconciliation between Parent and Consolidated Equity and Result	55
III Consolidated Financial Statements of the F.I.L.A. Group at December 31, 2018	58
Consolidated Financial Statements	58
Statement of Financial Position	58
Statement of Comprehensive Income	59
Statement of changes in Equity.....	60
Consolidated Statement of Cash Flows	61
Statement of financial position with indication of related party transactions pursuant to CONSOB resolution No. 15519 of July 27, 2006.....	63
Statement of Comprehensive Income with indication of related party transactions pursuant to CONSOB resolution No. 15519 of July 27, 2006.....	64
Explanatory Notes to the Consolidated Financial Statements of the F.I.L.A. Group	65
Commitments and guarantees	158
Transactions with Related Parties	161
Disclosure pursuant to Article 149 of the Consob Issuer's Regulation	168
Subsequent events.....	169

Attachments	170
Attachment 1 - List of companies included in the consolidation and other equity investments .	170
Atypical and/or Unusual Transactions	171
Statement of the Manager in Charge and Corporate Bodies	172
Independent Auditors' Report pursuant to Article 14 of Legislative Decree No. 39 of January 27, 2010	173
IV - Separate financial statements of F.I.L.A. S.p.A. at December 31, 2018	180
Separate financial statements of F.I.L.A. S.p.A.	180
Statement of Financial Position	180
Statement of Comprehensive Income	181
Statement of changes in Equity	182
Statement of Cash Flows	183
Statement of Financial Position pursuant to CONSOB Resolution No. 15519 of July 27, 2006	185
Statement of Comprehensive Income pursuant to CONSOB Resolution No. 15519 of July 27, 2006	186
Notes to the Separate Financial Statements of F.I.L.A. S.p.A.	187
Subsequent events	255
Atypical and/or Unusual Transactions	256
Final considerations	257
Statement of the Manager in Charge and Corporate Bodies	258
Board of Statutory Auditors' Report on the separate financial statements at December 31, 2017 prepared as per Article 2429 of the Civil Code.	259
Independent Auditors' Report pursuant to Article 14 of Legislative Decree No. 39 of January 27, 2010	277

I - General Information

Board of Directors

Board of Directors

Chairman	Gianni Mion
Honorary Chairman	Alberto Candela
Chief Executive Officer	Massimo Candela
Executive Director	Luca Pelosin
Director (**)	Annalisa Barbera
Director (*) (**)	Filippo Zabban
Director (*) (**) (***)	Gerolamo Caccia Dominioni
Director (*) (**)	Francesca Prandstraller
Director (*) (**)	Paola Bonini
Director (*) (**)	Alessandro Potestà

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

(**) Non-Executive Director.

(***) Lead Independent Director.

Control, Risks and Related Parties Committee

Gerolamo Caccia Dominioni
Paola Bonini
Filippo Zabban
Alessandro Potestà

Remuneration Committee

Francesca Prandstraller
Annalisa Barbera
Filippo Zabban
Paola Bonini

Board of Statutory Auditors

Chairman	Gianfranco Consorti
Statutory Auditor	Elena Spagnol
Statutory Auditor	Pietro Michele Villa
Alternate Auditor	Stefano Amoroso
Alternate Auditor	Sonia Ferrero

Independent Auditors Firm

KPMG S.p.A.

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

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

The F.I.L.A. Group at December 31, 2018 operates through 21 production facilities and 35 subsidiaries across the globe and employs approx. 9,500, becoming a pinnacle for creative solutions in many countries with brands such as GIOTTO, DAS, LYRA, Canson, Maimeri, Daler & Rowney Lukas, Ticonderoga, Pacon, Strathmore and Princeton.

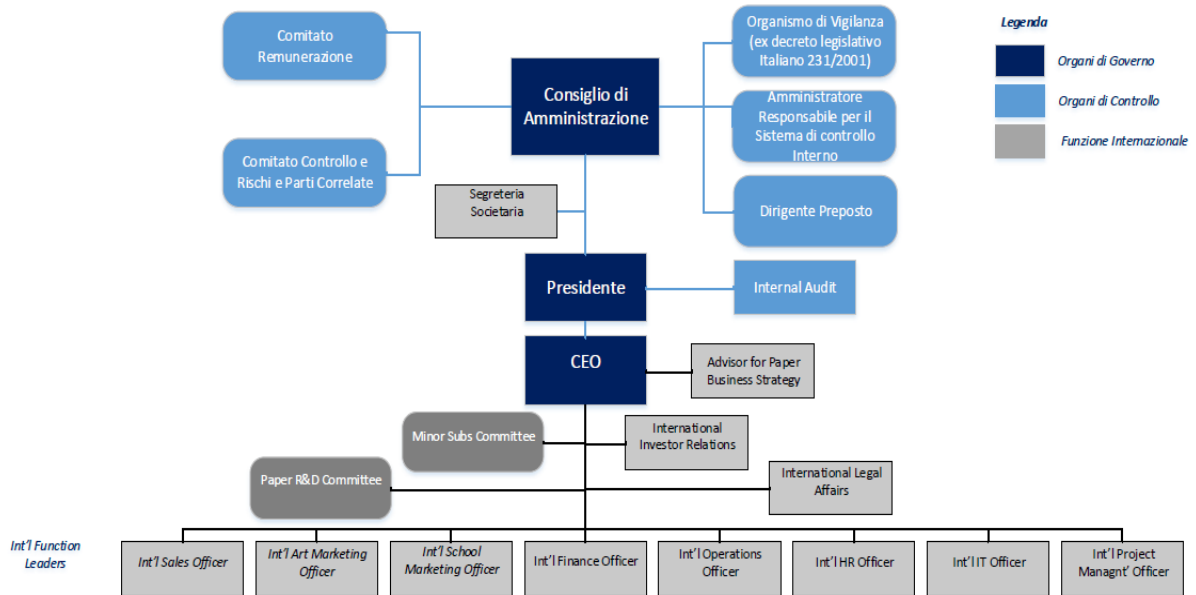
Founded in Florence in 1920 by two noble Tuscan families, della Gherardesca and Antinori, F.I.L.A. has achieved strong international growth in the past 20 years, supported by a series of strategic acquisitions. Over the years the Company acquired: (i) the Italian firm Adica Pongo in 1994, a leading producer of modelling clay for children; (ii) the Spanish firm Fila Hispania S.L. (formerly Papeleria Mediterranea S.L.) in 1997, the Group's former exclusive distributor in Spain; (iii) the French firm Omyacolor S.A. in 2000, a leading manufacturer of modelling putties and clays; (iv) the U.S. Dixon Ticonderoga Group in 2005, a leading producer and distributor of pencils in North America, with subsidiaries operating on the Canadian, Mexican, Chinese and European markets; (v) the German LYRA Group in 2008, which allowed the Group to enter the German, Scandinavian and Eastern Asian markets; (vi) the business unit operated by Lapiceria Mexicana in 2010, one of the main local competitors in the budget coloured and graphite pencils market; and (vii) the business unit operated by Maimeri S.p.A. in 2014, a manufacturer and distributor of paints and accessories for arts and crafts. In addition to these operations, on the conclusion of an initiative which began with the acquisition of a minority stake in 2011, control was acquired in 2015 of the Indian company DOMS Industries Pvt Ltd. (viii.) In 2016, the F.I.L.A. Group focused upon development through strategic art and craft sector acquisitions, seeking to become the leading market player. On February 3, 2016, F.I.L.A. S.p.A. acquired control of the Daler-Rowney Lukas Group, an illustrious brand producing and distributing materials and accessories on the arts and crafts market since 1783, with a direct presence in the United Kingdom, the Dominican Republic, Germany and the USA. (ix). In September 2016, the F.I.L.A. Group acquired the entire share capital of St. Cuthberts Holding Limited and the operating company St. Cuthberts Mill Limited, 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. (x). 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. (xi). In June 2018, F.I.L.A. S.p.A., through its US subsidiary Dixon Ticonderoga Co. (U.S.A.), consolidated its role as a leading player on the US market with the acquisition of the US Group Pacon, which through brands such as Pacon, Riverside, Strathmore and Princeton, is a leader in the US schools and arts and crafts sector.

Organisational structure

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





**DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL
STATEMENTS OF THE F.I.L.A. GROUP AND THE SEPARATE
FINANCIAL STATEMENTS OF F.I.L.A. S.p.A. AT DECEMBER 31,
2018**

II - Directors' Report

Economic overview

In 2018 robust growth continued in India and China in the BRICS area. There were signs of a moderate recovery in North America and Central and South America, with the exception of Argentina. Growth remained essentially weak in the European area.

Among the F.I.L.A. Group's markets, there was particularly strong growth in Asia, above all in India, and in Central and South America, in particular in Mexico, Brazil, Chile and Argentina. The U.S. market, despite a robust performance, showed a decline in the group's revenues after years of constant, rapid growth, primarily due to temporary internal organizational problems that have since been resolved, due in part to the acquisition on June 7, 2018 of the Pacon Group, which has already yielded a significant contribution.

The situation in the European market was divided, with solid growth in countries like England, Greece, Spain and Germany, and flat or weak growth in Italy and France.

Management devoted considerable attention to the plan to implement the Group's new ERP (SAP), which is still in progress, to the start-up of the new central European warehouse in France, and to the acquisition and integration from a commercial and production standpoint of the Pacon Group.

At this time, it is not believed that Brexit will have a significant impact. The Group is constantly monitoring the situation to assess any future implications.

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

	Country	December 31, 2018		December 31, 2017	
		Inflation	GDP	Inflation	GDP
Euro zone	Italy	1.34%	1.00%	1.40%	1.50%
	Spain	1.86%	2.57%	2.00%	3.10%
	Portugal	1.32%	2.15%	1.60%	2.50%
	Greece	0.77%	2.14%	1.20%	1.80%
	France	2.15%	1.61%	1.20%	1.60%
	Turkey	16.79%	3.28%	10.90%	5.10%
	Germany	1.87%	1.57%	1.60%	2.00%
	Poland	1.94%	5.22%	1.90%	3.80%
	Sweden	2.05%	2.47%	1.60%	3.10%
	North America	U.S.A.	2.48%	2.89%	2.10%
Canada		2.32%	2.12%	1.60%	3.00%
Latin America	Mexico	4.85%	2.21%	5.90%	2.10%
	Chile	2.46%	4.15%	2.30%	1.40%
	Argentina	32.09%	-2.83%	26.90%	2.50%
BRICs	China	2.00%	6.55%	1.80%	6.80%
	India	4.50%	7.54%	3.80%	6.70%
	Brasil	3.78%	1.16%	3.70%	0.70%
	Russia	2.93%	1.63%	4.20%	1.80%
Others	South Africa	4.53%	0.73%	5.40%	0.70%
	Australia	1.96%	3.06%	2.00%	2.20%

Source: OECD, November 2018

Key Financial Highlights

The F.I.L.A. Group 2018 Key Financial Highlights are reported below.

Euro thousands	December 2018	% core revenue	December 2017	% core revenue	Change 2018 - 2017	Normalizations			
						of which: IFRS 15 effect ⁽²⁾	of which: IFRS 9 effect ⁽³⁾	of which: Non-Recurring Charges	
Core Business Revenue	588,747	100.0%	510,354	100.0%	78,393	15.4%	(14,202)	-	
EBITDA ⁽¹⁾	73,510	12.5%	73,124	14.3%	386	0.5%	(1,055)	(22,334)	
EBIT	49,024	8.3%	53,268	10.4%	(4,244)	-8.0%	(1,055)	822	
Net financial expense	(26,419)	-4.5%	(22,359)	-4.4%	(4,060)	-18.2%	1,055	(767)	
Total income taxes	(12,144)	-2.1%	(13,542)	-2.7%	1,398	10.3%	-	(551)	
F.I.L.A. Group Net Profits attributable to owners of the Parent	8,747	1.5%	15,767	3.1%	(7,020)	-44.5%	-	271	
<i>Earnings per share (€ cents)</i>									
	<i>basic</i>	0.20		0.38					
	<i>diluted</i>	0.19		0.38					

NORMALISED - Euro thousands	December 2018	% core revenue	December 2017	% core revenue	Change 2018 - 2017	of which:
						Pacon Group ⁽⁴⁾
Core Business Revenue	602,949	100.0%	510,354	100.0%	92,595	18.1%
EBITDA ⁽¹⁾	96,899	16.1%	80,605	15.8%	16,294	20.2%
EBIT	71,609	11.9%	60,820	11.9%	10,789	17.7%
Net financial expense	(26,707)	-4.4%	(15,849)	-3.1%	(10,858)	-68.5%
Total income taxes	(15,738)	-2.6%	(14,277)	-2.8%	(1,461)	-10.2%
F.I.L.A. Group Net Profits attributable to owners of the Parent	27,308	4.5%	29,105	5.7%	(1,797)	-6.2%
<i>Earnings per share (€ cents)</i>						
	<i>basic</i>	0.62		0.70		
	<i>diluted</i>	0.59		0.69		

Euro thousands	December 31, 2018	December 31, 2017	Change 2018 - 2017	of which:
				of which: IFRS 9 ⁽³⁾ Pacon Group ⁽⁴⁾
Cash Flows from operating activities	49,741	23,643	26,098	
Investments	(23,370)	(23,899)	529	
% core business revenue	3.9%	4.7%		
<i>Net capital employed</i>				
Net capital employed	791,579	479,191	312,388	(886)
Net Financial debt ⁽²⁾	(452,770)	(239,614)	(213,156)	-
Equity	(338,809)	(239,577)	(99,232)	886

⁽¹⁾ The Gross Operating Profit (EBITDA) corresponds to the operating result before amortisation and depreciation and impairment losses;

⁽²⁾ Indicator of the net financial structure, calculated as the aggregate of the current and non-current financial debt, net of cash and cash equivalents and current financial assets and loans provided to third parties classified as non-current asset. The net financial position as per CONSOB Communication DEM/6064293 of July 28, 2006 excludes non-current financial assets. The non-current financial assets of the F.I.L.A. Group at December 31, 2017 amount to Euro 3,284 thousand, of which Euro 474 thousand included in the calculation of the net financial position; therefore the F.I.L.A. Group financial indicator does not equate, for this amount, with the net financial position as defined in the above-mentioned Consob communication. For further details, see paragraph

⁽³⁾ The Group has adopted IFRS 15 and IFRS 9 for the first time on January 1, 2018. According to first time adoption methods, the comparative information has not been restated. Please refer to the Annex - "Change of accounting standards - Impact of IFRS 15 and IFRS 9 on the consolidated financial statements" for more information about the effects related the application of the new

⁽⁴⁾ Please refer to the "Note 1 - Intangible assets" for more information about the effects related the first consolidation of Pacon Group

2018 Normalisations:

- The adjustment to “Core Business Revenue” concerns first-time application of IFRS 15, resulting in a reclassification which reduced revenue by Euro 14.2 million;
- The normalisation on 2018 EBITDA concerns non-recurring charges of Euro 23.4 million, principally concerning consultancy for the M&A’s in 2018 and reorganisation costs and only residually from the application of IFRS 15 (Euro 1.1 million);
- The normalisation on EBIT (totalling Euro 22.6 million), in addition to the above effects, includes the first-time application in financial year 2018 of IFRS 9 for Euro 0.8 million;
- The normalisation to Net financial expenses concerns fees and financial charges relating to the funding activities for the M&A’s undertaken in the period;
- The normalisation of the 2018 Profit attributable to the owners of the parent concerns the above-stated normalisations, net of the tax effect.

2017 Normalisations:

- The normalisation of the 2017 EBITDA relates to non-recurring operating costs of approx. Euro 7.5 million, principally for Group reorganisation plans and the Stock Grant Plan for specific Group employees.
- The normalisation in the financial items was Euro 6.5 million and concerned the financial charge recognised by F.I.L.A. S.p.A. in application of the Canson Group purchase price adjustment mechanism (Euro 7.5 million). This amount was partly offset by the financial income of the company Lyra KG (Germany) and deriving from the sale of the 30% stake held in FILA Nordic AB (Sweden) amounting to approx. Euro 1.0 million.
- The normalisation of the 2017 Profit attributable to the owners of the parent concerns the above-stated adjustments, net of the tax effect.

In order to permit a more accurate assessment of the F.I.L.A. Group’s financial performance and financial position, some alternative performance measures are presented alongside the conventional financial measures pursuant to IFRSs. Such alternative performance measures are not to be considered replacements for the IFRS-compliant measures.

The alternative performance measures used are illustrated below:

Gross operating profit or EBITDA: this is calculated as profit for the period, excluding the following components: (i) income taxes for the year, (ii) depreciation, amortization and impairment, (iii) financial income and expense and (iv) profit or loss from discontinued operations. The F.I.L.A. Group uses this measure as an internal management target and in external presentations (for analysts and investors), as it is useful in measuring the overall operating performance of the F.I.L.A. Group and of F.I.L.A. S.p.A.

The table below presents a reconciliation of the profit for the year with the gross operating profit:

<i>Euro thousand</i>	December 31, 2018	December 31, 2017
Profit attributable to non-controlling interests	1,714	1,600
Profit/(loss) attributable to shareholders of the parent	8,747	15,767
Profit of the period	10,461	17,367
Income taxes	12,144	13,542
<i>Income current taxes</i>	14,378	15,719
<i>Income deferred taxes</i>	(2,234)	(2,177)
Amortization & Depreciation	24,486	19,856
Financial items	26,419	22,359
<i>Financial Income</i>	(7,878)	(3,118)
<i>Financial Expenses</i>	34,312	25,543
<i>Income/Expenses from Investments</i>	(15)	(66)
EBITDA	73,510	73,124

The Group defines normalised gross operating profit or EBITDA as gross operating profit or EBITDA gross of: (i) non-recurring charges and (ii) the application of IFRS 15.

The following is a reconciliation between gross operating profit or EBITDA and normalised gross operating profit or EBITDA:

<i>Euro thousand</i>	December 31, 2018	December 31, 2017
EBITDA	73,510	73,124
Extraordinary expenses	22,334	7,481
IFRS 15 effect	1,055	-
EBITDA Normalized	96,899	80,605

Operating profit or EBIT: this is calculated as profit for the period, excluding the following components: (i) income taxes for the year, (ii) financial income and expense and (iii) profit from discontinued operations.

The Group defines normalised operating profit or EBIT as operating profit or EBIT gross of: (i) non-recurring charges and (ii) the application of IFRS 15 and IFRS 9.

<i>Euro thousand</i>	December 31, 2018	December 31, 2017
EBIT	49,024	53,268
Extraordinary expenses	22,334	7,481
Impairment losses on Intangible assets	18	71
IFRS 15 effect	1,055	-
IFRS 9 effect	(822)	-
EBIT Normalized	71,609	60,820

Net financial position (or net financial debt): this is a valid measure of the F.I.L.A. Group's financial structure. It is calculated as the aggregate of the current and non-current financial debt net of cash and cash equivalents and of current and non-current financial assets relating to derivative instruments. The net financial position as per CONSOB Communication DEM/6064293 of July 28, 2006 excludes non-current financial assets. Non-current financial assets amount to Euro 474 thousand at December 31, 2018 and to Euro 6 thousand at December 31, 2017. Accordingly, the F.I.L.A. Group financial indicator at December 31, 2018 and December 31, 2017 differs by those amounts from net financial position as defined in the above-mentioned Consob communication.

F.I.L.A Group Key Financial Highlights

The F.I.L.A. Group 2018 Key Financial Highlights are reported below.

Normalised operating performance

The F.I.L.A. Group 2018 results report an increased EBITDA of 20.2% on the previous year (+1.9%, excluding the M&A effect¹).

	2018	% core business revenue	2017	% core business revenue	Change 2018 - 2017	
<i>NORMALISED - Euro thousands</i>						
Core Business Revenue	602,949	100%	510,354	100%	92,595	18.1%
Other Revenue and Income	8,607		18,300		(9,693)	-53.0%
Total Revenue	611,556		528,654		82,902	15.7%
Total operating costs	(514,657)	-85.4%	(448,049)	-87.8%	(66,608)	-14.9%
EBITDA	96,899	16.1%	80,605	15.8%	16,294	20.2%
Amortisation, depreciation and Impairment losses	(25,290)	-4.2%	(19,785)	-3.9%	(5,505)	-27.8%
EBIT	71,609	11.9%	60,820	11.9%	10,789	17.7%
Net financial expense	(26,707)	-4.4%	(15,849)	-3.1%	(10,858)	-68.5%
Pre-tax profit	44,902	7.4%	44,971	8.8%	(69)	-0.2%
Total income taxes	(15,738)	-2.6%	(14,277)	-2.8%	(1,461)	-10.2%
Net Profit for the Year	29,164	4.8%	30,694	6.0%	(1,530)	-5.0%
Non-controlling interest profit attributable to owner of the Parent	1,856	0.3%	1,589	0.3%	267	16.8%
F.I.L.A. Group Net Profit attributable to owner of the Parent	27,308	4.5%	29,105	5.7%	(1,797)	-6.2%

The main changes compared to 2017 are illustrated below.

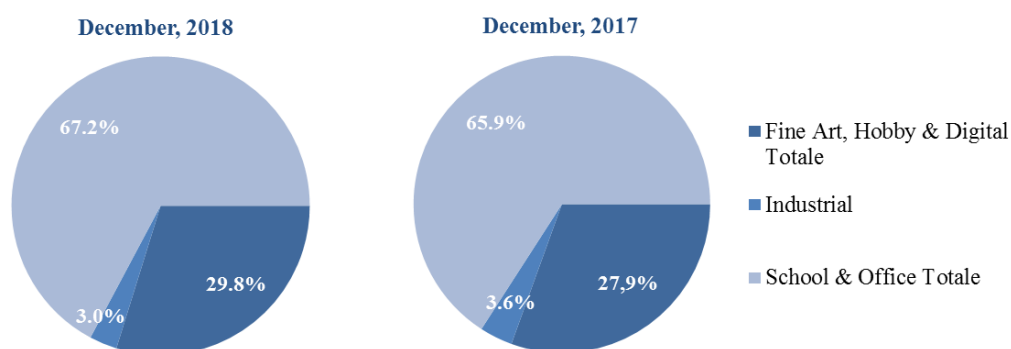
Core business revenue rose by Euro 92,595 thousand, or 18.1% to Euro 602,949 thousand.

Organic growth was Euro 2,558 thousand (+0.5% on 2017), calculated net of negative currency effects of approx. Euro 22,359 thousand (mainly due to the appreciation of the euro against the Mexican peso, Indian rupee, U.S. dollar, Pound sterling and several other currencies such as the Turkish lira, Rouble and Swedish krona) and the M&A effect of Euro 112,396 thousand relating to the revenues of the Pacon Group, acquired in June 2018. This growth principally relates to Asia for Euro 14,548 thousand (+23.36% on the previous year, mainly relating to the Indian company DOMS Industries Pvt Ltd) and Central-South America for Euro 6,928 thousand (+10.25% on the previous year, mainly in Mexico, Chile, Argentina and Brazil), and was partially offset by the revenue contraction in North America of Euro 11,963 thousand (-7.7% on the previous year), in Europe of Euro 5,956 thousand (-2.7% on the previous year, particularly in Italy and France)

¹ M&A effect from companies acquired in 2018: Pacon Group.

and in the Rest of the World for Euro 999 thousand (-19.5% on the previous year, mainly in Australia).

In order to better illustrate F.I.L.A. Group developments, reference should be made to the table below highlighting revenue compared with the previous period by “Strategic Segments” in which the Group operates (the school and office strategic business segment, the arts and crafts strategic business segment and, to a residual extent, industrial products):



Other revenue and income of Euro 8,607 thousand fell by Euro 9,693 thousand, mainly due to lower exchange gains on commercial transactions.

Operating costs in 2018 of Euro 514,657 thousand increased approx. Euro 66,608 thousand on 2017, mainly due to the M&A effect, partially offset by the depreciation of the currencies used by the main group companies against the Euro. Raw material prices in addition rose in 2018 - particularly for pulp, packaging and cedar wood - alongside higher transport costs (in particular in the U.S.A.) and overheads (in India and Mexico mainly due to the expanded workforce and at F.I.L.A. S.p.A. for the introduction of SAP).

The gross operating profit of Euro 96,899 thousand increased by Euro 16,294 thousand on 2017 (+20.2%). In organic terms gross operating profit rose Euro 1,539 thousand, or 1.9%, on the previous year. The M&A effect relating to the acquisition of the Pacon Group was Euro 16,874 thousand, whereas the total currency effect on gross operating profit was a negative Euro 2,119 thousand.

Amortisation, depreciation and impairment losses rose by Euro 5,505 thousand, principally due to higher amortisation and depreciation resulting from investments and the M&A effect.

Net financial expense increased by Euro 10,858 thousand, substantially due to the higher borrowing costs related to the new credit facility taken out to acquire the Pacon Group.

The normalised income taxes totalled Euro 15,738 thousand.

Net of the profit attributable to non-controlling interests, the F.I.L.A. Group normalised profit in 2018 was Euro 27,308 thousand compared to Euro 29,105 thousand in the previous year.

Business seasonality

The group's operations are affected by the business' seasonal nature, as reflected in the consolidated results.

The F.I.L.A. Group primarily operates in the school and office strategic business segment and the arts and crafts strategic business segment. Historically, the school and office strategic business segment has reported greater sales in the second and third quarters of the year than in the first and fourth quarters of the year. This is mainly due to the fact that in the Group's main markets (i.e., North America, Mexico, India and Europe), schools reopen in the period from June to September. By contrast, the arts and crafts strategic business segment reports greater sales to some extent in the first, but especially in the fourth quarter, than in the second and third quarters, offsetting the seasonal nature of the school and office strategic business segment.

The quarterly breakdown of profit or loss shows the concentration of sales in the second and third quarters in conjunction with the "schools' campaign". Specifically, significant sales are made through the traditional "school suppliers" channel in June and through the "retailers" channel in August.

Seasonality may become more significant when it is viewed in relation to working capital. In fact, in the school and office strategic business segment the Issuer has historically invested large quantities of financial resources to meet the enormous demand for products from July to September, while only receiving payments in November.

2018 and 2017 key financial figures are reported below.

Euro thousands	2017				2018				2018 LIKE-FOR- LIKE
	First 3 mth. 2017	First 6 mth. 2017	First 9 mth. 2017	FY 2017	First 3 mth. 2018	First 6 mth. 208	First 9 mth. 2018	FY 2018	FY 2018
Core Business Revenue	117,613	260,543	391,548	510,354	104,796	259,140	437,481	588,747	476,351
<i>Full year portion</i>	23.05%	51.05%	76.72%	100.00%	17.80%	44.02%	74.31%	100.00%	100.00%
EBITDA	16,072	38,988	62,018	73,124	15,511	34,548	61,497	73,510	60,768
<i>% core business revenue</i>	13.67%	14.96%	15.84%	14.33%	14.80%	13.33%	14.06%	12.49%	12.76%
<i>Full year portion</i>	21.98%	53.32%	84.81%	100.00%	21.10%	47.00%	83.66%	100.00%	
Normalised EBITDA	17,106	43,846	67,959	80,605	16,200	44,602	73,605	96,899	80,025
<i>% core business revenue</i>	14.54%	16.83%	17.36%	15.79%	15.46%	17.21%	16.82%	16.46%	16.80%
<i>Full year portion</i>	21.22%	54.40%	84.31%	100.00%	16.72%	46.03%	75.96%	100.00%	
Net Financial Debt	(255,852)	(285,584)	(276,466)	(239,614)	(269,878)	(612,657)	(591,263)	(452,770)	NA

Statement of Financial Position

The F.I.L.A. Group's financial highlights at December 31, 2018 are as follows.

<i>Euro thousands</i>	December 2018	December 2017	Change 2018 - 2017
Intangible Assets	445,924	208,091	237,833
Property, plant & equipment	104,472	88,355	16,117
Financial Assets	3,608	4,725	(1,117)
Net Fixed Assets	554,004	301,171	252,833
Other Assets/Non-Current Liabilities	20,501	15,564	4,937
Inventories	262,432	178,699	83,733
Trade and Other Receivables	151,617	132,768	18,849
Trade and Other Payables	(105,537)	(96,263)	(9,274)
Other Current Assets and Liabilities	2,071	241	1,830
Net Working Capital	310,583	215,445	95,138
Provisions	(93,509)	(52,989)	(40,520)
Net Capital Employed	791,579	479,191	312,388
Equity	(338,809)	(239,577)	(99,232)
Net Financial Debt	(452,770)	(239,614)	(213,156)
Net Funding Sources	(791,579)	(479,191)	(312,388)

The F.I.L.A. Group's net invested capital of Euro 791,579 thousand at December 31, 2018 was composed of net non-current assets of Euro 554,004 thousand (up by Euro 252,833 thousand on December 31, 2017), net working capital of Euro 310,583 thousand (up by Euro 95,138 thousand on December 31, 2017) and other non-current assets/liabilities of Euro 20,501 thousand (up by Euro 4,937 thousand on December 31, 2017), net of provisions of Euro 93,509 thousand (Euro 52,989 thousand at December 31, 2017).

Intangible assets rose by Euro 237,833 thousand compared to December 31 2017, mainly due to the change in the consolidation scope. The acquisition of the Pacon Group in fact contributed to the consolidated financial statements intangible assets of Euro 163,323 thousand (principally concerning brands and customer lists valued according to the Purchase Price Allocation method) and goodwill generated by the transaction of Euro 70,933 thousand.

Property, plant and equipment rose by Euro 16,117 thousand compared to December 31, 2017. This increase is due both to the acquisition of the Pacon Group (contribution at the consolidation date of

Euro 13,920 thousand) and net investments made of Euro 15,474 thousand, principally by DOMS Industries Pvt Ltd (India), Canson SAS (France), F.I.L.A.-Dixon, S.A. de C.V. (Mexico), Pacon

Corporation (U.S.A.) and F.I.L.A. S.p.A. for the extension and upgrading of the local production and logistic facilities. The overall increase was mainly offset by depreciation of Euro 12,802 thousand.

Financial assets decreased by Euro 1,117 thousand compared to December 31, 2017 and mainly relate to the settlement of the derivative hedging (Interests rate swaps) taken out by F.I.L.A. S.p.A. and the relative loan agreed in 2016 by the parent in support of corporate transactions in the year. Considering that the accounting treatment adopted was that for derivative hedging instruments (hedge accounting), the settlement of the IRS opened for Euro 1,053 thousand was entirely offset by the simultaneous elimination of the equity reserve to book the fair value changes.

The increase in net working capital of Euro 95,138 thousand relates to the following:

- Inventories - the increase of Euro 83,733 thousand mainly related to the inventory from the consolidation of the Pacon Group (contribution at the acquisition date of Euro 60,658 thousand. Net of the M&A effect, the increase concerned in particular Canson SAS (France), the US subsidiaries Dixon Ticonderoga Company and Canson Inc., F.I.L.A.-Dixon, S.A. de C.V. (Mexico), DOMS Industries Pvt Ltd (India) and F.I.L.A. S.p.A;
- Trade receivables and other assets – increasing Euro 18,849 thousand due to the consolidation of the Pacon Group (contribution at the acquisition date of Euro 45,020 thousand). Net of the M&A effect, the account decreased Euro 26,171 thousand mainly due to reduced revenues generated in North America and improved receipts. In addition, “Trade receivables and other assts” as per IFRS 9 reduced by Euro 1,237 thousand;
- Trade payables and other liabilities, up by Euro 9,274 thousand, primarily due to the consolidation of the Pacon Group (contribution at the acquisition date of Euro 15,587 thousand).

The increase in “Provisions” on December 31, 2017 of Euro 40,520 thousand principally concerns the:

- Increase in “Deferred tax liabilities” of Euro 36,100 thousand, also mainly due to the acquisition of the Pacon Group, with a contribution at the consolidation date of Euro 35,822 thousand;
- Increase in provisions of Euro 2,225 thousand, primarily due to the accruals by Canson Inc. (U.S.A.) relating to expected charges for the termination of supply and lease contracts for facilities following the sale of the South Hutley (Massachusetts) production site in view of the merger and the transfer of production to Pacon Corporation (U.S.A.);
- Increase in employee benefits of Euro 2,195 thousand, mainly due to the actuarial gains recorded in the period by the company Daler Rowney Ltd (United Kingdom).

The Equity attributable to owners of the companies of the F.I.L.A. Group, amounting to Euro 338,809 thousand, increased on December 31, 2017 by Euro 99,232 thousand. Income for the year of Euro 10,461 thousand (of which Euro 1,714 thousand attributable to non-controlling interests), the residual increase principally concerns the subscription to the share capital increase of F.I.L.A. S.p.A. for Euro 96,958 thousand (including Euro 4,002 thousand of charges related to the share capital increase, net of the tax effects), the distribution of dividends to non-controlling interests of Euro 4,059 thousand, the positive currency effects of Euro 3,434 thousand, the decrease of the reserves established for fair value changes to derivatives subscribed by F.I.L.A. S.p.A., Dixon Ticonderoga Company (U.S.A.) and Canson SAS (France) for Euro 6,120 thousand and the negative effects from application of IFRS 9 for Euro 1,157 thousand

F.I.L.A. Group “Net Financial Debt” at December 31, 2018 was Euro 452,770 thousand, increasing Euro 213,156 thousand on December 31, 2017. For greater details, reference should be made to the “Financial Overview” paragraph.

Financial Overview

The overview of the 2018 Group operating and financial performance is completed by the Group Net Financial Debt and Cash Flows reported below.

The **Net Financial Debt** at December 31, 2018 reports a debt of Euro 452,770 thousand.

<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
A Cash	129	67	62
B Other cash equivalents	157,473	38,491	118,982
C Securities held-for-trading	-	-	-
D Liquidity (A + B + C)	157,602	38,558	119,044
E Current Loan Assets	352	419	(67)
F Current bank loans and borrowings	(75,617)	(72,724)	(2,893)
G Current portion of non-current debt	(10,412)	(18,710)	8,298
H Other current loans and borrowings	(183)	(8,239)	8,056
I Current financial debt (F + G + H)	(86,212)	(99,673)	13,461
J Net current financial debt (I + E+ D)	71,742	(60,696)	132,438
K Non-current bank loans and borrowings	(518,779)	(178,420)	(340,359)
L Bonds issued	-	-	-
M Other non-current loans and borrowings	(6,207)	(504)	(5,703)
N Non-current financial debt (K + L + M)	(524,986)	(178,924)	(346,062)
O Net financial debt (J+N)	(453,244)	(239,620)	(213,624)
P Loans issued to third parties	474	6	468
Q Net financial debt (O + P) - F.I.L.A. Group	(452,770)	(239,614)	(213,156)

Note:

1) The net financial debt calculated at point "O" complies with Consob Communication DEM/6064293 of July 28, 2006, which excludes non-current financial assets. The net financial debt of the F.I.L.A. Group differs from the above communication by Euro 6 thousand in relation to the non-current loans granted to third parties by Omyacolor S.A. (Euro 474 thousand) and Pacon Corporation.

2) At December 31, 2018 there were no transactions with related parties which impacted the net financial debt.

3) Point "M" - Other non-current loans and borrowings, do not include Euro 5.102 thousand of Financial Instruments (IRS)

Compared to December 31, 2017 (debt of Euro 239,614 thousand), net financial debt increased Euro 213,156 thousand, as outlined below in the Statement of Cash Flows.

<i>Euro thousands</i>	December 2018	December 2017
EBIT	49,024	53,268
Adjustments for non-cash items	30,031	22,758
Integrations for income taxes	(16,866)	(14,849)
Cash Flow from Operating Activities Before Changes in NWC	62,189	61,177
Change in NWC	(11,605)	(33,069)
Change in Inventories	(19,779)	(10,818)
Change in Trade and Other Assets	24,855	(28,495)
Change in Trade and Other Liabilities	(12,662)	9,906
Change in Other Current Assets/Liabilities	(4,019)	(3,662)
Net cash Flow from Operating Activities	50,584	28,108
Investments in Property, Plant and Equipment and Intangible assets	(23,370)	(23,899)
Other Investments	865	139
Equity Investments	(214,961)	793
Cash Flow used in Investing Activities	(237,466)	(22,967)
Change in Equity	97,712	(3,833)
Interest Expense	(26,023)	(8,425)
Cash Flow used in Financing Activities	71,689	(12,258)
Other changes	(588)	156
Total Net Cash Flow	(115,781)	(6,961)
Effect from exchange rate changes	(4,531)	(2,452)
NFP from M&A Transactions (Change in Consolidation Scope)	(86,724)	(6,764)
Change in Net Financial Debt	(213,156)	(16,177)

Operating activities generated cash of Euro 50,584 thousand (cash generated in 2017 of Euro 28,108 thousand) and concerned:

- Inflows of Euro 62,189 thousand (Euro 61,177 thousand in 2017) from cash flow from operating profit, calculated as the difference of operating costs and revenue plus other operating items, excluding financial items;
- Outflows of Euro 11,605 thousand (Euro 33,069 thousand in 2017) attributable to working capital movements, primarily related to the increases in inventories and trade payables and other liabilities, partially offset by the decrease in trade receivables and other assets.

Investing activities absorbed liquidity of Euro 237,466 thousand (Euro 22,967 thousand in 2017), of which:

- Acquisition of the Pacon Group by the US subsidiary Dixon Ticonderoga Company (U.S.A.) for Euro 214,961 thousand;
- Investments in property, plant and equipment and intangible assets for Euro 23,370 thousand (Euro 23,899 thousand in 2017), mainly by DOMS Industries Pvt Ltd (India), Canson SAS

(France), F.I.L.A.-Dixon, S.A. de C.V. (Mexico), Pacon Corporation (U.S.A.) and F.I.L.A. S.p.A.

Financing activities generated cash of Euro 71,689 thousand (net cash used of Euro 12,258 thousand in 2017), of which:

- Euro 97,712 thousand (Euro 3,833 thousand in 2017) primarily due to subscription for the capital increase by F.I.L.A. S.p.A. (Euro 99,960 thousand) and warrants by Pacon's management (Euro 1,810 thousand), offset by the distribution of dividends to F.I.L.A. S.p.A. shareholders and Group non-controlling interests for Euro 4,059 thousand.
- Euro 26,023 thousand (Euro 8,425 thousand in 2017) concerning interest and other financial charges incurred by the Group companies concerning loans and credit lines granted, mainly concerning F.I.L.A. S.p.A. (Italy) and Dixon Ticonderoga Company (U.S.A.) with Euro 7,045 thousand of one-off charges concerning the new loan undertaken;

Excluding the currency effect from the translation of the net financial positions in currencies other than the euro (negative Euro 4,531 thousand), the adjustment to mark-to-market hedges of Euro 6,120 thousand and the increase in the net debt due to the change in the consolidation scope of Euro 86,724, Group net debt rose Euro 213,156 thousand (Euro -16,177 thousand at December 31, 2017).

Changes in net cash and cash equivalents are detailed below.

<i>Euro thousands</i>	December 2018	December 2017
Opening Cash and Cash Equivalents	20,425	53,973
Cash and cash equivalents	38,558	59,519
Bank overdrafts	(18,133)	(5,546)
Closing Cash and Cash Equivalents	146,831	20,425
Cash and cash equivalents	157,602	38,558
Bank overdrafts	(10,771)	(18,133)

Segment reporting

In terms of segment reporting, the F.I.L.A. Group has adopted IFRS 8, mandatory on January 1, 2009. IFRS 8 requires an entity to base segment reporting on internal reporting, which is regularly reviewed by the entity's chief operating decision maker to allocate resources to the various segments and assess performance.

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

In particular, the Company's business is divided into five business segments, each of which is composed of various geographical areas, i.e. (i) Europe, (ii) North America (USA and Canada), (iii) Central and South America, (iv) Asia and (v) the Rest of the World, which includes South Africa and Australia. Each of the five business segments designs, markets, purchases, manufactures and sells products under known consumer brands in demand amongst end users and used in schools, homes and workplaces. Product designs are adapted to end users' preferences in each geographical region.

The group's products are similar in terms of quality and production, target market, margins, sales network and customers, even with reference to the different brands which the group markets. Accordingly, there is no diversification by segments in consideration of the substantial uniformity of the risks and benefits relating to the products produced by the F.I.L.A. Group.

The accounting policies applied to segment reporting are in line with those used for the preparation of the consolidated financial statements.

Business Segment Reporting of the F.I.L.A. Group aggregates companies by region on the basis of the "*entity location*".

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

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

Geographical segments – Statement of financial position

The group's key statement of financial position figures broken down by geographical segment at December 31, 2018 and December 31, 2017, are reported below:

December 2018	Europe	North America	Central & South America	Asia	Rest of the World	Consolidation	F.I.L.A. Group
<i>Euro thousands</i>							
Intangible Assets	118,913	263,649	3,488	59,861	89	(76)	445,924
Property, plant & equipment	52,578	17,492	7,203	27,048	151		104,472
Total Intangible and Tangible Assets	171,491	281,141	10,691	86,909	240	(76)	550,396
<i>of which Intercompany</i>	<i>(76)</i>						
Inventories	87,247	112,390	35,752	28,744	2,768	(4,469)	262,432
Trade and Other Receivables	89,014	57,144	51,881	15,179	1,259	(62,860)	151,617
Trade and Other Payables	(86,978)	(33,120)	(22,429)	(21,799)	(2,982)	61,771	(105,537)
Other Current Assets and Liabilities	2,457	780	(490)	(676)			2,071
Net Working Capital	91,740	137,194	64,714	21,448	1,045	(5,558)	310,583
<i>of which Intercompany</i>	<i>(3,595)</i>	<i>(1,546)</i>	<i>(211)</i>	<i>(293)</i>	<i>87</i>		
Net Financial Debt	(165,337)	(257,996)	(25,932)	1,117	(4,822)	200	(452,770)
<i>of which Intercompany</i>	<i>200</i>						

December 2017	Europe	North America	Central - South America	Asia	Rest of the World	Consolidation	F.I.L.A. Group
<i>Euro thousands</i>							
Intangible Assets	124,612	16,941	3,746	62,760	108	(76)	208,091
Property, plant & equipment	53,216	2,571	6,338	25,973	257		88,355
Total Intangible and Tangible Assets	177,828	19,512	10,084	88,733	365	(76)	296,446
<i>of which Intercompany</i>	<i>(76)</i>						
Inventories	76,251	48,103	31,761	26,074	3,166	(6,656)	178,699
Trade and Other Receivables	78,285	44,305	55,515	11,595	1,189	(58,121)	132,768
Trade and Other Payables	(89,969)	(24,226)	(21,166)	(16,324)	(2,858)	58,280	(96,263)
Other Current Assets and Liabilities	(277)	1,077	(411)	(148)			241
Net Working Capital	64,290	69,259	65,699	21,197	1,497	(6,497)	215,445
<i>of which Intercompany</i>	<i>(2,461)</i>	<i>(2,720)</i>	<i>(631)</i>	<i>(449)</i>	<i>(234)</i>		
Net Financial Debt	(181,937)	(22,207)	(28,537)	(2,571)	(4,479)	117	(239,614)
<i>of which Intercompany</i>	<i>117</i>						

December 2018- LIKE-FOR-LIKE CONSOLIDATION SCOPE	Europe	North America	Central - South America	Asia	Rest of the World	Consolidation	F.I.L.A. Group
<i>Euro thousands</i>							
Intangible Assets	116,988	26,836	3,488	59,861	89	(76)	207,186
Property, plant & equipment	52,208	3,020	7,203	27,048	151		89,631
Total Intangible and Tangible Assets	169,196	29,856	10,691	86,909	240	(76)	296,816
<i>of which Intercompany</i>	<i>(76)</i>						
Inventories	84,166	59,831	35,752	28,744	2,768	(4,232)	207,029
Trade and Other Receivables	88,036	31,016	51,881	15,027	1,259	(62,480)	124,739
Trade and Other Payables	(86,355)	(23,645)	(22,429)	(21,701)	(2,982)	61,392	(95,720)
Other Current Assets and Liabilities	2,559	2,723	(490)	(635)			4,156
Net Working Capital	88,406	69,925	64,714	21,435	1,045	(5,320)	240,205
<i>of which Intercompany</i>	<i>(3,595)</i>	<i>(1,308)</i>	<i>(211)</i>	<i>(293)</i>	<i>87</i>		
Net Financial Position	(159,797)	(199,951)	(25,932)	639	(4,822)	200	(389,663)
<i>of which Intercompany</i>	<i>200</i>						

Geographical segments – Statement of comprehensive income

The group's key statement of comprehensive income broken down by geographical segment for the year ended December 31, 2018 and December 31, 2017, are reported below:

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

December 2017	Europe	North America	Central - South America	Asia	Rest of the World	Consolidation	F.I.L.A. Group
<i>Euro thousands</i>							
Core Business Revenue	294,357	174,845	101,481	100,690	5,200	(166,219)	510,354
<i>of which Intercompany</i>	<i>(74,328)</i>	<i>(19,509)</i>	<i>(33,901)</i>	<i>(38,407)</i>	<i>(74)</i>		
EBITDA	28,235	25,986	9,022	9,678	(910)	1,113	73,124
Net financial expense	(31,308)	86	(4,680)	(329)	(261)	14,133	(22,359)
<i>of which Intercompany</i>	<i>16,308</i>	<i>(2,578)</i>	<i>296</i>	<i>-</i>	<i>107</i>		
Net Profit/(loss)	(14,893)	15,462	472	2,758	(916)	14,484	17,367
Non-controlling interest profit attributable to the owners of the Parent	499	-	-	1,080	21		1,600
F.I.L.A. Group Net Profit attributable to the owners of the Parent	(15,392)	15,462	472	1,678	(937)	14,484	15,767

December 2018 - LIKE-FOR-LIKE CONSOLIDATION SCOPE	Europe	North America	Central - South America	Asia	Rest of the World	Consolidation	F.I.L.A. Group
<i>Euro thousands</i>							
Core Business Revenue	278,787	146,024	96,481	108,384	3,951	(157,278)	476,351
<i>of which Intercompany</i>	<i>(71,488)</i>	<i>(17,533)</i>	<i>(30,086)</i>	<i>(38,086)</i>	<i>(86)</i>		
EBITDA	28,201	12,672	8,760	13,485	(347)	(2,002)	60,768
Net financial expense	(52,398)	(1,907)	(5,892)	(428)	(670)	38,131	(23,165)
<i>of which Intercompany</i>	<i>41,037</i>	<i>(3,388)</i>	<i>303</i>	<i>-</i>	<i>179</i>		
Net Profit/(loss)	(39,480)	6,285	523	5,543	(1,109)	35,071	6,831
Non-controlling interest profit attributable to the owners of the Parent	318	-	-	1,442	(46)		1,714
F.I.L.A. Group Net Profit attributable to the owners of the Parent	(39,798)	6,284	523	4,101	(1,063)	35,071	5,117

Geographical Segments – Other Information

The “other information” on the group companies’ property, plant and equipment and intangible assets broken down by geographical segment for the year ended December 31, 2018 and December 31, 2017, are reported below:

December 2018	Europe	North America	Central - South America	Asia	Rest of the World	F.I.L.A. Group
<i>Euro thousands</i>						
Intangible Assets	7,850	233		80		8,163
Property, Plant and Equipment	4,710	2,266	2,260	5,950	21	15,207
Net Investments	12,560	2,499	2,260	6,030	21	23,370

** Allocation by "Entity Location"*

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

** Allocation by "Entity Location"*

Investments

Group investments for the year totalled Euro 23,370 thousand, broken down between “Intangible Assets” for Euro 8,163 thousand and “Property, Plant and Equipment” for Euro 15,207 thousand, undertaken both to achieve leaner production and to support sales volume growth.

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

Divestments of “Land” refer solely to the sale of land as part of the disposal of a warehouse by Daler Rowney Ltd (United Kingdom) for Euro 205 thousand, partially offset by an additional purchase of Euro 66 thousand by DOMS Industries Pvt Ltd (India).

Net investments by the F.I.L.A. Group in “Plant and Machinery” principally concerned DOMS Industries Pvt Ltd (India) for Euro 3,733 thousand, regarding the development of production, with particular regard to the Art Division, Daler Rowney Ltd (United Kingdom) for Euro 864 thousand, for the setting up of the new warehouse, and Pacon Corporation (U.S.A.) for Euro 871 thousand.

Investments in “Industrial and Commercial Equipment” in 2018 amounted to Euro 532 thousand and were undertaken in particular by F.I.L.A. S.p.A., Daler Rowney Ltd (United Kingdom) and Canson Brasil (Brazil).

“Assets under construction” include internal constructions undertaken by the individual companies of the Group which are not yet operational. The increase in the net carrying amount at December 31, 2018 was Euro 5,212 thousand, principally concerning DOMS Industries Pvt Ltd (Euro 1,489 thousand), the U.S.-based Pacon Corporation (Euro 1,212 thousand) and Canson Inc. (Euro 960 thousand), and F.I.L.A. S.p.A. (Euro 1,036 thousand) for the development and extension of local production facilities.

Other Information

Management and control

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

Treasury Shares

At December 31, 2018, the Company did not hold any treasury shares.

Research and development and Quality Control

Research and development activities are primarily carried out centrally by the Research and Development Department, as well as at local level, through dedicated teams based at the Group's various manufacturing facilities, above all in Europe, Central and South America and Asia. The F.I.L.A. Group's strong commitment to understanding its customers and designing products that meet their expectations plays a significant role in the development strategy for the Group's products.

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

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

Research and development focuses essentially on the following:

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

Over recent years, the projects created by the dedicated research and development team have led to the creation of innovative products, such as new formulas for modelling clay, new plastic materials, new designs for paint and watercolour boxes, new industrial segment products and the polymer

(“woodfree”) pencil. The team, in order to guarantee compliance with physical and chemical specification rules, constantly monitors the development of product regulations (such as, for example purposes, those concerning the use of preservatives), amending the formulas or developing new formulas for altered products.

The quality control department is tasked with ensuring compliance with the F.I.L.A. Group’s policies regarding the safety and quality standards for its products, suppliers and production procedures.

The F.I.L.A. Group’s quality control process consists of two phases:

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

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

<i>Euro thousands</i>	R&D			Quality Assurance		
	Workers	Personnel Cost	Other related Costs	Workers	Personnel Cost	Other related Costs
Europe	19	1,192	141	15	850	227
North America	-	-	-	4	174	70
Central-South America	10	146	52	47	302	127
Asia	20	237	42	70	349	95
Total	49	1,575	235	136	1,675	520

Transactions with Related Parties

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

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

Key Events in the year

- Considering F.I.L.A. S.p.A.’s and the Group’s strong operating and financial performance, on January 18, 2018, the parent agreed amendments to the medium/long-term credit facility signed with Intesa Sanpaolo S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A., Banca Nazionale del Lavoro S.p.A. on May 12, 2016 for a maximum amount of Euro 236,900 thousand.

The amendments and supplements to the medium/long-term credit facility negotiated with the lending banks improved the terms and conditions for the parent and the other group companies, by reducing the interest expense and the obligations taken out with regards to the associated financial documentation and covenants. Moreover, the amendments provided the parent with an additional facility of a maximum of Euro 30,000 thousand granted by Banca Popolare di Milano and maturing on February 2, 2022, increasing the total amount available under the medium/long-term credit facility agreement to Euro 266,900 thousand;

- On March 7, 2018, 51% of the share capital of FILA Art and Craft Ltd (Israel), a company involved in the sale of F.I.L.A. Group writing, art and design products in Israel, was acquired;
- On June 7, 2018, the subsidiary Dixon Ticonderoga Company (U.S.A.) acquired 100% of the share capital of Pacon Holding Company (“Pacon”) for an enterprise value of USD 325 million and tax benefits of USD 15 million. For this purpose, on May 1, 2018 the vehicle FILA Acquisition Company was incorporated, with registered office in Delaware (U.S.A.), wholly owned by Dixon Ticonderoga Company (U.S.A.). Completion of the transaction required antitrust clearance as per the Hart-Scott-Rodino Antitrust Improvements Act in the United States of America, which was obtained on May 29, 2018.

The Pacon acquisition is further testament to the Group's overseas market development commitment, permitting the F.I.L.A. Group to continue to expand on the world's largest market. In addition, with Pacon, the group will be able to complete its offer in the colouring and paper segment with a wide-ranging portfolio of products and tools for recreational - educational - creative activities aimed at an extremely diversified target.

Pacon, founded in 1951, is a leading schools and arts and craft operator on the US market, headquartered in Appleton, Wisconsin. The range of products includes over 8,500 items produced at eight facilities located in the United States (three in Appleton and three in Neenah, Wisconsin), in Great Britain (one facility in the West Midlands) and in Canada (one facility in Barrie, Ontario). The transaction was funded by a medium to long-term Euro 520 million credit facility granted by a bank syndicate comprising UniCredit S.p.A. as global coordinator, Banca IMI S.P.A., Mediobanca Banca di Credito Finanziario S.p.A., Banca Nazionale del Lavoro and Banco BPM S.p.A. as mandated lead arrangers and UniCredit Bank AG and security agent, including the refinancing of the parent's existing debt, and a revolving credit facility of Euro 50 million to meet any working capital requirements of the Group. Euro 150 million of the medium to long-term credit facility will be repaid over five years and the remainder with bullet repayments (Euro 125 million due after five years and Euro 245 million after six years). The financing accrues interest at the 3-month Euribor/Libor plus a spread, respectively for the amount drawn down in Euros and in US Dollars. The Board of Directors, in order to strengthen the capital structure, also submitted for the approval of the Shareholders' Meeting of F.I.L.A. S.p.A. a share capital increase for a maximum Euro 100 million (including any share premium), by way of a rights offering with pre-emption rights and earmarked for the early repayment of Group debt. Mediobanca - Banca di Credito Finanziario S.p.A. and UniCredit Corporate & Investment Banking will act as Joint Global Coordinator and Joint Bookrunner for the proposed share capital increase and have signed a pre-underwriting agreement by which they have committed, in accordance with typical market conditions, to underwrite the subscription of any newly issued shares remaining unopted on conclusion of the auctioning of unopted rights for a maximum amount equal to the value of the share capital increase;

- ▶ On October 11, 2018, the Extraordinary Shareholders' Meeting of F.I.L.A. S.p.A. approved:
 - ▶ a divisible paid-in share capital increase for a maximum amount of Euro 100,000,000, including any share premium, to be executed by and not beyond March 31, 2019, through the issue of ordinary and B shares with full rights, in the form of a rights offering to all shareholders, in accordance with Article 2441, paragraphs 1, 2 and 3 of the Italian Civil Code;
 - ▶ to grant the Board of Directors the powers to determine, with regards to the share capital increase:
 - ▶ The timing for the various stages of the share capital increase, including the rights offering, in compliance with applicable laws and the deadline established by the Shareholders' Meeting;
 - ▶ The unitary subscription price for each of the new shares to be issued (which in any case may not be lower than the par value) and any portion of the subscription price to be allocated to the share premium reserve;
 - ▶ The maximum number of and the ratio between the new ordinary shares and the new class B shares, in addition to the ratio of options applicable to each of the existing ordinary shares and class B shares;
 - ▶ a divisible paid-in share capital increase for a maximum USD 2,050,000, to be converted into Euro at the exchange rate on the calculation date by the Board of Directors of the unitary subscription price of the share capital increase and, however, of not greater than Euro 2,500,000, including any share premium and at a unitary subscription price equal to that to be determined by the Board of Directors for the divisible share capital increase, to be executed by and not beyond December 31, 2025, to facilitate exercise of the warrants assigned free of charge to managers employed by the subsidiary Pacon Holding Company, and therefore with exclusion of the pre-emption right as per Article 2441, paragraph 8 of the Civil Code, to be executed through the issue of a number of ordinary shares to be established by the Board of Directors once the subscription price for the share capital increase has been established;

- ▶ the grant the Board of Directors powers to determine the number of warrants and the number of ordinary shares to be issued as part of the share capital increase in service of the Warrants according to the ratio between the overall value of this share capital increase and the unitary subscription price to be established in this regard;
- ▶ With reference to the Pacon Group acquisition, according to the contractual price adjustment, which is mainly based on the net working capital and net financial debt at the acquisition date, F.I.L.A. S.p.A. received from Pacon's sellers USD 262,194.69.

- ▶ On December 17, 2018, a total of 9,336,273 F.I.L.A. shares were subscribed and issued – of which (i) 7,820,925 ordinary F.I.L.A. shares and (ii) 1,515,348 special class B shares - and on December 27, 2018, a total of 201,990 ordinary Fila shares were subscribed and issued, in full execution of the paid-in share capital increase approved by the Shareholders' Meeting of F.I.L.A. S.p.A..
- ▶ In the fourth quarter of 2018, the following non-operative or dormant companies were liquidated:
 - ▶ Daler-Rowney Group Limited – October 17, 2018;
 - ▶ Daler Rowney USA Limited – October 11, 2018
 - ▶ Longbeach Arts Limited – October 17, 2018;
 - ▶ Daler Holdings Limited – October 17, 2018;
 - ▶ Daler Design Limited – November 13, 2018;
 - ▶ Rowney & Company (Pencils) Limited – November 13, 2018;
 - ▶ Rowney (Artists Brushes) Limited – November 13, 2018;
 - ▶ Lastmill Limited – November 13, 2018;
 - ▶ Daler Board Company Limited – December 4, 2018;

- ▶ At December 31, 2018, the merger between the two subsidiaries F.I.L.A. Hispania S.L. and Fila Iberia S. L. became effective.

Subsequent events

- ▶ On January 11, 2019, a partial repayment of Euro 100 million was made on one of the various medium/long-term credit lines granted for the acquisition of the Pacon Group (line of Euro 125 million with bullet repayment at 5 years);
- ▶ In January 2019, a number of corporate reorganisation operations were undertaken in the US. Specifically:
 - ▶ merger between Dixon Ticonderoga (U.S.A.) and Eurholdham (U.S.A.) - January 1, 2019;
 - ▶ merger between Pacon Corporation (U.S.A.) and Canson Inc. (U.S.A.). (U.S.A.)

Outlook

Projections for 2019 envisage strong growth on the Indian market and recovery in revenues on the North American market. Moderate growth is forecast in Central-South America, alongside stable revenues in Europe.

Management will remain focused on the introduction of SAP as the common Group ERP, having progressed to the second year of the roadmap, on optimising the Annonay warehousing as the main European logistics hub and on improving Group working capital management.

Scheduled investments for 2019 concern new production plant and machinery and industrial equipment at the main Group production entities.

Going Concern

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

Risk Management

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

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

The management of funding needs and the relative risks is undertaken by the individual F.I.L.A. Group companies on the basis of the guidelines drawn up by the CFO of the Parent F.I.L.A. S.p.A. and approved by the Chief Executive Officer.

The principal objective of these guidelines is the ability to ensure a balanced equity structure in order to maintain a solid capital base.

The main funding instruments used by the F.I.L.A. Group are:

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

The average cost of debt was in line with the Euribor/Libor at 3 and 6 months, with the addition of a spread which depends on the type of financial instrument utilised.

Loans issued in favour of subsidiaries may be accompanied by guarantees such as sureties and patronage letters issued by the Parent Company.

Loans obtained by the Parent Company provide for financial “covenants”. In relation to these latter paragraphs reference should be made to: “Note 13 - Financial Liabilities” of the Explanatory Notes to the Consolidated Financial Statements.

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

Market risks

Risk may be broken down into two categories:

Currency risk

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

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

The F.I.L.A. Group is exposed to risks deriving from exchange rate fluctuations, which may impact on the result and on the net equity.

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

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

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

The F.I.L.A. Group incurs part of its costs and realises part of its revenues in currencies other than the Euro and, in particular, in US Dollars, Mexican Pesos and British Sterling.

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

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

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

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

In 2018, the nature and the structure of the exchange risk exposures and the Group monitoring policies did not change substantially compared to the previous year.

Liquidity risk

The liquidity risk to which the F.I.L.A. Group is exposed may arise from an incapacity or difficulty to source, at beneficial conditions, the financing necessary to support operations in an appropriate timeframe.

The cash flows, financing requirements and the liquidity of the Group companies are constantly monitored centrally in order to guarantee the efficient management of financial resources.

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

The Group continually monitors financial risks in order to offset any impacts and undertake appropriate corrective actions.

It has adopted at the same time the following policies and processes aimed at optimising the management of financial resources, reducing the liquidity risk:

- Maintenance of an adequate level of liquidity;
- Diversification of funding instruments and a continual and active presence on the capital markets;
- Obtaining of adequate credit lines;
- Monitoring of the liquidity position, in relation to business planning.

Financial transactions are carried out with leading highly rated Italian and international institutions. Management believes that the funds and credit lines currently available, in addition to those that will be generated from operating and financing activities, will permit the Group to satisfy its requirements deriving from investment activities, working capital management and the repayment of debt in accordance with maturities.

The capacity to generate liquidity through operations enables the Group to reduce liquidity risk to the minimum, which concerns the difficulty in sourcing funding to ensure the on-time discharge of financial liabilities.

Interest rate risk

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

The Parent F.I.L.A. S.p.A. issues loans almost exclusively to Group companies, drawing own funds.

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

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

Credit risk

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

The maximum theoretical exposure to the credit risk for the Group at December 31, 2018 is the carrying amount of the commercial assets recorded in the accounts, and the nominal amount of the guarantees given on debts and commitments to third parties.

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

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

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

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

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

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

Disclosure in accordance with IFRS 7

The table below reports the carrying amounts for each category identified by IFRS 9, as required by IFRS 7. This carrying amount generally coincides with the amortized cost of financial assets and liabilities, with the exception of derivative instruments at fair value. See the notes on each item for the fair value.

		December 31, 2018	Assets and liabilities measurement at FV booked in OCI	Amortized Cost	Total
<i>Euro thousands</i>					
Non-Current financial assets					
Financial assets	Nota 3	3,284		3,284	3,284
Current financial assets					
Current financial assets	Nota 3	352		352	352
Trade and Other Assets	Nota 9	151,617		151,617	151,617
Cash and Cash Equivalents	Nota 10	157,602		157,602	157,602
Non current financial liabilities					
Non current financial liabilities	Nota 13	(519,884)		(519,884)	(519,884)
Financial Instruments	Nota 17	(5,102)	(5,102)		(5,102)
Current financial liabilities					
Current financial liabilities	Nota 13	(86,212)		(86,212)	(86,212)
Trade and Other Liabilities	Nota 19	(105,537)		(105,537)	(105,537)

		December 31, 2017	Assets and liabilities measurement at FV booked in OCI	Amortized Cost	Total
<i>Euro thousands</i>					
Non-Current financial assets					
Financial assets	Nota 3	3,918	1,053	2,865	3,918
Current financial assets					
Current financial assets	Nota 3	419		419	419
Trade and Other Assets	Nota 9	132,768		132,768	132,768
Cash and Cash Equivalents	Nota 10	38,558		38,558	38,558
Non current financial liabilities					
Non current financial liabilities	Nota 13	(178,889)		(178,889)	(178,889)
Financial Instruments	Nota 17	(35)	(35)		(35)
Current financial liabilities					
Current financial liabilities	Nota 13	(99,673)		(99,673)	(99,673)
Trade and Other Liabilities	Nota 19	(96,263)		(96,263)	(96,263)

Financial liabilities at amortized cost refer mainly to the new loan contracted by F.I.L.A. S.p.A. and Dixon Ticonderoga Company (U.S.A.) on June 4, 2018. The loan in question was contracted by the two companies from a bank syndicate consisting of UniCredit S.p.A. as global coordinator, Banca IMI S.P.A., Mediobanca Banca di Credito Finanziario S.p.A., Banca Nazionale del Lavoro and Banco BPM S.p.a. as mandated lead arrangers and UniCredit Bank AG as security agent in support of the

acquisition of the company Pacon Holding Company, parent of the Pacon Group. In addition, part of the loan issued to F.I.L.A. S.p.A. was utilised to repay the previous loan undertaken in 2016 (in support of M&A's regarding the acquisition of the Daler-Rowney Lucas Group, the Canson Group and of St. Cuthberts Holding) and was subsequently increased in the initial months of 2018 with a further extension of Euro 30,000 thousand. On contracting a new Senior Facility Agreement on June 4, 2018, the existing loan was settled for a total amount of Euro 220,276 thousand.

The amounts of each facility and the revolving credit facility at the date of disbursement of the loan are detailed below:

<i>Euro thousands</i>	Principal F.I.L.A. S.p.A.	Principal Dixon Ticonderoga (U.S.A.)	Total
Facility A	75,000	75,000	150,000
Facility B	90,000	155,000	245,000
Facility C	125,000	0	125,000
RCF ⁽¹⁾	5,662	20,708	26,370
Financial assets/liabilities at variable rate	295,662	250,708	546,370

(1) Revolving Credit Facility for a maximum amount of €50,000 thousand.

The Facility A line (Euro 150,000 thousand) stipulates a repayment plan consisting of 8 half-yearly instalments from December 2019, while the two lines Facility B (Euro 245,000 thousand) and Facility C (Euro 125,000 thousand) are Bullet loans, with single repayments respectively on June 4, 2024 and June 4, 2023. The Revolving Credit Facility however stipulates the issue of short-term tranches of 1, 3 or 6 months, for a maximum amount of Euro 50,000 thousand.

F.I.L.A. S.p.A., Dixon Ticonderoga Company (U.S.A) and Canson SAS (France) undertook derivative hedges against movements in the interest rates of the structured loans contracted. The Interest Rate Swaps, structured with fixed rate payments against variable payments, qualified as derivative hedges and were considered as per the hedge accounting provisions of IAS 39. The fair value at December 31, 2018 of these instruments amounts to Euro 5,102 thousand ("Financial instruments" liabilities in Canson SAS), with the fair value adjustment recognised as an equity reserve.

In accordance with IFRS 7, the effects on the Profit or Loss statement and equity in relation to each category of financial instruments of the Group in the years 2018 and 2017 are shown below, which mainly includes the gains and losses deriving from the purchase and sale of financial assets or liabilities, as well as the changes in the value of the financial instruments measured at fair value and the interest expense/income matured on the financial assets/liabilities measured at amortised cost.

Financial gains and losses are recognised in the Profit or Loss:

<i>Euro thousands</i>	December 31, 2018	December 31, 2017
Interest Income from Bank Deposits	105	39
Total financial income	105	39
Financial Assets and Liabilities at Amortised Cost*	(12,249)	(960)
Exchange Gains/(Losses) on Financial transactions	(845)	1,081
Total financial expenses	(13,094)	121
Total net financial expenses	(12,989)	160

* Interests earned only on Loan signed in 2018 by F.I.L.A. S.p.A. and Dixon Ticonderoga (U.S.A.)

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

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

<i>Euro thousands</i>	December 31, 2018	December 31, 2017
Non-current financial payables	524,987	178,924
Banks - Principal third parties	526,352	181,820
Banks - Interest third parties	(7,573)	(3,400)
Banks	518,779	178,420
Other Lenders - Principal third parties	1,133	513
Other Lenders - Interest third parties	(28)	(44)
Other Lenders	1,105	469
Loans and borrowings - beyond one year	519,884	178,889
Financial Instruments - Principal	5,102	35
Financial Instruments	5,102	35

The account “Other lenders” includes the non-current portion of loans issued by other lenders or the non-current portion of finance leases.

The balance at December 31, 2018 was Euro 519,884 thousand, of which Euro 518,779 thousand concerning bank loans and borrowings, Euro 1,105 thousand loans from other lenders and Euro 5,102 thousand concerning the Interest Rate Swaps undertaken by F.I.L.A. S.p.A., Dixon Ticonderoga (U.S.A.) and Canson SAS (Francia).

<i>Euro thousands</i>	December 31, 2018	December 31, 2017
Current financial payables	86,211	99,673
Banks - Principal third parties	73,111	72,875
Banks - Interest third parties	2,067	254
Banks	75,178	73,130
Other Lenders - Principal third parties	196	8,249
Other Lenders - Interest third parties	(13)	(10)
Other Lenders	182	8,239
Bank Overdrafts - Principal third parties	10,771	18,133
Bank Overdrafts - Interest third parties	80	172
Bank overdrafts	10,851	18,305
Loans and borrowings - due within one year	86,211	99,673

The balance at December 31, 2018 was Euro 86,211 thousand, of which Euro 75,178 thousand concerning bank loans, Euro 182 thousand concerning loans issued by other lenders and Euro 10,851 thousand bank overdrafts.

Receivables at December 31, 2018 were as follows:

<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Trade Assets	135,549	118,701	16,848
Tax Assets	4,521	5,198	(677)
Other Assets	6,466	5,560	906
Prepayments and Accrued Income	5,081	3,309	1,772
Total	151,617	132,768	18,849

Payables at December 31, 2018 were as follows:

<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Trade Liabilities	75,297	68,374	6,924
Tax Liabilities	9,053	7,096	1,956
Other Liabilities	19,949	19,416	533
Accrued Liabilities & Def.Income	1,238	1,377	(139)
Total	105,537	96,263	9,274

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

In relation to the financial instruments recognised in the Statement of Financial Position at fair value, IFRS 7 requires that these values are classified based on the hierarchy levels which reflects the significance of the input utilised in the determination of fair value.

The various levels of fair value hierarchy are defined as follows:

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

See the specific notes to the financial statements for the classification of financial instruments according to the levels of the fair value hierarchy.

Sensitivity Analysis

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

Currency risk

Net exposure of the main currencies:

	December 31, 2018			December 31, 2017		
	USD	MXN	CNY	USD	MXN	CNY
<i>(in Euro thousands)</i>						
Trade Assets	49,104	819,947	3,796	41,392	677,105	2,427
Financial Assets	984	7,064	1,636	912	7,080	533
Financial Liabilities	(296,815)	(604,143)	(12,056)	(21,671)	(505,139)	(37,204)
Trade Liabilities	(13,063)	(177,671)	(27,798)	(16,426)	(138,360)	(27,308)
Net Balance sheet Exposure	(259,789)	45,197	(34,422)	4,207	40,686	(61,551)

Closing exchange rates applied:

Currency	Closing Exchange Rate	
	December 31, 2018	December 31, 2017
USD /€	1.145	1.199
MXN /€	22.492	23.661
CNY /€	7.875	7.804

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

Change in Equity		
<i>Currency</i>	December 31, 2018	December 31, 2017
USD /€	(20,626)	319
MXN /€	183	156
CNY /€	(397)	(717)
Total	(20,841)	(242)

The impact on the statement of Financial position, following an increase of 10% in the exchange rate of the main foreign currencies against the Euro, would be approx. negative Euro 20,841 thousand (Euro 242 thousand at December 31, 2017).

Interest rate risk

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

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

<i>Euro thousands</i>	December 31, 2018	December 31, 2017
Financial Liabilities	611,199	278,598
Financial assets/liabilities at variable rate	611,199	278,598

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

A change of 100 “basis points” in the interest rates applicable to financial assets and liabilities at variable rates in place at December 31, 2018 would result in the following income statement and balance sheet impacts on an annualised basis.

Euro thousands

	Equity	
	+ 100 bps	- 100 bps
December 31, 2018		
Financial Assets/Liabilities at Variable Rate	6,112	(6,112)
December 31, 2017		
Financial Assets/Liabilities at Variable Rate	2,786	(2,786)

The same variables are maintained to establish the income statement and balance sheet impact at December 31, 2018.

The capital portions of financial assets and liabilities of the F.I.L.A. Group are broken down by contractual maturity for 2018 and 2017, in line with “Note 13.A – Financial Liabilities”:

December 31, 2018	Within 12 months	Within 1-2 years	Within 2-3 years	Within 3-4 years	Within 4-5 years	Total
<i>Euro thousands</i>						
Financial assets						
Cash and Cash Equivalents	157,602	-	-	-	-	157,602
Loans and Receivables	352	-	-	-	474	826
Financial liabilities						
Financial loan and borrowing - Banks ⁽¹⁾	86,029	49,256	52,930	58,552	358,041	604,808
Other Lenders	183	231	47	6	821	1,288
Expected cash flow	71,742	(49,487)	(52,977)	(58,558)	(358,388)	(447,668)

(1) The principal of bank loan amounts to 612,381 thousand euro, the medium-long term part has been adjusted considering an amortized cost of 7.573 thousand Euro. The net value is 604,808 thousand Euro.

December 31, 2017	Within 12 months	Within 1-2 years	Within 2-3 years	Within 3-4 years	Within 4-5 years	Total
<i>Euro thousands</i>						
Financial assets						
Cash and Cash Equivalents	38,558	-	-	-	-	38,558
Loans and Receivables	352	-	-	-	6	358
Financial liabilities						
Financial loan and borrowing - Banks	75,875	30,501	36,970	20,500	90,449	251,295
Other Lenders	8,239	109	118	82	160	8,708
Expected cash flow	(45,204)	(30,610)	(37,088)	(20,582)	(90,603)	(221,086)

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

Credit Risk

Credit risk may be defined as the possibility of incurring a financial loss due to the breach of a contractual obligation by a counterparty.

The results for 2018 include the effects of the adoption of IFRS 9 and are expressed in accordance with the new approach outlined in IFRS 7 (amended following the introduction of IFRS 9). The Group exercised the option provided for in IFRS 9 not to restate the comparative information from previous years, while representing the credit risk tables from the previous year solely in the interest of completeness.

The tables are not comparable overall since in 2018 the loss allowance was determined according to the expected credit loss (ECL) method (in application of IFRS 9), in lieu of the incurred loss method used in 2017.

At December 31, 2018, the account “Trade and Other Assets” totalling Euro 151,617 thousand (Euro 132,768 thousand at December 31, 2017) is reported net of the relative allowance for impairment of Euro 7,361 thousand (Euro 5,262 thousand at December 31, 2017).

The aging of trade receivables at December 31, 2018 (Euro 135,549 thousand) compared with December 31, 2017 is reported below:

GROSS TRADE RECEIVABLES: AGEING			
<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Not yet due	95,751	79,320	16,431
Overdue between 0-60 days	25,258	23,238	2,020
Overdue between 60-120 days	8,018	7,295	723
Overdue beyond 120 days	6,522	8,848	(2,326)
Total amount	135,549	118,701	16,848

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

TRADE RECEIVABLES THIRD PARTIES - DISTRIBUTION CHANNEL			
<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Wholesalers	48,944	39,192	9,752
School/Office Suppliers	13,408	12,130	1,277
Supermarkets	35,749	36,214	(464)
Retailers	27,508	19,743	7,764
Distributors	6,673	6,056	617
Promotional & B2B	1,531	3,385	(1,854)
Other	1,735	1,981	(246)
Third parties	135,549	118,701	16,848

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

TRADE RECEIVABLES: BY GEOGRAPHICAL SEGMENT			
<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Europe	34,178	36,603	(2,425)
North America	45,676	36,136	9,540
Central/South America	46,190	38,643	7,547
Asia	6,462	5,000	1,462
Rest of the world	3,043	2,319	724
Total	135,549	118,701	16,848

Environment and Safety

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

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

“Environment and Safety” for F.I.L.A. S.p.A. has been managed with the support of a specialised consultancy firm for a number of years. The actions implemented by F.I.L.A. S.p.A. are in line with the environmental and workplace safety regulation (Legislative Decree Nos. 626 and No. 81 of April 9, 2008). Waste is appropriately disposed of and its movement is properly recorded in approved registers.

The Parent Company, F.I.L.A. S.p.A., is certified according to ISO 14001:2015 on environmental management and 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 Company 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 of the Occupational Safety Programme

Canson France is also BS OHAS 18001 certified for its Occupational Health and Safety Management System and ISO 14001:2015 certified in environmental management.

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

The company, in accordance with Article 5, paragraph 3, letter b of Legislative Decree 254/2016 has drawn up the consolidated non-financial disclosure as a separate report. The 2018 consolidated non-financial disclosure, drawn up as per the “GRI Standards” and subject to limited audit by KPMG S.p.A. is available on the Group website.

Personnel

The FILA Group at the end of 2018 had 9,560 employees (8,439 at December 31, 2017), of which over 99% on full-time contracts. The workforce is 47% female and who represent over 70% of part-time contracts.

The increase of 1,121 was mainly in Asia and, particularly, at the Indian company DOMS Industries Pvt Ltd which launched major plant expansion projects during the year.

The increase in headcount in North America was due to the addition of the staff of the Pacon Group following its acquisition in June 2018.

Two tables breaking down the F.I.L.A. Group workforce at December 31, 2018 and December 31, 2017 respectively by region and category are presented below:

	Europe	North America	Central - South America	Asia	Rest of the World	Total
December 31, 2017	1,099	206	1,836	5,263	35	8,439
December 31, 2018	1,076	705	1,860	5,886	33	9,560
Change	(23)	499	24	623	(2)	1,121

Globally, the majority of F.I.L.A. Group personnel are located in Asia (with over 61.6% of Group personnel at the end of 2018), followed by Central and South America (19.5%), Europe (11%), North America and the Rest of the World. The majority of the workforce in fact are based in the countries in which the main production facilities are located (India, China and Mexico).

PERSONNEL - FULL TIME EQUIVALENT				
	Manager	White-collar	Blue-collar	Total
December 31, 2017	181	1,819	6,439	8,439
Increase	23	586	5,152	5,761
Decrease	35	536	4,603	5,174
Career advancement	7	(7)	-	-
Consolidation area change	66	86	382	534
December 31, 2018	242	1,948	7,370	9,560
Change	61	129	931	1,121

The 2018 average workforce of the F.I.L.A. Group was 9,000, increasing 918 on December 31, 2017.

	Europe	North America	Central/South America	Asia	Rest of the World	Total
Executives	97	32	16	23	6	174
Manager/White-collar	434	66	400	842	17	1,759
Blue-collar	576	91	1,386	4,084	12	6,149
Total at December 31, 2017	1,107	189	1,802	4,949	35	8,082
	Europe	North America	Central/South America	Asia	Rest of the World	Total
Executives	101	62	15	24	6	207
Manager/White-collar	433	114	422	901	17	1,887
Blue-collar	555	280	1,411	4,649	10	6,906
Total at December 31, 2018	1,089	456	1,847	5,574	33	9,000
Change	(19)	267	45	625	(2)	918

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

BENEFITS AND OTHER INCENTIVES FOR MANAGERS			
<i>Euro thousands</i>	December 2018	December 2017	Nature
Bonus	1,685	1,888	Performance Bonus
Total amount	1,685	1,888	

In 2018, as in previous years, F.I.L.A. Group personnel undertook training and upskilling courses, particularly in the administrative areas in order to maintain appropriate professional standards, in line with the “Group policy”.

Corporate Governance

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

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

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

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

The following table outlines the total emoluments recognised to members of the Board of Directors and the Board of Statutory Auditors for offices held at F.I.L.A. S.p.A., in addition to remuneration of any nature, in the case of "performance bonuses and one-off remuneration" received in 2018.

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

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

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

Reconciliation between Parent and Consolidated Equity and Profit for the year

<i>Euro thousands</i>	Equity December 31, 2017	Equity Changes	Net Result 2018	Equity December 31, 2018
F.I.L.A. S.p.A. Financial Statements	168,282	90,775	6,633	265,689
Consolidation effect of the financial statements of subsidiaries	73,503	(5,064)	2,114	70,553
Translation Reserve	(26,836)	4,312		(22,524)
F.I.L.A. Group Consolidated Financial Statements	214,949	90,023	8,747	313,719
Equity attributable to non-controlling interests	24,628	(1,252)	1,714	25,090
Consolidated Financial Statements	239,577	88,771	10,461	338,809

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

We submit for Your approval the Consolidated Financial Statements as at and for the year ended December 31, 2018, comprising the statement of financial position, the statement of comprehensive income, the statement of change in equity and the statement of cash flows and the notes, with the relative attachments, which report a profit for the year of Euro 6,632,580.32 and we propose:

1. to allocate Euro 331,629.02 to the legal reserve, as established in Article 2430 of the Italian Civil Code, and to allocate the remainder of Euro 2,231,292.10 to retained earnings;
2. to distribute the residual “Profit for the year” of Euro 4,069,659.20 as dividend and, therefore, to distribute a dividend of Euro 0.08 for each of the 50,870,740 ordinary shares currently in circulation, while it should be noted that in the case where the total number of shares of the Company currently in circulation should increase, the total amount of dividend will remain unchanged and the unit amount will be automatically adjusted to the new number of shares; the dividend will be issued with coupon, record and payment dates respectively of May 20, 21 and 22, 2019.

The Board of Directors
THE CHAIRMAN
GIANNI MION



**CONSOLIDATED FINANCIAL STATEMENTS OF THE F.I.L.A.
GROUP AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2018**

III Consolidated Financial Statements of the F.I.L.A. Group at December 31, 2018

Consolidated Financial Statements

Statement of Financial Position

<i>Euro thousands</i>		December 31, 2018	December 31, 2017
ASSETS		1,158,778	675,970
Non-Current Assets		575,032	316,837
Intangible Assets	Note 1	445,924	208,091
Property, Plant and Equipment	Note 2	104,472	88,355
Non-Current Financial Assets	Note 3	3,284	3,918
Equity-accounted investees	Note 4	767	782
Other Investments	Note 5	31	31
Deferred Tax Assets	Note 6	20,554	15,660
Current Assets		583,746	359,133
Current Financial Assets	Note 3	352	419
Current Tax Assets	Note 7	11,743	8,689
Inventories	Note 8	262,432	178,699
Trade and Other Assets	Note 9	151,617	132,768
Cash and Cash Equivalents	Note 10	157,602	38,558
LIABILITIES AND EQUITY		1,158,778	675,970
Equity	Note 12	338,809	239,577
Share Capital		46,799	37,261
Reserves		109,234	23,872
Retained Earnings		148,939	138,049
Profit (Loss) for the period		8,747	15,767
Equity attributable to owner of the Parent		313,719	214,949
Equity attributable to non-controlling interests		25,090	24,628
Non-Current Liabilities		614,979	229,092
Non-Current Financial Liabilities	Note 13	519,884	178,889
Financial Instruments	Note 17	5,102	35
Employee Benefits	Note 14	10,931	8,736
Provisions for Risks and Charges	Note 15	3,668	2,095
Deferred Tax Liabilities	Note 16	75,341	39,241
Other Liabilities	Note 19	53	96
Current Liabilities		204,990	207,301
Current Financial Liabilities	Note 13	86,212	99,673
Provisions for Risks and Charges	Note 15	3,569	2,917
Current Tax Liabilities	Note 18	9,672	8,448
Trade and Other Liabilities	Note 19	105,537	96,263

The notes from pages 97 to 159 are an integral part of these consolidated financial statements.

Statement of Comprehensive Income

		2018	2017
<i>Euro thousands</i>			
Revenue from Sales and Service	Note 20	588,747	510,354
Other Revenue and Income	Note 21	8,607	18,300
Total Revenue		597,354	528,654
Raw Materials, Ancillary, Consumables and Goods	Note 22	(289,485)	(227,453)
Services and Rent, Leases and Similar Costs	Note 23	(125,522)	(115,701)
Other Operating Costs	Note 24	(9,172)	(19,338)
Change in Raw Materials, Semi-Finished, Work-in-progress & Finished Prod.	Note 22	20,742	13,245
Personnel expenses	Note 25	(120,407)	(106,283)
Amortisation & Depreciation	Note 26	(23,537)	(17,759)
Recovery (impairment losses) of trade receivables and other receivables	Note 27	(878)	(1,963)
Recovery (impairment losses) of other Assets	Note 28	(71)	(134)
Total Operating Costs		(548,330)	(475,386)
EBIT		49,024	53,268
Financial Income	Note 29	7,878	3,118
Financial Expense	Note 30	(34,312)	(25,543)
Income/Expense from Investments at Equity	Note 32	15	66
NET FINANCIAL EXPENSES		(26,419)	(22,359)
Pre-Tax Profit/(loss)		22,605	30,909
Income Taxes		(14,378)	(15,719)
Deferred Tax Income and Expense		2,234	2,177
Total Income Taxes	Note 33	(12,144)	(13,542)
PROFIT (LOSS) FOR THE YEAR - CONTINUING OPERATIONS		10,461	17,367
Profit (Loss) for the year		10,461	17,367
<i>Attributable to:</i>			
Profit attributable to non-controlling interests		1,714	1,600
Profit (loss) attributable to owners of the Parent		8,747	15,767
Other Comprehensive Income Items which may be reclassified subsequently in the profit or loss		(2,686)	(16,973)
Translation Difference recorded in Equity		3,434	(17,529)
Adjustment Fair value of Hedges		(6,120)	556
Other Comprehensive Income Items which may not be reclassified subsequently in the profit or loss		(5,618)	1,782
Actuarial Gains/(Losses) for Employee Benefits recorded directly in Equity		(1,980)	2,387
Income Taxes on income and expenses recorded directly in Equity		364	(605)
Transaction Costs on Capital Increase		(5,551)	-
Income Taxes on income and expenses recorded directly in Equity		1,549	-
Other Comprehensive Income Items (net of tax effect)		(8,304)	(15,191)
Total Comprehensive Income		2,157	2,176
<i>Attributable to:</i>			
Profit attributable to non-controlling interests		802	154
Profit (loss) attributable to owners of the Parent		1,355	2,022
Earnings per share :			
	<i>basic</i>	0.20	0.38
	<i>diluted</i>	0.19	0.38

The notes from pages 97 to 159 are an integral part of these consolidated financial statements.

Statement of changes in Equity

	Share capital	Legal Reserve	Share Premium Reserve	IAS 19 Reserve	Other Reserves	Translation Difference	Retained Earnings	Group Profit/(loss)	Group Equity	Non-Control. Int. Capital and Reserves	Non-Control. Int. Profit/Loss	Non-Control. Int. Equity	Total Equity
<i>Euro thousands</i>													
December 31, 2016	37,171	7,434	65,349	(3,303)	(23,026)	(10,904)	120,767	20,993	214,481	23,510	979	24,489	238,970
Net Profit								15,767	15,767		1,600	1,600	17,367
Other Changes in the period	90			1,632	2,622	(15,932)			(11,588)	(1,295)		(1,295)	(12,883)
Gains/(losses) recorded directly to equity	90	-	-	1,632	2,622	(15,932)	-	15,767	4,179	(1,295)	1,600	305	4,484
Allocation of the 2016 result							20,993	(20,993)	-	979	(979)	-	-
Allocation to reserves									-				-
Dividends							(3,711)		(3,711)	(166)		(166)	(3,877)
December 31, 2017	37,261	7,434	65,349	(1,671)	(20,404)	(26,836)	138,049	15,767	214,949	23,028	1,600	24,628	239,577
IFRS15 Adjustment on the initial balance (net of fiscal effect)	-	-	-	-	-	-	-	-	-	-	-	-	-
IFRS9 Adjustment on the initial balance (net of fiscal effect)	-	-	-	-	-	-	(1,157)	-	(1,157)	-	-	-	(1,157)
Restated balance as at January 1st, 2018	37,261	7,434	65,349	(1,671)	(20,404)	(26,836)	136,892	15,767	213,792	23,028	1,600	24,628	238,420
Net Profit								8,747	8,747		1,714	1,714	10,461
Capital Increase	9,538		90,422						99,960				-
Costs related to Capital Increase (net of fiscal effect)			(4,002)						(4,002)				-
Other Changes in the period				(1,582)	(3,788)	4,312			(1,058)	(913)		(913)	(1,971)
Gains/(losses) recorded directly to equity	9,538	-	86,420	(1,582)	(3,788)	4,312	-	8,747	103,647	(913)	1,714	801	104,448
Allocation of the 2017 Result							15,767	(15,767)	-	1,600	(1,600)	-	-
Dividends									-				-
31 dicembre 2018	46,799	7,434	151,769	(3,253)	(24,192)	(22,524)	148,939	8,747	313,719	23,376	1,714	25,090	338,809

Note:

- 1) The figures at December 31, 2018 correspond to the consolidated financial statements of F.I.L.A. Group as at and for the year ended December 31, 2018, as approved by the Shareholders' Meeting of F.I.L.A. S.p.A. on April 18, 2019.
- 2) For information on the changes in the equity account, reference should be made to Note 12 of the Explanatory Notes to the consolidated financial statements.

The notes from pages 97 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

<i>Euro thousands</i>		December 31, 2018	December 31, 2017
PROFIT (LOSS) - CONTINUING OPERATIONS		10,461	17,367
Adjustments for non-cash and other items:		70,922	60,724
Amortisation & Depreciation	Note 1 - 2 - 26	23,537	17,759
Reversal of Impairment losses on Property, Plant and Equipment and Intangible assets	Note 1 - 2 - 28	71	135
Allowance for Impairment	Note 9 - 27	(85)	(379)
Cost for Staff Leaving Indemnities	Note 14	3,266	5,310
Exchange effect on Assets and Liabilities in Foreign Curr. of Commercial Transactions	Note 24	2,327	2,065
Gain/Losses of non-current assets disposals	Note 21	(269)	(68)
Financial Income and Expenses	Nota 30 - 29	26,434	22,425
Financial Investments - Equity Method	Nota 32	(15)	(66)
Current Taxes	Nota 33	12,144	13,542
Integrations for:		(20,037)	(21,378)
Income Taxes Paid	Note 7 - 18 - 33	(16,866)	(14,849)
Unrealised Exchange Rate Differences on Assets and Liabilities in Foreign Currencies	Note 31	(3,352)	(2,832)
Realised Exchange Rate Differences on Assets and Liabilities in Foreign Currencies	Note 31	181	(3,697)
Cash Flow from Operating Activities Before Changes in NWC		61,346	56,712
Changes in Net Working Capital:		(11,605)	(33,069)
Change in Inventories	Note 8	(19,779)	(10,818)
Change in Trade and Other Assets	Note 9	24,855	(28,495)
Change in Trade and Other Liabilities	Note 19	(12,662)	9,906
Change in Other Assets/Liabilities	Note 15 - 16 - 6	(1,321)	(863)
Change in Post-Employment and Employee Benefits	Note 14	(2,698)	(2,799)
Cash Flow from Operating Activities		49,741	23,643
Total Investment/Divestment in Intangible Assets	Note 1	(8,163)	(2,051)
Total Investment/Divestment in Property, Plant and Equipment	Note 2	(15,207)	(21,848)
Total Investment/Divestment of Investments measured at Equity, net of Income/Expense & Adjustments	Note 4 - 32	-	(197)
Total Investments/Divestment in Share Capital	Note 5	-	990
Total Investment/Divestment in Other Financial Assets	Note 3	193	137
Acquisition of investment in Pacon Group		(214,961)	-
Interest Received	Note 29	870	139
Cash Flow used in Investing Activities		(237,268)	(22,830)
Total Change in Equity	Note 12	97,712	(3,833)
Interest paid	Note 30	(26,023)	(8,425)
Total Increase/Decrease Loans and Other Financial Liabilities	Note 13	333,388	(23,951)
Cash Flow used in Financing Activities		405,077	(36,209)
Translation difference	Note 12	3,433	(17,529)
Other non-cash equity changes		(7,854)	19,416
NET CASH FLOW IN THE YEAR		213,129	(33,509)
Cash and Cash Equivalents net of Bank Overdrafts at beginning of the period		20,426	53,973
Cash and Cash Equivalents net of Bank Overdrafts at beginning of the period (change in consolidation scope)		(86,724)	(39)
Cash and Cash Equivalents net of Bank Overdrafts at end of the year		146,831	20,425

- 1) Cash and cash equivalents at December 31, 2018 totalled Euro 157,602 thousand; current account overdrafts amounted to Euro 10,771 thousand net of relative interest.
- 2) Cash and cash equivalents at December 31, 2017 totalled Euro 38,558 thousand; current account overdrafts amounted to Euro 18,133 thousand net of relative interest.
- 3) The cash flows are presented using the indirect method. In order to provide a more complete and accurate presentation of the individual cash flows, the effects from non-cash transactions were eliminated (including the translation of statement of financial position items in currencies other than the Euro), where significant. These effects were aggregated and included in the account "Other non-cash changes".

<i>Euro thousands</i>	December 2018	December 2017
Opening Cash and Cash Equivalents	20,425	53,973
Cash and cash equivalents	38,558	59,519
Bank overdrafts	(18,133)	(5,546)
Closing Cash and Cash Equivalents	146,831	20,425
Cash and cash equivalents	157,602	38,558
Bank overdrafts	(10,771)	(18,133)

The notes from pages 97 to 159 are an integral part of these consolidated financial statements.

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

<i>Euro thousands</i>		December 31, 2018	<i>of which:</i> Related Parties	December 31, 2017	<i>of which:</i> Related Parties
Assets		1,158,778	-	675,970	-
Non-Current Assets		575,032	-	316,837	-
Intangible Assets	Note 1	445,924		208,091	
Property, Plant and Equipment	Note 2	104,472		88,355	
Non-Current Financial Assets	Note 3	3,284		3,918	
Equity-accounted investees	Note 4	767		782	
Other Investments	Note 5	31		31	
Deferred Tax Assets	Note 6	20,554		15,660	
Current Assets		583,746	-	359,133	-
Current Financial Assets	Note 3	352		419	
Current Tax Assets	Note 7	11,743		8,689	
Inventories	Note 8	262,432		178,699	
Trade and Other Assets	Note 9	151,617		132,768	
Cash and Cash Equivalents	Note 10	157,602		38,558	
Liabilities and Equity		1,158,778	880	675,970	1,191
Equity	Note 12	338,809	-	239,577	-
Share Capital		46,799		37,261	
Reserves		109,234		23,872	
Retained Earnings		148,939		138,049	
Profit (loss) for the period		8,747		15,767	
Equity attributable to owners of the Parent		313,719		214,949	
Equity attributable to non-controlling interests		25,090		24,628	
Non-Current Liabilities		614,979	-	229,092	-
Non-Current Financial Liabilities	Note 13	519,884		178,889	
Financial Instruments	Note 17	5,102		35	
Employee Benefits	Note 14	10,931		8,736	
Provisions for Risks and Charges	Note 15	3,668		2,095	
Deferred Tax Liabilities	Note 16	75,341		39,241	
Other Liabilities	Note 19	53		96	
Current Liabilities		204,990	880	207,301	1,191
Current Financial Liabilities	Note 13	86,212		99,673	
Provisions for Risks and Charges	Note 15	3,569		2,917	
Current Tax Liabilities	Note 18	9,672		8,448	
Trade and Other Liabilities	Note 19	105,537	880	96,263	1,191

The notes from pages 97 to 159 are an integral part of these consolidated financial statements.

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

		December 31, 2018	of which: Related Parties	of which: Non- Recurring Charges	December 31, 2017	of which: Related Parties	of which: Non- Recurring Charges
<i>Euro thousands</i>							
Revenue from Sales and Service	Nota 20	588,747			510,354	2	
Other Revenue and Income	Nota 21	8,607			18,300		
Total Revenue		597,354			528,654		
Raw Materials, Ancillary, Consumables and Goods	Nota 22	(289,485)	(2,587)	(279)	(227,453)	(2,863)	(66)
Services and Rent, Leases and Similar Costs	Nota 23	(125,522)	(577)	(14,771)	(115,701)	(745)	(2,541)
Other Operating Costs	Nota 24	(9,172)		(154)	(19,338)		(44)
Change in Raw Materials, Semi-Finished, Work-in-progress & Finished Prod.	Nota 22	20,742		(3,286)	13,245		
Personnel Expenses	Nota 25	(120,407)		(3,844)	(106,283)		(4,830)
Amortisation & Depreciation	Nota 26	(23,537)			(17,759)		
Recovery (Impairment losses) of trade receivables and other receivables	Nota 27	(878)			(1,963)		
Recovery (Impairment losses) of other Assets	Nota 28	(71)		(18)	(134)		(71)
Total Operating Costs		(548,330)			(475,386)		
EBIT		49,024			53,268		
Financial Income	Nota 29	7,878		2,043	3,118		990
Financial Expense	Nota 30	(34,312)		(2,810)	(25,543)		(7,500)
Income/Expense from Investments at Equity	Nota 32	15			66		
Net financial expenses		(26,419)			(22,359)		
Pre-Tax Profit/(loss)		22,605			30,909		
Income Taxes		(14,378)		4,145	(15,719)		735
Deferred Tax Income and expense		2,234			2,177		
Total Income Taxes Expenses	Nota 33	(12,144)			(13,542)		
Profit/(loss) for the year - Continuing Operations		10,461			17,367		
Net Profit/(loss) for the year		10,461		(18,974)	17,367		(13,327)
<i>Attributable to:</i>							
Profit attributable to non-controlling interests		1,714		(142)	1,600		-
Profit (loss) attributable to owners of the parent		8,747		(18,832)	15,767		(13,327)
Other Comprehensive Income Items which may be reclassified subsequently in the Profit or Loss							
Translation Difference recorded in Equity		3,434			(17,529)		
Adjustment Fair value of Hedges		(6,120)			556		
Other Comprehensive Income Items which may not be reclassified subsequently in the Profit or Loss							
Actuarial Gains/(Losses) for Employee Benefits recorded directly in Equity		(1,980)			2,387		
Income Taxes on income and expenses recorded directly in Equity		364			(605)		
Transaction Costs on Capital Increase		(5,551)			-		
Income Taxes on income and expenses recorded directly in Equity		1,549			-		
Other Comprehensive Income Items (net of tax effect)		(8,304)			(15,191)		
Total Comprehensive Income		2,157			2,176		
<i>Attributable to:</i>							
Profit attributable to non-controlling interests		802			154		
Profit/(loss) attributable to owners of the parent		1,355			2,022		
Earnings per share:							
	<i>basic</i>	0.20			0.38		
	<i>diluted</i>	0.19			0.38		

The notes from pages 97 to 159 are an integral part of these consolidated financial statements.

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

Introduction

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

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

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

These consolidated financial statements are presented in Euro, as the functional currency in which the Group operates and comprise the Statement of Financial Position, in which assets and liabilities are classified under current and non-current, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity, the Notes and are accompanied by the Directors’ Report.

All amounts reported in the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and in the Notes are expressed in thousands of Euro, except where otherwise stated.

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

Accounting policies and Measurement Criteria

The consolidated financial statements of F.I.L.A. Group and of the F.I.L.A. S.p.A. (hereafter also “Parent”, “Company”) at December 31, 2018, prepared by the Board of Directors of F.I.L.A. S.p.A., were drawn up in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

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

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

These are the first annual financial statements in which the Group has applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. Material changes in accounting standards are described below.

Accounting standards, amendments and interpretations applied from January 1, 2018

IFRS 15 Revenue from Contracts with Customers

IFRS 15 introduces a single general model to establish whether, when and to what extent to recognise revenue. The standard replaces IAS 18 Revenues, IAS 11 Construction contracts and the relative interpretations.

The standard establishes a new revenue recognition model, which applies to all contracts with clients, with the exception of those falling under the application of other IAS/IFRS such as leasing, insurance contracts and financial instruments.

The essential issues for the recognition of revenues according to the new model are:

- the identification of the contract with the client;
- the identification of the performance obligations contained in the contract;
- the establishment of the price;
- the allocation of the price to the performance obligations of the contract;
- the recognition criteria of the revenue where the entity satisfies the performance obligations.

The Group applied IFRS 15 retrospectively with cumulative effect (without the adoption of stop-gap measures) at the date of first-time application (January 1, 2018). Therefore, the 2017 figures were not restated i.e. they were presented as per IAS 18, IAS 11 and the relative interpretations. In addition, the disclosure obligations imposed by IFRS 15 generally have not been applied to comparative information.

Reference should be made to the paragraph “Changes to accounting standards” for further details on the effects from application of IFRS 15.

IFRS 9 – Financial instruments

The standard, issued by the IASB in July 2014 endorsed by the European Commission in November 2016, replaces IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 introduces new provisions for the classification and measurement of financial instruments, including a new model for expected impairment losses on financial assets, and new general provisions for hedges. Furthermore, the standard includes provisions for the recognition and derecognition of financial instruments in line with the current IAS 39 and new rules for the restructuring of loan agreements. With the exception of the hedge accounting, retrospective application is required of the standard, but it is not obligatory to disclose comparative information. In relation to the hedge accounting, the standard is generally applied in a prospective manner, with some limited exceptions. However, entities may elect to continue to apply IAS 39 in this area.

IFRS 9 classifies financial assets into three principal categories: at amortized cost, at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income. The categories under IAS 39, that is, held-to-maturity assets, loans and receivables and available-for-sale assets, are eliminated.

The Group adopted IFRS 9 from its first application, January 1, 2018, availing itself of the exemption from restating the comparative information of previous financial years in relation to classification and valuation changes and impairment. The differences in the carrying amounts of financial assets and liabilities resulting from the IFRS 9’s adoption are recognised in retained earnings of January 1, 2018. In addition, the Group intends to continue to apply the provisions of IAS 39 in respect of hedge accounting rules.

Reference should be made to the paragraph “Changes to accounting standards” for further details on the effects from application of IFRS 9.

Amendment to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”

On September 12, 2016, the IASB published “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”. This amendment, endorsed by the European Commission in November 2017, is applicable from January 1, 2018. The amendments to IFRS 4 aim to remedy the temporary accounting consequences of the mismatch between the date of entry into force of IFRS 9 and the date of entry into force of the new accounting standard on insurance contracts replacing IFRS 4 (IFRS 17). The amendments to IFRS 4 authorize entities that primarily conduct insurance business to defer the date of application of IFRS 9 until January 1, 2021 and to continue to apply the international accounting standard IAS 39 – Financial Instruments: Recognition and Measurement.

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

In June 2016, the IASB published amendments to IFRS 2 “Classification and measurement of share-based payment transactions” which contains clarifications upon the recognition of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with characteristics of net settlement and the recognition of the amendments to the terms and conditions of a share-based payment which changes the classification from cash-settled to equity-settled.

Amendments to IAS 40 Investment Property: Transfers to Investment Properties

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB published the “IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration” document. The interpretation provides guidelines for transactions in foreign currencies where advances or non-monetary payments on account are recorded in the financial statements, before the recognition of the relative asset, cost or revenue. This document provides indications on how an entity should determine the date of a transaction, and consequently, the exchange rate to be utilised concerning operations in foreign currencies concerning payments made or received in advance.

Improvements to IFRS: 2014-2016 Cycle

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

- IFRS 1 First-time adoption of International Financial Reporting Standards - The amendments eliminate some exemptions within IFRS 1, as the benefit from these exemptions are no longer applicable.
- IAS 28 - Investments in Associates and Joint Ventures - The amendment clarifies that the option for risk capital investment companies or other similar companies to measure investments in associates and joint ventures valued at fair value through profit or loss (rather than through application of the equity method) is applied for each individual investment on initial recognition. Non-investment entities may measure interests in associates and joint ventures considered investment entities at equity, while continuing to measure the investments held by such entities at fair value.

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

Amendment to IFRS 9 Financial instruments: “Prepayment Features with Negative Compensation”

In October 2017, the IASB published amendments to IFRS 9 Prepayment Features with Negative Compensation. The amendment proposes that financial instruments repaid early, which may give rise to negative offsetting, may apply the amortised cost or fair value through other comprehensive income method depending on the business model adopted. The amendments will be applicable from periods beginning on January 1, 2019.

IFRS 16 – Leases

The standard, published by the IASB in January 2016 and endorsed by the European Commission in October 2017, replaces IAS 17, proposing substantial changes to the accounting treatment of lease arrangements in the lessee's financial statements, which must recognize the assets and liabilities deriving from contracts, without distinction between operating and finance leases, in the statement of financial position. The new standard provides a new definition of leases and introduces a criterion based on control (right of use) of an asset to distinguish leasing contracts from service contracts, identifying essential differences: the identification of the asset, the right of replacement of the asset, the right to obtain substantially all the economic benefits from the use of the asset and the right to use the asset underlying the contract. All contracts that qualify as leases – except for contracts governing low value assets and leases with a contractual term of 12 months or less – must be recognized in the statement of financial position as a right-of-use asset with a balancing entry to financial liabilities. This Standard does not contain significant amendments for lessors. The standard introduces a criterion based on control of the use of an asset to distinguish leasing contracts from service contracts, identifying essential differences:

- identification of the leased property (without the right for the lessor to replace the said property);
- the right to obtain substantially all the economic benefits from the use of the asset;
- the right to establish how and for what purpose the property is used.

The IASB expects that the standard will be applied for years commencing from January 1, 2019. Advance application is permitted for entities applying IFRS 15 Revenue from Contracts with Customers.

Upon initial application it is possible to use the full retrospective method (restating the comparative information) or the modified retrospective method (with cumulative effect from the adoption of IFRS 16 recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, without restating the comparative information).

The Group has completed its analysis of the contracts potentially affected by the new Standard, both in Italy and the other countries in which it operates. It was elected not to apply the IFRS 16 recognition and measurement measures to contracts considered short-term or low value leases.

The aforementioned modified retrospective method will be used as the Group's transitional approach. The Group will recognize a financial liability equal to the present value of the residual future payments at the transition date, discounted according to the incremental borrowing rate (IBR) applicable to each contract at the transition date and has elected to take the value of the financial liability as the amount of the right-of-use asset.

The F.I.L.A. Group, which is required to adopt IFRS 16 – Leasing from January 1, 2019, has estimated the effects of initial application of this Standard on the consolidated financial statements at and for the year ended December 31, 2018 to be an increase in financial liabilities and property, plant and equipment of Euro 82.2 million. The effect at the level of the separate financial statements of F.I.L.A. S.p.A. at and for the year ended December 31, 2018 has been estimated at an increase in financial liabilities and property, plant and equipment of Euro 7.1 million.

The actual effects from the adoption of the above standard at January 1, 2019 may differ as:

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

IFRIC 23 – Uncertainty over income tax treatments

In June 2017, the IASB published interpretation IFRIC 23 – Uncertainty over Income Tax Treatments. The interpretation clarifies the application of the requirements for recognition and measurement established in IAS 12 Income Taxes when uncertainties exist on tax treatment. The amendments will be applicable from periods beginning on January 1, 2019, although early application is permitted.

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

The amendment clarifies that IFRS 9 is applied to long-term receivables from an associate or joint venture which, in substance, are part of the net investment in the associate or joint venture. The amendment in addition establishes that IFRS 9 is applied to these receivables before the application of IAS 28, so that the entity does not take account of any adjustments to long-term interests from application of the above IAS. The amendments will be applicable from periods beginning on January 1, 2019, although early application is permitted.

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

IFRS 17 Insurance Contracts

In May 2017, the IASB published IFRS 17 Insurance Contracts which replaces IFRS 4, issued in 2014. The standard has the objective to improve investors' understanding of the exposure to risk, earnings and the financial position of insurers, requiring that all insurance contracts are recorded on a uniform basis, overcoming the problems created within IFRS 4.

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

Improvements to IFRS: 2015-2017 Cycle

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

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

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

Amendment to IAS 19 - Plan Amendment, Curtailment or Settlement (published in February 2018)

The amendments clarify how current labour costs and net interest is calculated where there is a change to the defined benefits plan. The amendments will be applicable from periods beginning on January 1, 2019. Early application is permitted.

Amendment to IFRS 10 and IAS 28 “Sales or Contribution of Assets between an Investor and its Associate or Joint Venture” (published on September 11, 2014)

The document was published in order to resolve the current conflict between IAS 28 and IFRS 10 relating to the measurement of the gain or loss from the sale or conferment of a non-monetary asset to a joint venture or associate in exchange for a share of the capital of this latter. Currently, the IASB has suspended the application of this amendment.

IFRS 14: Regulatory Deferral Accounts

IFRS 14, issued by the IASB in January 2014 permits an entity, whose activities are subject to rate regulations, to continue to apply, on the first-time adoption of IFRS, the previous accounting standards adopted for the amounts relating to the rate regulation. IFRS 14 is applicable from January 1, 2016, but the European Commission suspended the approval process while awaiting the new accounting standard on “rate-regulation activities”. This Standard does not apply to the Group.

In accordance with IFRS 2 - Share-based payments, the key data regarding the “2017-2019 Performance shares plan” and the “One-off Extraordinary bonus”, approved by the Shareholders’ Meeting of F.I.L.A. S.p.A. on April 27, 2017 and based on the free awarding of shares of the parent F.I.L.A. S.p.A to managers and senior executives of the FILA Group, is presented below.

The free awarding of shares to beneficiaries of the extraordinary bonus was made and concluded in the year ended December 31, 2017, while the “2017-2019 Performance shares plan” covers a medium/long-term period.

With regards to the variables underlying the allocation of capital instruments, with regards to the extraordinary bonus, the achievement of quantitative or qualitative performance objectives was not required.

On the other hand, for the “2017-2019 Performance Shares Plan” the right to receive F.I.L.A. S.p.A. shares is subject to the maintenance of the beneficiaries’ position as an employee or director of the company until the conclusion of the vesting period of the plan (December 31, 2019) and the achievement of performance objectives (average ROI over the 2017-2019 three-year period).

The total number of shares to be assigned to beneficiaries of the “One-off Extraordinary Bonus” was established as 100,181. This number is calculated on the basis of the average closing price of the share over the trading days before the date of March 21, 2017 exclusive.

The total maximum number of shares to be assigned to beneficiaries of the “2017-2019 Performance Shares Plan” was established as 94,765. This number was also calculated according to the average share closing price over the trading days prior to March 21, 2017 exclusive and taking account of the shares which may be assigned by the Board of Directors to any additional Plan beneficiaries.

Amendments to the references in IFRSs to the *Conceptual Framework for Financial Reporting* (published in March 2018)

In October 2018, the IASB published the reviewed version of the *Conceptual Framework for Financial Reporting*.

The main changes from the previous version of 2010 were as follows:

- ▶ a new chapter on measurement;
- ▶ improved definitions and guidance, in particular with regards to defining liabilities;
- ▶ clarification of important concepts such as stewardship, prudence and uncertainty in measurement.

The amendment updates several references in the IFRS to the previous *Conceptual Framework in IFRS Standards*, the accompanying documents and the *IFRS Practice Statements*.

The amendments will be applicable from periods beginning on January 1, 2020. Early application is permitted.

Amendment to IFRS 3 – *Definition of a Business* (published in October 2018)

The amendment is intended to aid in determining whether a transaction is an acquisition or a business or of a group of assets that does not meet the definition of a business provided in IFRS 3.

These amendments will be applied to acquisitions after January 1, 2020. Early application is however permitted.

Amendment to IAS 1 and IAS 8 – *Definition of Material* (published in October 2018)

The purpose of the amendment is to clarify the definition of “material” in order to aid companies in assessing whether information is to be included in the financial statements. These amendments will be applied from January 1, 2020. Early application is however permitted.

Change of accounting standards

The Group has adopted IFRS 15 and IFRS 9 from January 1, 2018. The other new standards entering into force from January 1, 2018 did not have significant impacts on the Group consolidated financial statements.

In accordance with the initial application methods selected, the comparative information has not been restated.

The statement of financial position and the statement of comprehensive income with an indication of the effects of the application of IFRS 9 and IFRS 15 are presented below. There was no material impact on the Group's consolidated statement of cash flows at December 31, 2018.

Effects on the statement of financial position

<i>Euro thousand</i>	December 31, 2018 Ex-post Adjustment	IFRS Adjustments	December 31, 2018 Ex-ante Adjustments
ASSETS	1,158,778	886	1,159,664
Non-Current Assets	575,032	(351)	574,684
Intangible Assets	445,924		445,924
Property, Plant and Equipment	104,472		104,472
Non-Current Financial Assets	3,284		3,284
Equity-accounted investees	767		767
Other Investments	31		31
Deferred Tax Assets	20,554	(351)	20,203
Current Assets	583,746	1,237	584,983
Current Financial Assets	352		352
Current Tax Assets	11,743		11,743
Inventories	262,432		262,432
Trade and Other Assets	151,617	1,237	152,854
Cash and Cash Equivalents	157,602		157,602
LIABILITIES AND EQUITY	1,158,778	886	1,159,664
Equity	338,809	886	339,695
Share Capital	46,799		46,799
Reserves	109,234	1,157	110,391
Retained Earnings	148,939		148,939
Net Profit for the period	8,747	(271)	8,476
Equity attributable to owners of the parent	313,719	886	314,605
Equity attributable to non-controlling interests	25,090		25,090
Non-Current Liabilities	614,979	-	614,978
Non-Current Financial Liabilities	519,884		519,884
Financial Instruments	5,102		5,102
Employee Benefits	10,931		10,931
Provisions for Risks and Charges	3,668		3,668
Deferred Tax Liabilities	75,341		75,341
Other Liabilities	53		53
Current Liabilities	204,990	-	204,990
Current Financial Liabilities	86,212		86,212
Provisions for Risks and Charges	3,569		3,569
Current Tax Liabilities	9,672		9,672
Trade and Other Liabilities	105,537		105,537

Effects on the statement of comprehensive income

<i>Euro thousands</i>	December 31, 2018 Ex-post Adjustment	IFRS Adjustment	December 31, 2018 Ex-ante Adjustment
Revenue from Sales and Service	588,747	14,202	602,949
Other Revenue and Income	8,607	-	8,607
Total Revenue	597,354	14,202	611,556
Raw Materials, Ancillary, Consumables and Goods	(289,485)	-	(289,485)
Services and Rent, Leases and Similar Costs	(125,522)	(13,147)	(138,669)
Other Operating Costs	(9,172)	-	(9,172)
Change in Raw Materials, Semi-Finished, Work-in-progress & Finished Prod.	20,742	-	20,742
Personnel expenses	(120,407)	-	(120,407)
Amortization & Depreciation	(23,537)	-	(23,537)
Recovery (impairment losses) of trade receivables and other receivables	(878)	(822)	(1,700)
Recovery (impairment losses) of other Assets	(71)	-	(71)
Total Operating Costs	(548,330)	(13,969)	(562,299)
EBIT	49,024	233	49,257
Financial Income	7,878	-	7,878
Financial Expense	(34,312)	(1,055)	(35,367)
Income/Expense from Investments at Equity	15	-	15
NET FINANCIAL EXPENSES	(26,419)	(1,055)	(27,473)
Pre-Tax Profit/(loss)	22,605	(822)	21,784
Income Taxes	(14,378)	-	(14,378)
Deferred Tax Income and Expense	2,234	551	2,785
Total Income Taxes	(12,144)	551	(11,592)
PROFIT (LOSS) FOR THE YEAR - CONTINUING OPERATIONS	10,461	(271)	10,191
Profit/(Loss) for the year	10,461	(271)	10,191
<i>Attributable to:</i>			
Profit attributable to non-controlling interests	1,714		1,714
Profit (loss) attributable to owners of the parent	8,747		8,476
Other Comprehensive Income Items which may be reclassified subsequently in the profit or loss	(2,686)	-	(2,686)
Translation Difference recorded in Equity	3,434	-	3,434
Adjustment Fair value of Hedges	(6,120)	-	(6,120)
Other Comprehensive Income Items which may not be reclassified subsequently in the profit or loss	(5,618)	-	(5,618)
Actuarial Gains/(Losses) for Employee Benefits recorded directly in Equity	(1,980)	-	(1,980)
Income Taxes on income and expenses recorded directly in Equity	364	-	364
Transaction Costs on Capital Increase	(5,551)	-	-
Income Taxes on income and charges recorded directly in Equity	1,549	-	-
Other Comprehensive Income Items (net of tax effect)	(8,304)	-	(8,304)
Total Comprehensive Income	2,157	(271)	1,886
<i>Attributable to:</i>			
Profit attributable to non-controlling interests	802		802
Profit/(loss) attributable to owners of the parent	1,355		1,084

At December 31, 2018, the application of IFRS 15 had the effect of reducing revenues on the basis of reclassifications for Euro 14,202 thousand, with an impact on the operating profit of Euro 1,055 thousand relating to contractually established financial discounts for customers. There were no changes in profit for the year.

The application of IFRS 9 had a negative impact on shareholders' equity at January 1, 2018 of Euro 1,157 thousand, concerning the impact calculated on the financial statements at and for the year ended December 31, 2017, expressed net of the tax effect. The impact calculated on the financial statements as at and for the year ended December 31, 2018 resulted in a positive effect on profit for 2018 of Euro 271 thousand. Together with the change in financial position, trade receivables and other assets declined by Euro 1,237 thousand, whereas deferred tax assets increased by Euro 351 thousand.

The adoption of IFRS 9 did not have significant impacts on the accounting policies applied by the Group to financial liabilities and derivative financial instruments. The effect of the application of IFRS 9 on the carrying amounts of financial assets at January 1, 2018 refers solely to the new provisions on impairment losses. IFRS 9 replaces the incurred loss model under IAS 39 with an expected credit loss forecast model. The new expected credit loss model is applied to financial assets valued at amortised cost, assets deriving from contracts and debt securities at FVOCI, with the exception of capital securities.

Basis of consolidation principles

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

Subsidiaries

The subsidiaries, reported in “Attachment 2 - List of companies included in the consolidation scope and equity”, are companies where the Group, as per IFRS 10, is exposed to variable income streams, possesses rights to such variable returns, based on the relationship with the entity, and at the same time has the capacity to affect such income returns through the exercise of its power over such entities.

The subsidiaries are consolidated line-by-line method from the acquisition date, or rather the date in which the Group acquires control and until such control is relinquished. The carrying amount of the subsidiaries is eliminated against the share of equity held, net of the share of the result for the year. The share of equity and result for the year relating to non-controlling interests are recorded separately in the statement of financial position and in profit or loss.

Equity-Accounted Investees

Associates are entities in which the Group exercises a significant influence on the financial and operating policies, although not having direct or joint control. Significant influence is the power to participate in the financial and operating policy decisions of an investee, however not exercising control or joint control.

Joint Ventures are entities in which the Group exercises, with one or more parties, joint control of their economic activities based on a contractual agreement. Joint control assumes that the strategic, financial and operating decisions are taken unanimously by the parties that exercise control.

The investments in associates and joint ventures are recorded in the separate financial statements at cost and in the consolidated financial statements under the equity method. Based on this method, equity investments are initially recognised at cost, subsequently adjusted according to the changes in the value of the share of the Group in the equity of the associate. The Group’s share in the result of associates and joint ventures is recorded in a separate income statement account from the date in which significant influence is exercised and until such ceases to be exercised. Where necessary, the accounting policies of associates and joint ventures are modified in line with the accounting policies adopted by the Group.

Business combinations

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

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

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

Goodwill is recognised as the difference between:

a) the sum of:

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

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

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

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

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

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

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

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

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

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

Infragroup transactions

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

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

Foreign currency transactions

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

Foreign operations

The assets and liabilities of foreign operations, including the goodwill and adjustments to Fair Value deriving from the acquisition, are translated into Euro utilising the exchange rate at the reporting date. The revenues and costs of foreign entities are translated into Euro utilising the exchange rate at the transaction date. The exchange rate differences are recorded under other comprehensive income and included in the translation reserve, with the exemption of exchange rate differences attributable to non-controlling interests.

The exchange rates adopted for the translation of local currencies into Euro are as follows:

EXCHANGE RATES		
	Average Exchange Rate December 31, 2018	Average Exchange Rate December 31, 2017
Argentinean Peso	32.909	43.159
Canadian Dollar	1.530	1.561
Chilean Peso	756.960	794.370
Renminbi Yuan	7.807	7.875
Euro	1.000	1.000
Pound	0.885	0.895
Mexican Peso	22.716	22.492
US Dollar	1.182	1.145
Indonesian Rupiah	16,801.730	16,500.000
Swedish Krona	10.257	10.255
Singapore Dollar	1.593	1.559
Turkish Lira	5.699	6.059
Brazilian Real	4.309	4.444
Indian Rupee	80.728	79.730
Russian Ruble	74.055	79.715
South Africa Rand	15.613	16.459
Polish Zloty	4.261	4.301
Dominican Peso	58.417	57.524
Australian Dollar	1.580	1.622
Shekel	4.244	4.297
Swiss Franc	1.155	1.127

Source: Bank of Italy

Accounting policies of the Consolidated Financial Statements

Intangible fixed assets

An intangible asset is a clearly identifiable non-monetary asset without physical substance, subject to control and capable of generating future economic benefits. They are recognised at acquisition cost where acquired separately and are capitalised at fair value at the acquisition date where acquired through business combinations.

The interest expense on loans for the purchase and the development of intangible assets, which would not have been incurred if the investment had not been made, are not capitalised.

Intangible assets with indefinite useful life

Intangible assets with indefinite useful lives mainly consist of assets which do not have limitations in terms of useful life as per contractual, legal, economic and competitive conditions. This category includes only “goodwill”. Goodwill is represented by the excess of the purchase cost incurred compared to the net fair value at the acquisition date of assets and liabilities or business units. The goodwill relating to equity investments measured at equity is included in the carrying amount of the investments. This is not subject to amortisation but an impairment test is made at least annually on the carrying amount in the accounts. This test is made with reference to the “cash generating unit” to which the goodwill is attributed. Any reduction in value of the goodwill is recorded where the recoverable value of the goodwill is lower than the carrying amount; the carrying amount is the higher between the Fair Value of a cash generating unit, less selling costs, and the value in use, represented by the present value of the estimated revenue streams of the cash generating units.

The principal assumptions adopted in the determination of the value in use of the “cash generating units”, or rather the present value of the estimated future cash flows which is expected to derive from the continuing use of the activities, relates to the discount rate and the growth rate.

In particular, the F.I.L.A. Group utilised the discount rate which it considers correctly expresses the market valuations, at the date of the estimate, of the time value of money and the specific risks related to the individual cash generating units.

The operating cash flow forecasts derive from the most recent budgets and long-term plans prepared by the F.I.L.A. Group.

The cash flow forecasts refer to current business conditions, therefore they do not include cash flows related to future investments.

The forecasts are based on reasonableness and consistency relating to future general expenses, financial conditions, as well as macro-economic assumptions, with particular reference to increases in product prices, which take into account expected inflation rates. The impairment loss on goodwill may not be restated.

Reference should be made to Note 1 to the separate and consolidated financial statements of the Group for further information on the indicators utilised for the impairment test at December 31, 2018.

Intangible assets with finite useful lives

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

The amortisation policies adopted by the Group provide for:

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

Research and development costs

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

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

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

Property, plant and equipment

Property, plant and equipment are measured at purchase cost, net of accumulated depreciation and any impairment loss. The cost includes all charges directly incurred for the purchase and/or production. The interest charge on loans for the purchase and the construction of Property, Plant and Equipment, which would not have been incurred if the investment hasn't been made, are not capitalised but expensed to the income statement based on the accruals of the costs. Where an asset relating to property, plant and equipment is composed of various components with differing useful lives, these components are recorded separately (significant components) and depreciated separately. Property, plant and equipment acquired through business combinations are recognised in the financial statements at fair value at the acquisition date. The expense incurred for maintenance and repairs are directly charged to the profit or loss in the year in which they are incurred. The costs for improvements, modernisation and transformation of an incremental nature of Property, Plant and Equipment are allocated as an asset. The purchase price or construction cost is net of public grants which are recognised when the conditions for their concession are confirmed. At the date of the present financial statements there are no public grants recorded as a reduction within "Property, Plant and Equipment". The initial value of property, plant and equipment is adjusted for depreciation on a systematic basis, calculated on a straight-line basis monthly, when the asset is available and ready for use, based on the estimated useful life.

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

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

Finance leases

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

Impairment losses of non-financial assets

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

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

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

Financial assets and receivables

Trade receivables and debt securities in issue are recognized as they arise.

With the exception of trade receivables without a material financial component, financial assets are initially recognized at fair value, plus or minus, in the case of financial assets or liabilities not at FVTPL, the transaction costs directly attributable to the acquisition or issue of the financial asset. Upon initial recognition, trade receivables without a material financial component are measured at their transaction price.

Upon initial recognition, a financial asset is classified according to how it is measured: at amortized cost, at fair value through other comprehensive income (FVOCI) for debt and equity securities, or at fair value through profit or loss (FVTPL). Financial assets are not reclassified following initial recognition unless the Group modifies the business model within which the financial assets are held. In such cases, all the affected financial assets are reclassified on the first day of the first financial year following the change of the business model.

Loans and receivables are measured at amortized cost, taking the interest to profit or loss according to the effective interest rate method or applying a rate that results in a nil balance of the present values of the net cash flows generated by the financial instrument. Losses are recognized to profit or loss when they become apparent or when the loans and receivables are derecognized. Loans are tested for impairment and then recognized at their presumed realizable value (fair value) by setting aside a specific loss allowance deducted directly from the value of such assets. Loans are impaired when there is objective evidence of a probable default on the loan and on the basis of past experience and historical data (expected losses). When, in subsequent periods, the reasons for the impairment no longer exist, the value of the asset is restated up to the value deriving from the application of the amortised cost as if no impairment had been applied.

Other non-current equity instruments are initially measured at cost (the fair value of the initial consideration paid), plus any directly attributable transaction costs. Changes in fair value and any capital gains or losses on disposal of an equity investment are taken to other comprehensive income and never pass through profit or loss. Since this election is irrevocable and may be made on an investment-by-investment basis, any exceptions upon initial recognition will be disclosed in the notes commenting on the caption. All equity instruments must be measured at fair value. The fair value of securities traded in active markets is determined by reference to the exchange prices recorded at the end of trading at the reporting date.

The fair value of investments for which no active market exists is determined on the basis of the price in recent transactions between independent parties of essentially similar instruments or of the use of other valuation techniques such as methods based on income or an analysis of discounted cash flows. However, in certain limited circumstances, cost may represent an adequate estimate of fair value if, for example, the most recent information available to assess fair value is insufficient, or if there is a wide range of possible fair values. Cost is never the best estimate of fair value for investments in quoted equity instruments. Financial assets designated at fair value through profit or loss upon initial recognition are measured with reference to their market value at the reporting date. The value of non-quoted instruments is determined through generally accepted financial valuation techniques based on market data. Gains or losses deriving from the fair value measurement of assets classified to this category are recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents principally include cash, bank deposits on demand and other highly liquid short-term investments (converted into liquidity within ninety days). These are recorded at their nominal value. For the purposes of the classification of financial instruments according to the criteria set out in IFRS 9, as required by IFRS 7, cash and cash equivalents have been classified as financial assets at amortized cost for credit risk purposes. Bank overdrafts are classified under “Current Financial Liabilities”.

Inventories

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

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

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

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

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

Distribution costs were excluded from purchase cost and production cost.

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

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

Provisions are recorded at the value representing the best estimate of the amount that the company would pay to discharge the obligation or to transfer it to a third party. When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is discounted. The rate used in the determination of the present value of the liability reflects the current market values and includes the further effects relating to the specific risk associated to each liability. The increase in the provision due to the passage of time is recognised in the profit or loss account "Financial income/(expense)".

The provisions are periodically updated to reflect the changes in the estimate of the costs, of the time period and of the discount rate; the revision of estimates are recorded in the same income statement accounts in which the provision was recorded, or when the liability relates to an asset, against the asset account to which it refers.

The notes illustrate the contingent liabilities represented by: (i) possible obligations (but not probable) deriving from past events, whose existence will be confirmed only on the occurrence or otherwise of one or more uncertain future events not fully under the control of the entity; (ii) current obligations deriving from past events whose amount cannot be reliably estimated or whose fulfilment will likely not represent a charge.

Restructuring provisions

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

Employee benefits

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

Defined contribution plans

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

Defined benefit plans

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

relating to past services is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits mature immediately, the cost is recognised immediately in profit or loss.

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

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

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

Other long-term employee benefits

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

Short-term employee benefits

Short-term employee benefits are recorded as non-discounted expenses when the services to which they arise are provided.

The Group records a liability for the amount that it expects will be paid in the presence of a present obligation, legal or constructive, as a consequence of past events and for which the obligation can be reliably estimated.

Financial liabilities

Financial liabilities are initially recognized at fair value, which essentially coincides with the sum received, less directly attributable transaction costs. Management determines the classification of financial liabilities according to the criteria laid down in IFRS 9 and cited in IFRS 7 on initial recognition.

After initial recognition, such liabilities are measured at amortized cost, as defined in IFRS 9. Financial liabilities measured at amortized cost are measured at amortized cost, taking the interest to profit or loss according to the effective interest rate method or applying a rate that results in a nil balance of the present values of the net cash flows generated by the financial instrument. Nominal value is used as an approximation of amortized cost for instruments maturing within twelve months.

Financial instruments

Financial instruments are initially recognised at Fair Value and, subsequent to initial recognition, are measured on the basis of their classification, as per IFRS 9.

IFRS 9 classifies financial assets into three principal categories: at amortized cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL). According to the Standard, classification is usually based on the entity's business model for the financial assets and the contractual cash flow characteristics of each financial asset. The categories under IAS 39, that is, held-to-maturity, loans and receivables and available-for-sale, are eliminated. Under IFRS 9, derivatives embedded in contracts where the primary element of a financial asset falls within the scope of the Standard are never to be separated. Rather, the hybrid instrument is examined as a whole to determine its classification.

IFRS 9 essentially maintains the provisions of IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 did not have significant impacts on the accounting policies applied by the Group to financial liabilities and derivative financial instruments.

Derivative financial instruments

Derivatives are classified in the category “Hedging derivatives” if they satisfy the requisites for the application of so-called hedge accounting, otherwise, although in place in order to manage exposition to risk, they are recorded as “Non-hedging derivatives”.

In accordance with IFRS 9, the F.I.L.A. Group has elected to continue to apply the hedge accounting method and requirements set out in the standard previously in force, IAS 39, and thus to determine the hedge effectiveness of the derivative financial instrument. In particular, financial instruments are only accounted for under the hedge accounting methods adopted by the Group when the relationship between the derivative and the hedged item is formally documented and the hedge is highly effective (effectiveness test).

The effectiveness of hedges is documented both at the beginning of the transaction and periodically (at least at the annual or interim reporting dates).

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

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

Trade and other liabilities

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

Current, deferred and other taxes

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

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

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

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

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

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

Revenue and costs

Revenue recognition

The revenue and income are recorded, as per IFRS 15, net of returns, discounts, rebates and premiums as well as direct taxes related to the sale of products and services. In particular, the revenue from the sale of products are recognized when control of the assets is transferred to the buyer. This, according to normal contractual conditions, occurs on shipping of the goods.

Recognition of costs

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

Financial income and expense

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

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

Dividends

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

Earnings per share

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

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

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

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

Use of estimates

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

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

- Measurement of receivables: trade receivables are adjusted by the allowance for impairment, taking into account the effective recoverable amount. The calculation of the impairment losses requires the Directors to make valuations based on the documentation and the information available relating to the solvency of the clients, and from market and historical experience.
- Measurement of goodwill and intangible assets with indefinite useful life: in accordance with the accounting principles applied by the Group, goodwill and intangible assets with indefinite useful life are subject to a verification at least annually (“impairment test”) in order to verify whether a reduction in value has taken place. This verification requires the Directors to make valuations based on the information available within the Group and from the market, as well as from historical experience; this depends in addition to factors which may change over time, affecting the valuations and estimates made by Directors. In addition, when it is determined that there may be a potential reduction in value, the Group determines this through using the most appropriate technical valuation methods available;
- Risk provisions: the identification of the existence of a present obligation (legal or constructive) in some circumstances may be difficult to determine. The Directors evaluate these factors case-by-case, together with the estimate of the amount of the economic resources required to comply with the obligation. When the Directors consider that a liability is only possible, the risks are disclosed in the notes under the section on commitments and risks, without any provision.
- Measurement of closing inventories: inventories of products which are obsolete or slow moving are periodically subject to valuation tests and written down where the recoverable amount is lower than the carrying amount. The write-downs are made based on assumptions and estimates of management deriving from experience and historic results.

- ▶ Pension plans and other post-employment benefits: the companies of the Group participate in pension plans and other post-employment benefits in various countries; in particular in Italy, Germany, the United States, France, Canada and Mexico. Management utilises multiple statistical assumptions and valuation techniques with the objective of anticipating future events for the calculation of the charges, liabilities and assets relating to these plans. The assumptions relate to the discount rate, the expected return of the plan assets and the rate of future salary increases. In addition, the actuarial consultants of the Group utilise subjective factors, for example mortality and employee turnover rates;
- ▶ The calculation of deferred tax assets is supported by a recoverability plan prepared on the basis of the assumptions which the Directors consider reasonable.

Note 1 - Intangible assets

Intangible assets at December 31, 2018 amount to Euro 445,924 thousand (Euro 208,091 thousand at December 31, 2017) and are comprised for Euro 150,670 thousand of intangible assets with indefinite useful life – goodwill (“Note 1.B - Goodwill for Cash Generating Units”) and for Euro 295,254 thousand intangible assets with definite useful life (“Note 1.D – Intangible Assets with definite useful lives”).

The movements in the year were as follows:

Note 1.A - INTANGIBLE ASSETS						
	Goodwill	Industrial Patents & Intellectual Property Rights	Concessions, Licenses, Trademarks & Similar Rights	Other Intangible Assets	Construction in Progress	Total
<i>Euro thousands</i>						
Change in Historical Cost						
December 31, 2016	77,865	190	111,902	50,349	365	240,671
Increases in the year	-	-	53	356	1,642	2,051
Increases (Investments)	-	-	53	356	1,642	2,051
Decreases in the year	(656)	-	(4,093)	(2,102)	-	(6,851)
Decreases (Divestments)	-	-	-	-	-	-
Variation in Consolidation Scope	(455)	-	(4,093)	(2,102)	-	(6,650)
Decrease in Translation Differences	-	-	-	-	-	-
December 31, 2017	77,208	190	107,862	48,603	2,007	235,870
Increases in the year	-	-	-	(18)	-	(18)
Increases (Investments)	-	-	-	-	-	-
<i>of which Consolidation Area Change</i>	-	-	-	233	-	233
Consolidation Area Change	-	-	-	(19)	-	(18)
Decreases in the year	-	-	-	-	-	(1)
Decreases (Divestments)	-	-	-	(5)	-	(6)
Reclassification of decreases	-	-	-	5	-	5
December 31, 2018	77,208	190	107,862	48,584	2,007	235,851
Change in Amortization						
December 31, 2016	-	(136)	(16,492)	(5,603)	-	(22,231)
Increases in the year	-	(11)	(4,277)	(2,426)	-	(6,714)
Increases (Investments)	-	(11)	(4,277)	(2,426)	-	(6,714)
<i>of which Consolidation Area Change</i>	-	-	-	-	-	-
Decreases in the year	-	-	946	220	-	1,166
Decrease in Translation Differences	-	-	946	220	-	1,166
December 31, 2017	-	(147)	(19,823)	(7,809)	-	(27,779)
Increases in the year	-	(10)	(4,772)	(6,182)	-	(10,963)
Depreciation of the year	-	(10)	(4,543)	(6,182)	-	(10,735)
<i>of which Consolidation Area Change</i>	-	-	(731)	(2,821)	-	(3,552)
Increase in Translation Differences	-	-	(228)	-	-	(228)
Decreases in the year	-	-	29	94	-	123
Decreases	-	-	29	44	-	73
Decrease in Translation Differences	-	-	-	50	-	50
December 31, 2018	-	(157)	(24,566)	(13,897)	-	(38,619)
Carrying amount at December 31, 2016	77,865	54	95,410	44,746	365	218,440
Carrying amount at December 31, 2017	77,208	43	88,039	40,794	2,007	208,091
Carrying amount at December 31, 2018	150,670	42	118,898	172,954	3,359	445,924
Change 2017-2018	73,462	(1)	30,859	132,160	1,352	237,833

Intangible assets with indefinite useful life

“Intangible assets with indefinite useful lives” is comprised entirely of goodwill for a total amount of Euro 150,670 thousand (Euro 77,208 thousand at December 31, 2017). The movement on the previous year is due to the acquisition of the Pacon Group which resulted in the recognition of Goodwill of Euro 70,933 thousand generated by the transaction. During the year foreign exchange differences of Euro 2,547 thousand accrued and an impairment loss of Euro 18 thousand was recognized on the goodwill associated with the South African subsidiary FILA SA.

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

In accordance with the provisions of IAS 36, goodwill is allocated to the various cash generating units (CGU’s) and at least on an annual basis subject to recoverability analysis through an impairment test.

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

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

NOTE 1.B GOODWILL BY CASH GENERATING UNIT							
	December 31, 2018	December 31, 2017	Change	Goodwill Reallocation ^(A)	Exchange Rate Difference	Impairment Loss	Consolidation Area Change
<i>Euro thousands</i>							
DOMS Industries Pvt Ltd	33,276	33,281	(5)	-	(5)	-	-
Canson Group - Omyacolor ⁽⁴⁾	12,486	10,875	1,611	1,611	-	-	-
Daler-Rowney Group - Lukas ⁽⁵⁾	1,647	1,647	-	-	-	-	-
North America ⁽²⁾	97,040	23,646	73,394	-	2,461	-	70,933
Dixon Group - Central and South America ⁽¹⁾	1,903	1,812	91	-	91	-	-
Industria Maineri S.p.A. (Italy)	1,695	1,695	-	-	-	-	-
Omyacolor S.A. (France)	-	1,611	(1,611)	(1,611)	-	-	-
St. Cuthberts Holding ⁽⁶⁾	1,323	1,323	-	-	-	-	-
Lyra Group ⁽³⁾	1,217	1,217	-	-	-	-	-
Pioneer Stationery PVT Ltd (India)	-	-	-	-	-	-	-
FILA SA (South Africa)	83	101	(18)	-	-	(18)	-
Total	150,670	77,208	73,462	-	2,547	(18)	70,933

(A) - The F.I.L.A. Group CGU in 2018 were reviewed due to the reorganization of the Group; the reorganization that mainly involved the CGU of Canson Group and Omyacolor

(1) - Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico); F.I.L.A. Chile Ltda (Chile); FILA Argentina S.A. (Argentina).

(2) - Dixon Ticonderoga Company (U.S.A.); Dixon Ticonderoga Inc. (Canada); Canson Inc (U.S.A.); Daler USA Ltd (U.S.A.); Brideshore srl (Dominican Republic) as CGU North America; Eurholdham (U.S.A.); Pacon Holding Company (U.S.A.); Pacon Corporation (U.S.A.); Pacon Canadian Holding Co (U.S.A.); Baywood Paper ULC (Canada); Castle Hill Crafts (UK); Creativity International (UK); Princeton Hong Kong (U.S.A.).

(3) - Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG (Germany); FILA Nordic AB (Sweden); PT. Lyra Akrelux (Indonesia); Daler Rowney GmbH (Germany); Lukas-Nerchau GmbH (Germany); Nerchauer Malfarben GmbH (Germany).

(4) - Canson SAS (France); Lodi 12 SAS (France); Canson Brasil L.P.E. LTDA (Brazil); Canson Australia PTY LTD (Australia); Canson Qingdao Ltd.(China); FILA Iberia (Spain); FILA Yixing (China) Canson Italy (Italy); Omyacolor (France).

(5) - Renoir Topco Ltd (UK); Renoir Midco Ltd (UK); Renoir Bidco Ltd (UK); Daler Rowney Group Ltd (UK); FILA Benelux SA (Belgium); Daler Rowney Ltd (UK); Longbeach Arts Ltd (UK); Daler Board Company Ltd (UK); Daler Holdings Ltd (UK); Daler Designs Ltd (UK); Lasimill Ltd (UK); Rowney & Company Pencils Ltd (UK); Rowney Artists Brushes Ltd (UK); Brideshore srl (Dominican Republic) as CGU Daler.

(6) - St. Cuthberts Holding (UK); St. Cuthberts Mill (UK)

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

The breakdown of the Group assets by CGU and the identification criteria has not changed compared to December 31, 2017, with the exception of:

- ▶ Contribution to the Canson-Omyacolor Group CGU of the assets and goodwill previously allocated to the Omyacolor SA CGU (France);
- ▶ Allocation of the assets and goodwill arising from the acquisition of the Pacon Group to the North America CGU;
- ▶ Contribution of the assets of the companies Daler Rowney GmbH (Germany), Lukas-Nerchau GmbH (Germany) and Nerchauer Malfarben GmbH (Germany), previously part of the Daler - Rowney Lukas Group CGU, to the Lyra Group CGU. Since no goodwill has been allocated to the companies concerned, the goodwill attributed to the Lyra Group CGU remained unchanged on the previous year.

The annual impairment test undertaken by the Group has the objective to compare the carrying amount of the cash-generating units to which the goodwill was allocated with the relative recoverable amount. This latter is determined as the higher between the market value net of cost of sales and the estimated value in use through discounting the cash flows.

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

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

The projected cash flows for calculation of the "Value in use" are developed according to the 2019 Budget and the Industrial Plan approved by the Board of Directors on February 15, 2019.

In particular, the cash flows were determined taking the assumptions from the plan and applying the growth rate identified for each CGU in line with the long-term assumptions relating to the growth rate of the sector and the specific risk of their country in which each CGU operates. The "Terminal Value" was calculated applying the perpetual growth method. These financial estimates were subject to approval by the Boards of Directors of the individual Group companies subject to impairments.

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

The table below outlines the main assumptions for the impairment test. The discount rate altered on December 31, 2017 to reflect the changed market conditions at December 31, 2018, as commented upon below:

IMPAIRMENT TEST - VALUE IN USE CALCULATION ASSUMPTIONS				
<i>Euro thousands</i>	Discount Rate (W.A.C.C.)	Growth Rate (g rate)	Cash flow horizon	Terminal Value Calculation Method
DOMS Industries Pvt Ltd (India)	13.00%	4.30%	5 years	Perpetuing growth rate
Canson Group - Omyacolor (France) ⁽⁴⁾	6.32%	1.80%	5 years	Perpetuing growth rate
Daler-Rowney Group - Lukas (UK) ⁽⁵⁾	7.11%	2.00%	5 years	Perpetuing growth rate
North America ⁽²⁾	8.42%	1.80%	5 years	Perpetuing growth rate
Dixon Group - Central/South America ⁽¹⁾	11.49%	3.68%	5 years	Perpetuing growth rate
Industria Maineri S.p.A. (Italy)	8.20%	1.40%	5 years	Perpetuing growth rate
St. Cuthberts Holding (UK) ⁽⁶⁾	7.11%	2.00%	5 years	Perpetuing growth rate
Lyra Group ⁽³⁾	6.06%	2.10%	5 years	Perpetuing growth rate
FILA SA (South Africa)	13.90%	4.60%	5 years	Perpetuing growth rate

(1) - Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico); F.I.L.A. Chile Ltda (Chile); FILA Argentina S.A. (Argentina).

(2) - Dixon Ticonderoga Company (U.S.A.); Dixon Ticonderoga Inc. (Canada); Canson Inc (U.S.A.); Daler USA Ltd (U.S.A.); Bridesshore srl (Dominican Republic) as CGU

(3) - Johann Froeschets Lyra Bleistift-Fabrik GmbH & Co. KG (Germany); FILA Nordic AB (Sweden); PT. Lyra Akrelux (Indonesia); Daler Rowney GmbH (Germany); Lukas-

(4) - Canson SAS (France); Lodi 12 SAS (France); Canson Brasil I.P.E. LTDA (Brazil); Canson Australia PTY LTD (Australia); Canson Qingdao Ltd.(China); Fila Iberia

(5) - Renoir Topco Ltd (UK); Renoir Midco Ltd (UK); Renoir Bidco Ltd (UK); Daler Rowney Group Ltd (UK); FILA Benelux SA (Belgium); Daler Rowney Ltd (UK); Longbeach Arts Ltd (UK); Daler Board Company Ltd (UK); Daler Holdings Ltd (UK); Daler Designs Ltd (UK); Lastmill Ltd (UK); Rowney & Company Pencils Ltd (UK); Rowney Artists Brushes Ltd (UK); Bridesshore srl (Dominican Republic) as CGU Daler.

(6) - St. Cuthberts Holding (UK); St. Cuthberts Mill (UK)

* Source: Bloomberg (source of tax rate: KPMG tax advisory)

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

- DOMS Industries Pvt Ltd (India) – The W.A.C.C. is 13.00% (12.97% at December 31, 2017), with the change on the previous year principally due to an increase in the risk components, in part offset by a reduction in the beta levered component and in the cost of debt;
- Dixon Group - Central/South America - the discount rate is 11.49% (11.51% at December 31, 2017), slightly decreasing on the previous year due to the lower risk-free rate (calculated both on the cost of debt (K_d) and cost of equity (K_e) on US government bonds);
- North America - The W.A.C.C. utilised is 8.42% (8.71% at December 31, 2017). Also with regards to the North America CGU, the discount factor decreased on the previous year. The change was mainly due to the decrease in the cost of debt (K_d) and the cost of equity, partially offset by the increase in the risk-free rate;
- Canson-Omyacolor Group (France) - The W.A.C.C. is 6.32% (7.05% at December 31, 2017), with the decrease on the previous year substantially due to the decrease in the cost of debt (K_d);

- ▶ Daler-Rowney Lukas Group and St. Cuthberts (United Kingdom) - The discount rate is 7.11% (7.62% at December 31, 2017); the slight reduction was essentially due to the decline in the unlevered beta component and the improvement in the cost of debt (*Kd*);
- ▶ Industria Maimeri S.p.A. (Italy) – the rate utilised was 8.20% (9.97% at December 31, 2017). The slight decrease on the previous year is mainly due to the improvement in the cost of debt (*Kd*) despite the increase in the risk-free rate (increase in expected yields on ten-year BTP);
- ▶ Lyra Group (Germany) – the discount rate utilised was 6.06% (6.70% at December 31, 2017). The decrease on the previous year is due to the contraction of the cost of debt component (*Kd*) and in the cost of equity (*Ke*), despite an increase in the risk-free rate on German Bunds;
- ▶ FILA SA (South Africa) – W.A.C.C. equal to 13.90% (14.91% at December 31, 2017). The change on 2017 is due to the decrease in the cost of debt component (*Kd*).

Particular importance was given to the impairment tests on the goodwill allocated to the cash generating units North America of Euro 97,040 thousand (Euro 23,646 thousand at December 31, 2017), DOMS Industries Pvt Ltd of Euro 33,276 thousand (Euro 33,281 thousand at December 31, 2017) and Canson-Omyacolor Group of Euro 12,486 thousand (Euro 10,875 thousand at December 31, 2017). The goodwill of the above CGUs accounts for 94.8% of the Group's intangible assets with indefinite useful life of Euro 150,670 thousand. The impairment tests performed indicated headroom of approximately Euro 230 million for the North America CGU, of Euro 15 million for the Indian CGU and of Euro 130 million for the Canson-Omyacolor CGU.

The application of the DCF (discounted cash flow method) confirms the carrying amounts of the CGUs, except in the case of the South African company FILA SA, on which a partial impairment loss of Euro 18 thousand was recognized.

The following table shows the levels at which, for the most significant assumptions adopted in impairment testing, the existing differential between the value in use and carrying amount of each CGU would be eliminated.

	Discount rate after tax	g
DOMS Industries Pvt Ltd (India)	14.41%	4.2%
Gruppo Canson (France)	13.91%	1.3%
Gruppo Daler-Rowney Lukas (UK)	7.75%	2.0%
Gruppo Dixon - North America	12.00%	1.7%
Gruppo Dixon - Center/South America	12.98%	3.6%
Industria Maimeri S.p.A. (Italy)	12.04%	1.3%
St. Cuthberts Holding (UK)	18.60%	1.2%
Gruppo Lyra	18.59%	0.0%
FILA SA (South Africa)	13.90%	4.6%

Further complementary analysis was also undertaken such as:

- A sensitivity analysis, in order to verify the recoverability of the goodwill against the possibility of changes in the base assumptions utilised for the calculation of the discounted cash flows (assuming changes of +0.5% and -0.5% in the W.A.C.C. rate and the g rate);
- The comparison between the value in use of the CGU for 2018 and 2017 with the analysis of the variations;
- Reasonableness test between the overall value in use at Group level and the stock market capitalisation.

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

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

The cash flows and assumptions used for the Impairment Test were approved by the Board of Directors on March 15, 2019.

IFRS 3 – Acquisition of Pacon Group

In relation to the M&A transactions undertaken in 2018 that resulted in recognition of goodwill, on June 7, 2018, the acquisition was completed of 100% of the shares of Pacon Holding Company (U.S.A.), parent of the Pacon Group, by the subsidiary Dixon Ticonderoga Company (U.S.A.).

From June 7, 2018, the companies of the US Group were consolidated in the financial statements of the F.I.L.A. S.p.A. Group under the line by line method and at December 31, 2018 contributed to the result only the profits/loss for the period between June 7, 2018 and December 31, 2018.

The full acquisition of Pacon Holding Company (U.S.A.) involved total consideration of USD 254.7 million (Euro 215.2 million at the acquisition date), against consolidated equity at June 7, 2018 of USD 119.5 million (Euro 100.9 million at the acquisition date), whose amount was recalculated through the purchase price allocation at USD 170.5 million (Euro 144.0 million at the acquisition date). According to the contractual price adjustment mechanism, mainly based on the net working capital and net financial debt at the acquisition date, in October F.I.L.A. S.p.A. received a payment of USD 262 thousand (Euro 227 thousand).

Within the framework of the Merger Agreement signed in connection with the acquisition, F.I.L.A. S.p.A. discharged the following obligations through Dixon: (a) to provide the financial resources required to repay the Pacon Group's existing debt at that date; (b) to provide the financial resources required to pay the transaction costs and, where not already paid at the performance date, the cash bonuses due on a pro-rated basis to Pacon's management for 2018; (c) to deposit in an escrow account a sum equal to the amounts securing the payment of the price adjustment and penalty for any breaches of the representations and warranties rendered by the selling shareholders; (d) to advance the sum of USD 1,000 thousand by way of the fee to be incurred for the company representing the selling shareholders; and (e) to pay the selling shareholders cash consideration for the acquisition of all Pacon's share capital of USD 340,000 thousand, as adjusted according to the amounts set out under (a), (b), (c) and (d) above, in addition to other contractually defined adjustments. The breakdown of the purchase price for Pacon is as follows:

Dollar thousand

Basic price	340,000
Adjustments defined by contract (i.e., working capital, cash)	(85,304)
<i>of which, repayment of Pacon Group Financial debt</i>	<i>(102,558)</i>
<i>of which repayment of transaction costs and bonuses</i>	<i>(5,651)</i>
<i>of which, other adjustments defined by contract</i>	<i>22,905</i>
Acquisition price	254,696

On September 30, 2018 the F.I.L.A. Group had yet to complete the process of measuring the fair value of the assets acquired and liabilities assumed in the business combination. Accordingly, the assets and liabilities associated with the Pacon Group had been recognized on the basis of provisional values in the interim financial report at and for the period ended September 30, 2018. In particular, in the interim financial report at and for the period ended September 30, 2018, the difference between the carrying amount of the equity interest in the Pacon Group held by the subsidiary Dixon Ticonderoga Company (U.S.A.) and the consolidated proportional share of the Pacon Group's equity at the date of the combination, equal to Euro 114.0 million, had been recognized on a provisional basis among intangible assets, within the caption "Goodwill", and had not been tested for impairment.

Pursuant to the international financial reporting standard IFRS 3 – *Business Combinations*, the process of measuring the value of the assets acquired and liabilities assumed must be completed within one year of the acquisition date, a period of time deemed reasonable to obtain the information required to identify and measure the elements relevant to the application of the Standard (in particular, the identifiable assets acquired, the liabilities assumed, non-controlling interests, the consideration paid and the resulting goodwill).

F.I.L.A. S.p.A. utilized a leading consultancy firm in the purchase price allocation process for the business combination involving the Canson Group. The Group's purchase price allocation was concluded by December 31, 2018 and resulted in the recognition of goodwill of Euro 70,933 thousand.

The calculation of goodwill on the basis of the above figures converted at the exchange rate at the transaction date is set out below:

Consideration paid by Dixon Ticonderoga Company (U.S.A.)* for the investment in Pacon Group	215,188
Price Adjustment - October 2018	(227)
Pacon Group's Equity	144,028
Difference between the consideration paid for the investment and the Pacon Group's Equity (Goodwill)	70,933

* Wholly-owned by F.I.L.A. S.p.A.

The current values of the assets acquired and liabilities assumed and the adjustments to the respective fair

values identified in the purchase price allocation phase are detailed below:

Pacon Group - June 7, 2018			
<i>Euro thousand</i>	Balance Sheet before PPA	Fair Value Adjustments	Balance Sheet after PPA
Assets	215,934	72,515	288,449
Non-current assets	108,780	68,891	177,671
Intangible assets	100,575	62,748	163,323
Property, plant and equipment	7,777	6,143	13,920
Non-current financial assets	428	-	428
Current assets	107,155	3,625	110,780
Current tax assets	830	-	830
Inventories	56,760	3,898	60,658
Trade receivables and other assets	45,293	(273)	45,020
Cash and cash equivalents	4,272	-	4,272
Liabilities and equity	215,934	72,515	288,449
Equity	100,923	43,105	144,028
Non-current liabilities	97,383	29,863	127,246
Non-current financial liabilities	91,424	-	91,424
Deferred tax liabilities	4,359	31,463	35,822
Current liabilities	17,628	(453)	17,175
Current tax liabilities	1,863	(273)	1,590
Trade payables and other payables	15,766	(179)	15,587

Note: The figures are converted at the exchange rate at June 7, 2018

During the period from June 7, 2018 to December 31, 2018, the Pacon Group generated revenues of Euro 112,396 thousand and a profit of Euro 3,630 thousand. Management consider that if the acquisition had taken place on January 1, 2018, the consolidated revenues would amount to Euro 678,563 thousand and the consolidated net profit would amount to Euro 10,722 thousand. In calculating these amounts, management assumed that the fair value adjustments at the acquisition date would have been the same even if the acquisition took place on January 1, 2018.

Intangible assets with definite useful life

The changes at December 31, 2018 of “Intangible Assets with Definite Useful Life” are reported below.

Note 1.D - INTANGIBLE ASSETS WITH DEFINITE USEFUL LIFE					
<i>Euro thousands</i>	Industrial Patents & Intellectual Property Rights	Concessions, Licenses, Trademarks & Similar Rights	Other Intangible Assets	Construction in Progress	Total
Change in Historical Cost					
December 31, 2016	190	111,902	50,349	365	162,806
Increases in the year	-	53	356	1,642	2,051
Increases (Investments)	-	53	356	1,642	2,051
Decreases in the year	-	(4,093)	(2,103)	-	(6,195)
Decrease Translation Differences	-	(4,093)	(2,102)	-	(6,195)
December 31, 2017	190	107,862	48,603	2,007	158,662
Increases in the year	9	35,645	138,299	1,352	175,305
Increases (Investments)	9	3,527	1,576	3,068	8,180
<i>of which Consolidation Area Change</i>	-	-	233	-	233
Internal work capitalized	-	-	1,716	(1,716)	-
Consolidation Area Change	-	31,903	131,420	-	163,323
Decrease Translation Differences	-	215	3,587	-	3,802
Decreases in the year	-	(43)	(51)	-	(93)
Decreases	-	(43)	(51)	-	(94)
December 31, 2018	199	143,464	186,851	3,359	333,873
Change in Amortization					
December 31, 2016	(136)	(16,492)	(5,603)	-	(22,231)
Increases in the year	(11)	(4,277)	(2,426)	-	(6,714)
Increases (Investments)	(11)	(4,277)	(2,426)	-	(6,714)
<i>of which Consolidation Area Change</i>	-	-	-	-	-
Decreases in the year	-	946	220	-	1,166
Decrease Translation Differences	-	946	220	-	1,166
December 31, 2017	(147)	(19,823)	(7,809)	-	(27,779)
Increases in the year	(10)	(4,772)	(6,182)	-	(10,963)
Increases (Investments)	(10)	(4,543)	(6,182)	-	(10,735)
<i>of which Consolidation Area Change</i>	-	(731)	(2,821)	-	(3,552)
Increase Translation Differences	-	(228)	-	-	(228)
Decreases in the year	-	29	94	-	123
Decreases	-	29	44	-	73
Reclassification of Decrease	-	-	0	-	0
Decrease Translation Differences	-	-	50	-	50
December 31, 2018	(157)	(24,566)	(13,897)	-	(38,619)
Carrying amount at December 31, 2016	54	95,410	44,746	365	140,575
Carrying amount at December 31, 2017	43	88,039	40,794	2,007	130,883
Carrying amount at December 31, 2018	42	118,898	172,954	3,359	295,254
Change 2017-2018	(1)	30,859	132,160	1,352	164,371

“Industrial Patents and Intellectual Property Rights” amount to Euro 42 thousand at December 31, 2018 (Euro 43 thousand at December 31, 2017).

The average residual useful life of the “Industrial Patents and Intellectual Property Rights”, recorded in the financial statements at December 31, 2018, is 6 years.

“Concessions, Licences, Trademarks and Similar Rights” amount to Euro 118,898 thousand at December 31, 2018 (Euro 88,039 thousand at December 31, 2017).

The carrying amount increased over December 31, 2017 by Euro 30,859 thousand, mainly as a result of the initial acquisition of the Pacon Group, with a contribution at the consolidation date of Euro 31,903 thousand, relating to the valuation of the Group’s main trademarks, principally “Pacon” and “Strathmore”. The change was partly offset by amortization for the period of Euro 4,543 thousand (of which Euro 731 thousand arising in respect of the acquired companies). A significant amount of the amortisation relates to the “Business combinations” undertaken in 2016 and relating to the brands held by the English Group Daler Rowney-Lukas (Euro 40,223 thousand) and by the Canson Group (Euro 32,400 thousand).

The other historic trademarks subject to amortisation refer principally to “*Lapimex*” held by F.I.L.A.-Dixon, S.A. de C.V. (Mexico) and the brands “*Lyra*” held by Lyra KG (Germany) and “*DOMS*” held by DOMS Industries Pvt Ltd (India).

Net investments of Euro 3,513 thousand primarily related to Daler Rowney Ltd. (United Kingdom).

The average useful life of the “Concessions, Licenses, Trademarks and Similar Rights”, recorded in the financial statements of December 31, 2018, is 30 years. Trademarks are amortized on the basis of their useful lives and tested for impairment to below their recoverable amount when there are signs that they may have become impaired.

“Other Intangible Assets” amount to Euro 172,954 thousand at December 31, 2018 (Euro 40,794 thousand at December 31, 2017). The increase on the previous year of Euro 132,160 thousand is primarily due to the contribution of the Pacon Group companies (Euro 131,420 thousand) and also in part to the valuation of the customer relationship determined in the purchase price allocation. Investments in the year of Euro 1,569 thousand principally concerned the installation and roll out of the new ERP at some Group companies.

Amortization was Euro 6,182 thousand (of which Euro 2,821 thousand associated with the acquirees) and concerns in particular the value of the “Development Technology” recorded by the companies of the Daler-Rowney Lukas Group (Euro 30,532 thousand), the Canson Group (Euro 1,500 thousand) and St. Cuthberts (Euro 2,462 thousand) and the Pacon Group’s customer relationship, identified as strategic assets through the purchase price allocation in the acquisition process.

The average useful life of “Other Intangible Assets”, recorded in the financial assets at December 31, 2018, is 30 years.

Construction in progress totalled Euro 3,359 thousand, entirely concerning F.I.L.A. S.p.A. and relating to investments for the installation of the new ERP system (Enterprise Resource Planning).

Note 2 - Property, plant and equipment

At December 31, 2018, “Property, Plant and Equipment” amounted to Euro 104,472 thousand (Euro 88,355 thousand at December 31, 2017).

The movements in the year are shown below:

Note 2.A - PROPERTY, PLANT AND EQUIPMENT							
	Land	Buildings	Plant and Machinery	Industrial & Commercial Equipment	Other Assets	Construction in Progress	Total
<i>Euro thousands</i>							
Change in Historical Cost							
December 31, 2016	13,466	53,396	97,641	18,947	11,525	2,841	197,816
Increases in the year	565	1,755	12,085	891	1,040	5,692	22,028
Increases (Investments)	565	1,677	9,796	819	1,013	8,158	22,028
Internal work capitalized	-	78	2,289	72	27	(2,466)	0
Decreases in the year	(392)	(1,632)	(4,842)	(783)	(1,063)	(325)	(9,037)
Decreases (Divestments)	-	(3)	(1,090)	(117)	(123)	-	(1,333)
Impairment losses	-	-	(30)	(24)	(9)	-	(63)
Variation in Consolidation Scope	-	(537)	(428)	-	(59)	(140)	(1,164)
Decrease in Translation Differences	(392)	(1,092)	(3,294)	(642)	(872)	(185)	(6,477)
December 31, 2017	13,639	53,519	104,884	19,055	11,502	8,208	210,807
Increases in the year	66	6,747	23,927	743	2,297	(2,984)	30,796
Increases (Investments)	66	427	7,806	651	910	7,016	16,876
<i>of which Consolidation Area Change</i>	-	98	978	-	90	374	1,540
Internal work capitalized	-	5,355	5,386	92	26	(10,859)	-
Consolidation Area Change	-	965	10,735	-	1,361	859	13,920
Decreases in the year	(400)	(665)	(2,604)	(1,352)	(493)	(12)	(5,526)
Decreases (Divestments)	(205)	(625)	(3,244)	(487)	(520)	(58)	(5,139)
<i>of which Consolidation Area Change</i>	-	-	(48)	-	(11)	-	(59)
Reclassifications	-	-	624	(944)	-	-	(320)
Impairment losses	-	-	(19)	(2)	(32)	-	(53)
Decrease in Translation Differences	(195)	(40)	35	81	59	46	(14)
December 31, 2018	13,305	59,601	126,207	18,446	13,306	5,212	236,077
Change in Amortization							
December 31, 2016		(28,542)	(62,067)	(17,015)	(8,870)		(116,495)
Increases in the year		(1,817)	(7,417)	(641)	(1,170)		(11,045)
Depreciation in Year		(1,817)	(7,417)	(641)	(1,170)		(11,045)
Decreases in the year		394	3,198	632	864		5,088
Decreases (Divestments)		3	1,028	111	79		1,221
Consolidation Area Change		66	106	-	45		217
Decrease in Translation Differences		325	2,064	521	740		3,650
December 31, 2017		(29,965)	(66,286)	(17,024)	(9,177)		(122,452)
Increases in the year		(2,182)	(8,926)	(791)	(1,311)		(13,210)
Depreciation in Year		(2,126)	(8,731)	(701)	(1,244)		(12,802)
<i>of which Consolidation Area Change</i>		(122)	(679)	-	(93)		(894)
Decrease in Translation Differences		(56)	(195)	(90)	(67)		(408)
Decreases in the year		281	2,073	1,337	366		4,057
Decreases (Divestments)		282	2,721	368	366		3,737
Reclassifications		(1)	(648)	969	-		320
December 31, 2018		(31,866)	(73,139)	(16,478)	(10,122)		(131,605)
Carrying amount at December 31, 2016	13,466	24,854	35,574	1,932	2,655	2,841	81,321
Carrying amount at December 31, 2017	13,639	23,554	38,598	2,031	2,325	8,208	88,355
Carrying amount at December 31, 2018	13,305	27,735	53,068	1,968	3,184	5,212	104,472
Change 2017-2018	(334)	4,181	14,470	(63)	859	(2,996)	16,117

“Land” at December 31, 2018 amounts to Euro 13,305 thousand (Euro 13,639 thousand at December 31, 2017) and includes the land relating to the buildings and production facilities owned by the company F.I.L.A. S.p.A. (Rufina Scopeti – Italy), by the subsidiary Lyra KG (Germany), by DOMS Industries Pvt Ltd (India) and by Canson SAS (France). The movement in the period is due to, in addition to negative currency effects of Euro 195 thousand, the sale of land as part of the disposal of a warehouse by Daler Rowney Ltd (United Kingdom) for Euro 205 thousand and an additional purchase of Euro 66 thousand by DOMS Industries Pvt Ltd (India).

“Buildings” at December 31, 2018 amount to Euro 27,735 thousand (Euro 23,554 thousand at December 31, 2017) and principally concern the buildings of the Group production facilities. The increase on December 31, 2017 was Euro 4,181 thousand. Net investments amounted to Euro 84 thousand, whereas capitalized work in progress amounted to Euro 5,355 thousand and relates in particular to the preparation of the Annonay European logistics hub by Canson SAS (France). The increases are in part offset by the sale by Daler Rowney Ltd (United Kingdom) of buildings belonging to the Wareham warehouse disposed of for a net value of Euro 234 thousand. The increase from the acquisition of the Pacon Group was Euro 965 thousand, relating to buildings held principally by the company Pacon Corporation (U.S.A.).

Depreciation of Euro 2,126 thousand particularly concerns Canson SAS (France), F.I.L.A. S.p.A., Lyra KG (Germany) and DOMS Industries Pvt Ltd (India).

“Plant and Machinery” amounted to Euro 53,068 thousand (Euro 38,598 thousand at December 31, 2017). The increase on the previous year of Euro 14,470 thousand is mainly due to the contribution from the acquisition of the Pacon Group for an amount of Euro 10,735 thousand. Net investments by the Group amounted to Euro 7,283 thousand and principally concerned DOMS Industries Pvt Ltd (India) for Euro 3,733 thousand, regarding the development of production, with particular regard to the Art Division and Daler Rowney Ltd (United Kingdom) for Euro 864 thousand, for the setting up of the new warehouse and Pacon Corporation (U.S.A.) for Euro 871 thousand. Capitalized work in progress amounted to Euro 5,386 thousand and was primarily attributable to Canson SAS (France) in respect of the preparation of the Annonay European logistics hub. The movement also includes negative currency effects of Euro 160 thousand and Euro 8,731 thousand of depreciation, of which Euro 679 thousand concerning the companies acquired in the period.

“Industrial and Commercial Equipment” amounted to Euro 1,968 thousand at December 31, 2018 (Euro 2,031 thousand at December 31, 2017). The decrease for Euro 63 thousand principally concerns net investments of Euro 532 thousand undertaken in particular by F.I.L.A. S.p.A., Daler

Rowney Ltd (United Kingdom) and Canson Brasil (Brazil), offset by depreciation of Euro 701 thousand.

“Other Assets” amount to Euro 3,184 thousand at December 31, 2018 (Euro 2,325 thousand at December 31, 2017) and include furniture and office equipment, Electronic office equipment and motor vehicles. The increase of Euro 859 thousand mainly relates to the contribution at the acquisition date of the Pacon Group for Euro 1,361 thousand. Net of M&A effects, Group investments amount to Euro 756 thousand and principally concern DOMS Industries Pvt Ltd (India), Pacon Corporation (U.S.A.), Canson Brasil (Brazil), Bridesshore S.r.l. (Dominican Republic) and Lukas-Nerchau GmbH (Germany). The change was partially offset by depreciation in the period of Euro 1,244 thousand, of which Euro 93 thousand associated with the acquirees.

“Assets under construction” include internal constructions undertaken by the individual companies of the Group which are not yet operational. The increase in the net carrying amount at December 31, 2018 was Euro 5,212 thousand, principally concerning DOMS Industries Pvt Ltd (Euro 1,489 thousand), the U.S.-based Pacon Corporation (Euro 1,212 thousand) and Canson Inc. (Euro 960 thousand), and F.I.L.A. S.p.A. (Euro 1,036 thousand) for the development and extension of local production facilities.

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

Note 3 – Financial Assets

“Financial Assets” amount to Euro 3,636 thousand at December 31, 2018 (Euro 4,337 thousand at December 31, 2017).

Note 3.A - FINANCIAL ASSETS				
<i>Euro thousands</i>	Loans and Receivables	Derivative Financial Instruments	Other Financial Assets	Total
December 31, 2017	358	1,053	2,926	4,337
non-current portion	6	1,053	2,859	3,918
current portion	352	-	67	419
December 31, 2018	752	-	2,884	3,636
non-current portion	474	-	2,810	3,284
current portion	278	-	74	352
Change	394	(1,053)	(42)	(701)
non-current portion	468	(1,053)	(49)	(634)
current portion	(74)	-	7	(67)

Loans and Receivables

These amount to Euro 752 thousand and concern receivables of a financial nature claimed from third parties and recognized by F.I.L.A. S.p.A. for Euro 276 thousand, Pacon Corporation (U.S.A.) for Euro 468 thousand and Omyacolor SA for Euro 6 thousand.

Derivative Financial Instruments

Derivative financial instruments related to the loan contracted in 2016 by F.I.L.A. S.p.A., which were thus unwound when it was repaid. Considering that the accounting treatment adopted was that for derivative hedging instruments (hedge accounting), the settlement of the IRS' opened for Euro 1,053 thousand was entirely offset by the simultaneous elimination of the equity reserve established to incorporate the fair value changes.

Other financial assets

“Other Financial Assets” totalled Euro 2,884 thousand (Euro 2,926 thousand at December 31, 2017), decreasing Euro 42 thousand. They principally concern the deposits required for guarantee purposes on goods and service supply contracts of the various Group companies, including in particular Canson SAS (Euro 797 thousand), DOMS Industries Pvt Ltd (Euro 953 thousand), Grupo F.I.L.A.-Dixon, S.A. de C.V. (Euro 314 thousand) and Canson Art & Craft Yixing Co., Ltd. (Euro 163 thousand). In relation to the amount of Euro 392 thousand recorded by Dixon Ticonderoga Company (U.S.A.), the account concerns assets underlying indemnity plans.

Loans and receivables and other financial assets are stated at amortized cost in accordance with IFRS 9.

Note 4 – Equity-accounted investees

Note 4.A EQUITY-ACCOUNTED INVESTEEES	
<i>Euro thousands</i>	Inv. in Associates
December 31, 2016	271
Increases in the year	566
Increases (Investments)	197
Movement in Equity-accounted investees	66
Other Increase	303
Decreases in the year	(55)
Increase in Translation Differences	(55)
December 31, 2017	782
Increases in the year	15
Movement in Equity-accounted investees	15
Decreases in the year	(30)
Increase in Translation Differences	(30)
December 31, 2018	767
Change 2017 - 2018	(15)

The Equity-accounted investees amount to Euro 767 thousand (Euro 782 thousand at December 31, 2017).

The increase in the year relates to the investments in associated companies held by DOMS Industries Pvt Ltd (India), consolidated under the Equity Method. At December 31, 2018, the “Carrying amount” of the investments was adjusted in line with the share of Equity held in the associated companies.

Note 5 - Investments Measured at Cost

The Investments measured at cost, amounting to Euro 31 thousand, relate to the shareholding in Maimeri S.p.A. by F.I.L.A. S.p.A. for Euro 28 thousand, corresponding to 1% of the share capital,

and the quota held in the consortiums Conai, Energia Elettrica Zona Mugello and Energia Elettrica Milano by F.I.L.A. S.p.A. at December 31, 2018.

Note 6 – Deferred Tax Assets

“Deferred Tax Assets” amount to Euro 20,554 thousand at December 31, 2018 (Euro 15,660 thousand at December 31, 2017).

The movement of “Deferred Tax Assets” is illustrated in the table below with indication of the opening balance, changes during the year and the closing balance at December 31, 2018.

Note 6.A - CHANGES IN DEFERRED TAX ASSETS	
<i>Euro thousands</i>	
December 31, 2016	20,842
Provisions	2,750
Utilisations	(6,734)
Translation differences	(731)
Change in Equity	(454)
Variation in Consolidation Scope	(13)
December 31, 2017	15,660
Provisions	5,238
Utilisations	(3,331)
Translation differences	230
Change in Equity	2,757
December 31, 2018	20,554
Change 2017-2018	4,894

The change during the year related in particular to the U.S.-based Canson Inc. and Pacon Corporation and the parent F.I.L.A. S.p.A.

Deferred tax assets accounted for through an equity reserve are net of the tax effect on:

- ▶ Costs of consultancy relating to the capital increase by F.I.L.A. S.p.A. accounted for as a reduction in the reserve for capital increase payments recognized by the parent; the tax effect amounts to Euro 1,549 thousand;
- ▶ First-time adoption of IFRS 9, which resulted in the recognition in equity of losses on trade receivables and other assets estimated at December 31, 2017 and the related tax effect of Euro 902 thousand;
- ▶ Change in the IAS 19 reserve with a tax effect of Euro 306 thousand.

The following table breaks down the balance of deferred tax assets by nature at year-end:

NOTE 6.B - BREAKDOWN OF DEFERRED TAX ASSETS							
<i>Euro thousands</i>	Statement of Financial Position			Income Statement		Equity	
	2018	Variation in Consolidation Scope	2017	2018	2017	2018	2017
Intangible Assets	-	-	104	(104)	(761)	-	-
Property, Plant and Equipment	3,169	-	274	2,895	(761)	-	-
Other Provision	99	-	399	(300)	(140)	-	-
Trade Receivables and Other Assets	1,753	-	1,317	(466)	276	902	-
Inventories	2,378	-	3,226	(848)	(1,486)	-	-
Personnel	1,641	-	1,801	(466)	221	306	(454)
Exchange Rate adjustments	-	-	127	(127)	74	-	-
Conversion difference accounted for as "Translation Reserve"	230	-	(731)	731	133	230	(731)
Other	2,046	-	-	498	(3)	1,549	-
Tax Losses	2,665	-	2,202	463	(1,197)	-	-
Deferred deductible costs	3,126	-	3,675	(549)	(289)	-	-
ACE	3,447	-	3,266	182	(51)	-	-
Total deferred tax assets	20,554	-	15,660	1,909	(3,984)	2,987	(1,185)

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

Note 7 - Current Tax Assets

At December 31, 2018, tax assets relating to income tax amounted overall to Euro 11,743 thousand (Euro 8,689 thousand at December 31, 2017) and refer principally to the Parent F.I.L.A. S.p.A. for Euro 3,068 thousand, DOMS Industries Pvt Ltd (India) for Euro 1,413 thousand and Dixon Ticonderoga Co. (USA) for Euro 4,547 thousand.

Note 8 - Inventories

Inventories at December 31, 2018 amount to Euro 262,432 thousand (Euro 178,699 thousand at December 31, 2017).

Note 8.A - INVENTORIES				
<i>Euro thousands</i>	Raw Materials, Ancillary and Consumables	Work-in-progress and Semi-finished Products	Finished Products and Goods	Total
December 31, 2017	43,895	22,895	111,909	178,699
December 31, 2018	64,715	28,464	169,253	262,432
Change	20,820	5,569	57,344	83,733

Inventory increased by Euro 83,733 thousand mainly related to the inventory from the consolidation of the Pacon Group (contribution at the acquisition date of Euro 60,658 thousand). Net of the M&A effect, it concerned in particular Canson SAS (France), the US subsidiaries Dixon Ticonderoga Company and Canson Inc., F.I.L.A.-Dixon, S.A. de C.V. (Mexico), DOMS Industries Pvt Ltd (India) and F.I.L.A. S.p.A.

Inventories are presented net of the provision for write-down of inventory (Euro 1,450 thousand), work-in-progress (Euro 357 thousand) and finished products (Euro 4,711 thousand). The provisions refer to obsolete or slow-moving materials for which it is not considered possible to recover their value through sale.

Note 8.B- CHANGE IN INVENTORY OBSOLESCENCE PROVISION				
<i>Euro thousands</i>	Raw Materials, Ancillary and Consumables	Work-in-progress and Semi-finished Products	Finished Products and Goods	Total
December 31, 2016	2,086	396	4,714	7,195
Provisions	177	144	792	1,113
Utilisations	(638)	(211)	(2,228)	(3,077)
Release	(72)	-	(391)	(463)
Translation differences	25	-	60	86
December 31, 2017	1,578	328	2,947	4,853
Provisions	250	200	2,085	2,535
<i>of which Change in Consolidation Scope</i>	-	-	228	228
Utilisations	(127)	(71)	(2,615)	(2,813)
<i>of which Change in Consolidation Scope</i>	-	-	(454)	(454)
Release	(248)	(98)	(340)	(686)
Change in consolidation scope	-	-	2,610	2,610
Translation differences	(3)	(2)	24	19
December 31, 2018	1,450	357	4,711	6,518
Change	(128)	29	1,764	1,665

The inventory provision for write-down of inventory at December 31, 2018 increased Euro 1,665 thousand, principally due to the change in the consolidation scope.

Note 9 – Trade and Other Assets

Trade and other assets amount to Euro 151,617 thousand (Euro 132,768 thousand at December 31, 2017).

Note 9.A - TRADE AND OTHER RECEIVABLES			
<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Trade Assets	135,549	118,701	16,848
Tax Assets	4,521	5,198	(677)
Other Assets	6,466	5,560	906
Prepayments and Accrued Income	5,081	3,309	1,772
Total	151,617	132,768	18,849

Trade receivables increased by Euro 16,848 thousand on December 31, 2017. However, net of the positive exchange rate effects for Euro 1,956 thousand and the change in the consolidation scope of Euro 42,916 thousand (at the acquisition date), they decreased by Euro 28,024 thousand, primarily due to the lesser revenues generated by the North America area and better collections. In addition, application of IFRS 9 to the Group financial statements at December 31, 2018 resulted in a reduction in trade receivables of Euro 1,237 thousand.

Trade receivables broken down by country are illustrated below:

TRADE RECEIVABLES BY GEOGRAPHICAL AREA			
<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Europe	34,178	36,603	(2,425)
North America	45,676	36,136	9,540
Central-South America	46,190	38,643	7,547
Asia	6,462	5,000	1,462
Other	3,043	2,319	724
Total	135,549	118,701	16,848

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

Note 9.C - CHANGES IN ALLOWANCE FOR IMPAIRMENT	
<i>Euro thousands</i>	
December 31, 2016	4,794
Provisions	1,963
Utilisations	(1,265)
Release	(22)
Change in Consolidation Scope	(8)
Exchange rate losses	(200)
December 31, 2017	5,262
Provisions	1,660
<i>of which Change in Consolidation Scope</i>	38
Utilisations	(834)
<i>of which Change in Consolidation Scope</i>	(1)
Release	(857)
<i>of which Change in Consolidation Scope</i>	(4)
Change in consolidation scope	18
Exchange rate losses	52
Other Changes	2,060
December 31, 2018	7,361
Change	2,099

The movement in the loss allowance is mainly due to the effects from application of IFRS 9 on the F.I.L.A. Group companies. IFRS 9 replaces the ‘incurred loss’ model under IAS 39 with an ‘expected credit loss’ forecast model. The Group values the allowance for impairments at an amount reflecting the expected loss over the entire life of the receivable. In order to assess whether the credit risk relating to a financial asset has increased significantly after initial recognition in order to estimate expected losses on receivables, the Group considers reasonable and demonstrable information which is pertinent and available without excessive cost or burden. Quantitative and qualitative information and analysis, based on historic Group experience, to value the receivable - in addition to information indicative of expected developments - is included. On the basis of the analysis carried out by the Group, the application of the new accounting standard impacted the opening balance of trade receivables for Euro 2,060 thousand and positive effect on profit or loss for Euro 822 thousand. The initial movement was recognised as a counter-entry as a change in Equity reserves.

“Tax Assets” totalled Euro 4,521 thousand (Euro 5,198 thousand at December 31, 2017) and include VAT receivables (Euro 3,433 thousand) and other tax assets for local taxes other than direct income taxes (Euro 1,088 thousand).

“Other Assets” amount to Euro 6,466 thousand (Euro 5,560 thousand at December 31, 2017) and mainly concern receivables from employees (Euro 223 thousand), from social security institutions (Euro 66 thousand) and advances paid to suppliers (Euro 2,850 thousand), principally concerning the Indian and Chinese subsidiaries. The carrying amount of “Other assets” represents the “fair value” at the reporting date.

All of the above receivables are due within 12 months.

Note 10 - Cash and Cash Equivalents

“Cash and Cash Equivalents” at December 31, 2018 amount to Euro 157,602 thousand (Euro 38,558 thousand at December 31, 2017).

Note 10 - CASH AND CASH EQUIVALENTS			
<i>Euro thousands</i>	Bank and Postal Deposits	Cash in hand and similar	Total
December 31, 2017	38,491	67	38,558
December 31, 2018	157,473	129	157,602
Change	118,982	62	119,044

"Bank and postal deposits" consist of temporary liquid funds generated within the treasury management and mainly relating to ordinary current accounts of F.I.L.A. S.p.A. for Euro 121,240 thousand and current accounts of the subsidiary companies for Euro 36,233 thousand, in particular: Pacon Corporation (Euro 6,166 thousand), Dixon Ticonderoga Company (Euro 4,685 thousand), F.I.L.A. Iberia S.L. (Euro 4,869 thousand), the Dixon Group's Chinese subsidiaries (Euro 3,783 thousand) and Grupo F.I.L.A.-Dixon, S.A. de C.V. (Euro 2,416 thousand).

The increase in cash and cash equivalents held by F.I.L.A. S.p.A. was primarily due to the subscription of the capital increase on December 17, 2018.

“Cash in hand and similar” amount to Euro 129 thousand, of which Euro 7 thousand relates to the parent F.I.L.A. S.p.A and Euro 122 thousand to the various subsidiaries.

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

There are no bank and postal deposits subject to restrictions.

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

Note 11 - Net Financial Debt

The F.I.L.A. Group “Net Financial Debt” at December 31, 2018 was a net financial debt of Euro 452,770 thousand compared to Euro 213,156 thousand on December 31, 2017.

<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
A Cash	129	67	62
B Other cash equivalents	157,473	38,491	118,982
C Securities held-for-trading	-	-	-
D Liquidity (A + B + C)	157,602	38,558	119,044
E Current financial loan asset	352	419	(67)
F Current bank loans and borrowing	(75,617)	(72,724)	(2,893)
G Current portion of non-current loans and borrowing	(10,412)	(18,710)	8,298
H Other current loans and borrowing	(183)	(8,239)	8,056
I Current financial debt (F + G + H)	(86,212)	(99,673)	13,461
J Net current financial debt (I + E+ D)	71,742	(60,696)	132,438
K Non-current bank loans and borrowing	(518,779)	(178,420)	(340,359)
L Bonds issued	-	-	-
M Other non-current loans and borrowing	(6,207)	(504)	(5,703)
N Non-current financial debt (K + L + M)	(524,986)	(178,924)	(346,062)
O Net financial debt (J+N)	(453,244)	(239,620)	(213,624)
P Loans issued to third parties	474	6	468
Q Net financial debt (O + P) - F.I.L.A. Group	(452,770)	(239,614)	(213,156)

Note:

1) The net financial debt calculated at point “O” complies with Consob Communication DEM/6064293 of July 28, 2006, which excludes non-current financial assets. The net financial debt of the F.I.L.A. Group differs from the above communication by Euro 474 thousand related to Omyacolor S.A. and Pacon Corporation

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

3) In the label M - Other non-current loans and borrowing there are Euro 5.102 thousand in Derivatives (IRS)

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

Note 12 - Share Capital and Equity

Share Capital

Following the capital increase, approved on October 11, 2018 by the extraordinary Shareholders' Meeting of F.I.L.A. S.p.A., on December 17, 2018, a total of 9,336,273 F.I.L.A. shares were subscribed and issued – of which (i) 7,820,925 ordinary F.I.L.A. S.p.A. shares and (ii) 1,515,348 special class B shares – and on December 27, 2018, a total of 201,990 ordinary FILA S.p.A. shares were subscribed and issued.

The resulting new breakdown of the share capital of F.I.L.A. S.p.A. is shown below.

Share Capital - December 31, 2018	No. of Shares	% of Share Capital	Euro	Listing
Ordinary shares	42,788,884	84.11%	39,364,365	MTA - STAR Segment
Class B Shares (multiple votes)	8,081,856	15.89%	7,435,041	Unquoted Shares
Share Capital Before Capital Increase	No. of Shares	% of Share Capital	Euro	Listing
Ordinary shares	34,765,969	84.11%	31,341,450	MTA - STAR Segment
Class B Shares (multiple votes)	6,566,508	15.89%	5,919,694	Unquoted Shares

According to the available information, published by Consob and updated to December 31, 2018, the main shareholders of the Parent were:

Shareholder	Ordinary shares	%
Pencil S.p.A.	13,694,564	32.00%
Venice European Investment Capital S.p.A.	3,875,832	9.06%
Sponsor	361,291	0.84%
Market Investors	24,857,197	58.10%
Total	42,788,884	

Shareholder	Ordinary shares	Class B Shares	Total	Voting rights
Pencil S.p.A.	13,694,564	8,081,856	21,776,420	56.60%
Venice European Investment Capital S.p.A.	3,875,832		3,875,832	5.78%
Space Holding Srl	361,291		361,291	0.54%
Market Investors	24,857,197		24,857,197	37.08%
Totale	42,788,884	8,081,856	50,870,740	

Each ordinary share attributes voting rights without limitations.

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

Legal Reserve

At December 31, 2018 this account amounted to Euro 7,434 thousand.

Share premium reserve

The reserve at December 31, 2018 amounts to Euro 151,769 thousand (Euro 65,348 thousand at December 31, 2017). The change was due to the subscription of the capital increase by F.I.L.A. S.p.A. described above and may be broken down as follows:

- Share premium reserve of Euro 90,422 thousand;
- Costs associated with the capital increase taken to equity for Euro 5,551 thousand, net of the related tax effect of Euro 1,549 thousand.

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

Sponsor Warrants

At December 31, 2018 no sponsor warrants had been exercised.

IAS 19 Reserve

Following the application of IAS 19, the equity reserve is negative for Euro 3,253 thousand, decreasing in the year Euro 1,582 thousand limited to the share of the F.I.L.A. Group.

Other Reserves

At December 31, 2018, the reserve is negative for Euro 24,192 thousand, decreasing Euro 3,788 thousand on December 31, 2017. The decrease mainly concerns the following factors:

- The fair value reserve for hedging financial instruments (IRS) entered into by F.I.L.A. S.p.A., Dixon Ticonderoga Company (U.S.A.) and Canson SAS; at December 31, 2018 the reserve was negative for Euro 5,102 thousand, recording a decrease of Euro 6,120 thousand compared to December 31, 2017.

- ▶ Share based premium reserve of Euro 2,832 thousand, increasing Euro 523 thousand, set up against the incentive plan for F.I.L.A. Group management. The accounting treatment applied is in line with the accounting standards which establish that for equity share based payments, the fair value at the vesting date of the share options granted to employees is recorded under personnel expenses, with a corresponding increase in Shareholders' equity within the account "Other reserves and retained earnings", over the period in which the employees will obtain the unconditional right to the incentives. The amount recorded as cost is adjusted to reflect the effective number of incentives (options) for which the conditions have matured and the achievement of "non-market" conditions, in order that the final cost recorded is based on the number of incentives which will mature. Similarly, in the estimate of the fair value of the options assigned, consideration must be taken of the non-maturation conditions. With reference to the non-maturation conditions, any differences between the assumptions at the vesting date and the effective conditions will not produce any impact in the financial statements.
- ▶ The reserve for future capital increases was also allocated to service the warrants assigned free of charge to certain managers employed by the subsidiary Pacon Holding Company, as approved on October 11, 2018 by the extraordinary Shareholders' Meeting of F.I.L.A. S.p.A.; it amounted to Euro 1,810 thousand.

Translation reserve

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

The changes in the "Translation Reserve" in 2018 are illustrated below (Limited to the share regarding Group Equity):

TRANSLATION RESERVE	
<i>Euro thousands</i>	
December 31, 2017	(26,836)
Changes in the year:	
Difference between Period Average Rate and Year-End Rate	3,877
Difference between Historical Rate and Year-End Rate	435
December 31, 2018	(22,524)
Change	4,312

Retained earnings

The reserve totalled Euro 148,939 thousand and increased on the previous year Euro 10,890 thousand, principally due to:

- ▶ The distribution of dividends to F.I.L.A. S.p.A. shareholders for Euro 3,720 thousand, as per Shareholders' Meeting motion of April 27, 2018;
- ▶ The profit for the year 2017 of Euro 15,767 thousand;
- ▶ The first-time application of IFRS 9 which resulted in a fair value adjustment to trade receivables of the Group companies, with an estimated effect on opening equity of Euro 1,157 thousand (Euro 2,060 thousand concerning the adjustment of receivables offset by the relative tax effect estimated at Euro 903 thousand).

Equity attributable to non-controlling interests

Non-controlling interest equity increased Euro 462 thousand, principally due to:

- ▶ Non-controlling interest profit of Euro 1,714 thousand;
- ▶ Distribution of dividends to non-controlling investments of Euro 339 thousand;
- ▶ Exchange rate losses of Euro 879 thousand;
- ▶ IAS Reserve of non-controlling interest of Euro 34 thousand;

Basic and diluted earnings per share

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

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

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

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

Reconciliation at December 31, 2018 between Parent Equity and F.I.L.A. Group Equity

Euro thousands

F.I.L.A. S.p.A. Equity	265,689
Effect elimination intragroup margins	(2,178)
Consolidation effect Omyacolor S.A. (France)	8,607
Consolidation effect FILA Art and Craft (Israel)	(25)
Consolidation effect Dixon Ticonderoga group	72,931
Consolidation effect Lyra group	(211)
Consolidation effect FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey)	(2,102)
Consolidation effect FILA Stationary O.O.O. (Russia)	(655)
Consolidation effect FILA Hellas (Greece)	1,693
Consolidation effect Industria Maimeri S.p.A. (Italy)	(688)
Consolidation effect FILA S.A. (South Africa)	(1,016)
Consolidation effect Fila Polska Sp. Z.o.o (Poland)	937
Consolidation effect DOMS Industries Pvt Ltd (India)	21,670
Consolidation effect Daler & Rowney Group	(18,063)
Consolidation effect St. Cuthberts Holding (England)	832
Consolidation effect FILA Iberia S.L. (Spain)	6,543
Consolidation effect Canson Group	(14,173)
Consolidation effect FILA Art Product AG (Switzerland)	(24)
Consolidation effect Pacon Group	(958)
Total Equity	338,809
“Non-controlling interest” consolidation effect	25,090
F.I.L.A. Group Equity	313,719

Reconciliation at December 31, 2018 between Parent Result and F.I.L.A. Group Result

Euro thousands

F.I.L.A. S.p.A. Profit for the year	6,633
Result of Subsidiaries of the Parent	(28,166)
Elimination of the effects of transactions between consolidated companies:	
Dividends	(22,094)
Net Inventory Margins	1,643
Adjustments to Group accounting policies	
Stock Option Plan recognized from the Parent to the Subsidiaries	(199)
FTA of IFRS 9	(181)
Daler Rowney Lukas Group - reversal of impairment losses on equity investments in wound-up "Dormant Entities"	57,202
F.I.L.A. S.p.A. - reversal of credit gains on intragroup receivables	(75)
Impairment Loss on Goodwill	(18)
Reversal of Advisory fees capitalized in investment - Pacon Group	(4,281)
Reversal of Translation differences on Pacon Group Opening Balance	(3)
Total profit for the year	10,461
Profit for the year attributable to owners of the parent	1,714
F.I.L.A. Group Profit for the year	8,747

Note 13 - Financial Liabilities

The balance at December 31, 2018 amounts to Euro 606,096 thousand (Euro 278,562 thousand at December 31, 2017), of which Euro 519,884 thousand long-term and Euro 86,212 thousand short-term. The account refers to both non-current and current portions of the loans granted by banking institutions, other lenders and bank overdrafts.

The breakdown at December 31, 2018 is illustrated below.

Note 13.A - FINANCIAL LIABILITIES: Third Parties							
Euro thousands	Banks		Other Lenders		Bank Overdrafts		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
December 31, 2017	254,695	(3,146)	8,762	(54)	18,133	172	278,562
non-current portion	181,820	(3,400)	513	(44)	-	-	178,889
current portion	72,875	254	8,249	(10)	18,133	172	99,673
December 31, 2018	599,463	(5,506)	1,329	(41)	10,771	80	606,096
non-current portion	526,352	(7,573)	1,133	(28)	-	-	519,884
current portion	73,111	2,067	196	(13)	10,771	80	86,212
Change	344,768	(2,360)	(7,433)	13	(7,362)	(92)	327,534
non-current portion	344,532	(4,173)	620	16	-	-	340,995
current portion	236	1,813	(8,053)	(3)	(7,362)	(92)	(13,461)

Bank Loans and Borrowings

With reference to “Bank Loans and Borrowings”, the total exposure of the Group amounts to Euro 593,957 thousand, of which Euro 75,178 thousand considered as current (Euro 73,129 thousand at December 31, 2017) and Euro 518,779 thousand as non-current (Euro 178,420 thousand at December 31, 2017).

The main change concerns the agreement of a new loan by F.I.L.A. S.p.A. and Dixon Ticonderoga Company (U.S.A.) on June 4, 2018. The structured loan in question was contracted by the two companies from a bank syndicate consisting of UniCredit S.p.A. as global coordinator, Banca IMI S.P.A., Mediobanca Banca di Credito Finanziario S.p.A., Banca Nazionale del Lavoro and Banco BPM S.p.a. as mandated lead arrangers and UniCredit Bank AG as security agent in support of the acquisition of the company Pacon Holding Company, parent of the Pacon Group. In addition, part of the loan issued to F.I.L.A. S.p.A. was utilised to repay the previous loan undertaken in 2016 (in support of M&A’s regarding the acquisition of the Daler-Rowney Lucas Group, the Canson Group and of St. Cuthberts Holding) and was subsequently increased in the initial months of 2018 with a

further extension of Euro 30,000 thousand. On contracting a new Senior Facility Agreement on June 4, 2018, the existing loan was settled for a total amount of Euro 220,276 thousand.

The loan was issued through three differing Facilities with a set repayment plan and a total amount of Euro 520,000 thousand, in addition to a Revolving Credit Facility with a maximum Euro 50,000 thousand.

The amounts of each facility and the revolving credit facility at the date of disbursement of the loan are detailed below:

Note 13.C - BANKS LOANS AND BORROWINGS: DETAILS			
<i>Euro thousands</i>	Principal F.I.L.A. S.p.A.	Principal Dixon Ticonderoga (U.S.A.)	Total
Facility A	75,000	75,000	150,000
Facility B	90,000	155,000	245,000
Facility C	125,000	0	125,000
RCF ¹	5,662	20,708	26,370
Financial assets/liabilities at variable rate	295,662	250,708	546,370

(1) Revolving Credit Facility for a maximum amount of €50,000 thousand .

The Facility A line (Euro 150,000 thousand) stipulates a repayment plan consisting of 8 half-yearly instalments from December 2019, while the two lines Facility B (Euro 245,000 thousand) and Facility C (Euro 125,000 thousand) are Bullet loans, with single repayments respectively on June 4, 2024 and June 4, 2023. The Revolving Credit Facility however stipulates the issue of short-term tranches of 1, 3 or 6 months, for a maximum amount of Euro 50,000 thousand.

The repayment plans by Facility are outlined below:

Note 13.C - BANKS LOANS AND BORROWINGS REPAYMENT PLAN				
	Facility	Capital portion F.I.L.A. S.p.A.	Capital portion Dixon Ticonderoga Company (U.S.A.)	Total
<i>Euro thousands</i>				
December 4th, 2019	Facility A	3,750	3,750	7,500
June 4th, 2020	Facility A	3,750	3,750	7,500
December 4th, 2020	Facility A	5,625	5,625	11,250
June 4th, 2021	Facility A	5,625	5,625	11,250
December 6th, 2021	Facility A	7,500	7,500	15,000
June 6th, 2022	Facility A	7,500	7,500	15,000
December 5th, 2022	Facility A	11,250	11,250	22,500
June 2nd, 2023	Facility A	30,000	30,000	60,000
Total - Facility A		75,000	75,000	150,000
Bullet Loan - June 4th, 2024	Facility B	90,000	155,000	245,000
Total - Facility B		90,000	155,000	245,000
Bullet Loan - June 4th, 2023	Facility C	125,000	-	125,000
Total - Facility C		125,000	-	125,000

The loan was initially recognised at fair value, including directly associated transaction costs. The initial carrying amount was subsequently adjusted to account for redemptions in principal, any impairment losses and amortisation of the difference between the redemption value and initial carrying amount. Amortisation is made on the basis of the internal effective interest rate represented by the rate equal to, at the moment of initial recognition, the present value of expected cash flows and the initial carrying amount (amortised cost method). The effect at December 31, 2018 of the amortised cost method on the loan is Euro 2,367 thousand of interest (Euro 1,272 thousand concerning F.I.L.A. S.p.A. and Euro 1,094 thousand concerning Dixon Ticonderoga U.S.A.). The non-current portion, in addition to the loan, includes also the fair value of the negotiation charges related to the derivative financial instruments of Euro 3,368 thousand.

Net of the loan of F.I.L.A. S.p.A. (Euro 287,754 thousand) and Dixon Ticonderoga (Euro 232,656 thousand) and considering an adjustment in application of the Amortised Cost of Euro 7,573 thousand, the residual value of non-current financial liabilities amounts to Euro 5,942 thousand and principally relates to the non-current portion of the loans granted to:

- ▶ Industria Maireri S.p.A. (Italy) for Euro 4 thousand;
- ▶ DOMS Industries Pvt Ltd (India) from HDFC Bank for Euro 600 thousand;
- ▶ Lyra KG (Germania) from Hypo Real Estate for Euro 44 thousand;
- ▶ Canson SAS (France) from Intesa Sanpaolo for Euro 5,294 thousand.

The current portion of bank loans and borrowing totalled Euro 75,178 thousand, increasing Euro 2,049 thousand on 2017. The main exposure of the Group companies to credit institutions concerns:

- ▶ Credit Line issued by Unicredit S.p.A., Intesa Sanpaolo and Bank of the West and the Revolving Credit Facility described previously, in favour of Dixon Ticonderoga Company (U.S.A.), with a total exposure at December 31, 2018 of Euro 24,855 thousand. The current portion of the structured loan of Euro 3,843 thousand contracted by the company has also been classified as short-term. The total exposure is higher by Euro 11,108 thousand compared to December 2017 and including negative currency effects of Euro 834 thousand;
- ▶ Credit Lines granted by Banamex S.A., Grupo Financiero BBVA Bancomer S.A., Banco Santander S.A., HSBC México, S.A. and Scotiabank Inverlat S.A. to Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico) for a total of Euro 26,860 thousand. During the year the total amount increased Euro 5,511 thousand, of which Euro 1,110 thousand due to the negative exchange rate effect;
- ▶ Credit Lines issued to Lyra KG (Germany) by HVB for Euro 5,200 thousand. The current debt of the German company in addition comprises the current portion of loans issued by Hypo Real Estate for Euro 200 thousand. The company's total financial exposure reduced Euro 327 thousand on 2017;
- ▶ The current portion of the structured loan of Euro 4,374 thousand recognized by F.I.L.A. S.p.A., inclusive of the interest accrued;
- ▶ Short-term loan granted to FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey) by TEB for Euro 2,252 thousand;
- ▶ The current portion of the loans of Euro 1,097 thousand granted to Industria Maimeri by Banca Popolare di Milano, BPER and Creval. The exposure increased by Euro 197 thousand on the previous year.
- ▶ Credit line granted by Intesa Sanpaolo to Xinjiang for Euro 1,326 thousand, decreasing Euro 7 thousand on December 31, 2017;
- ▶ The current portion of the loan and the credit lines granted to DOMS Industries Pvt Ltd (India) by HDFC Bank for Euro 1,687 thousand; the exposure increased Euro 423 thousand on December 2017;
- ▶ Credit line granted to Canson Inc (U.S.A.) by People's Bank for Euro 1,965 thousand, up by Euro 1,506 thousand on December 31, 2017;
- ▶ Credit line in favour of Canson Brasil I.P.E. LTDA BNP for a total of Euro 447 thousand (Euro 968 thousand at December 31, 2017).
- ▶ The current portion of the loan contracted by Canson SAS for Euro 856 thousand;

- ▶ Credit line granted in favour of Fila Dixon Stationery (Kunshan) Co., Ltd. (China) by Intesa Sanpaolo S.p.A. and UniCredit S.p.A. for Euro 205 thousand, decreasing on December 2017 for Euro 3,229 thousand.

Covenants

The F.I.L.A. Group, against the debt undertaken with leading credit institutions (UniCredit S.p.A., Banca IMI S.P.A., Mediobanca Banca di Credito Finanziario S.p.A., Banca Nazionale del Lavoro, Banco BPM S.p.A. and UniCredit Bank AG) is subject to commitments and covenants.

Covenants are verified IFRS Interim and annually. In particular, the covenants on the loan contracts concern: Net Financial Debt (NFD), EBITDA (“Earnings Before Interest, Tax, Depreciation and Amortisation”) and Net Financial Charges (NFC), calculated on the F.I.L.A. Group half-year and annual consolidated financial statements prepared as per IFRS.

The criteria for the calculation of the NFD and the EBITDA are established by the relative loan contract.

The covenants for the loan undertaken by F.I.L.A. S.p.A. and Dixon Ticonderoga Company (U.S.A.) are outlined below, applied from December 31, 2018:

$NFD / EBITDA < 4.50$

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

Financial Liabilities - Other Lenders

“Financial Liabilities – Other Lenders” at December 31, 2018 totalled Euro 1,288 thousand (Euro 8,708 thousand at December 31, 2017), with the current portion totalling Euro 183 thousand (Euro 8,239 thousand at December 31, 2017).

The change compared to the previous year relates mainly to the settlement of financial liabilities of Euro 7,500 thousand of F.I.L.A. S.p.A. in 2017 following the application of the price adjustment mechanism on the Canson Group, based on the achievement of earnings objectives.

Financial Liabilities - Bank Overdrafts

“Bank Overdrafts” amounted to Euro 10,851 thousand (Euro 18,305 thousand at December 31, 2017) and concern the overdrafts principally of F.I.L.A. S.p.A. (Euro 3,015 thousand), Industria Maimeri S.p.A. (Euro 5,731 thousand) and Fila Stationary O.O.O. (Euro 1,910 thousand).

The carrying amount of financial liabilities represents their “Fair Value” at the reporting date. Fair value is divided into the following hierarchical levels:

- ▶ Level 1: listed prices (not adjusted) on active markets for identical assets or liabilities;
- ▶ Level 2: input data other than listed prices (included in Level 1) which are observable for assets or liabilities, both directly (as in the case of prices) and indirectly (as derived from prices);
- ▶ Level 3: input data concerning assets or liabilities which are not based on observable market data.

Liabilities at fair value at December 31, 2018 and December 31, 2017 are broken down as follows by level in the hierarchy.

<i>Euro Thousand</i>	December 31, 2018	Evaluation method	Level 1	Level 2	Level 3
Financial Liabilities					
Bank Loans	593,957	<i>Amortized Cost</i>			
Other Loans	1,288	<i>Amortized Cost</i>			
Bank Overdraft	10,851	<i>Amortized Cost</i>			
Financial Instruments	5,102	<i>Fair Value</i>			5,102
Trade and Other Payables	105,537	<i>Amortized Cost</i>			
Total Financial Liabilities	716,736		-	-	5,102
<i>Euro Thousand</i>	December 31, 2017	Evaluation method	Level 1	Level 2	Level 3
Financial Liabilities					
Bank Loans	251,549	<i>Amortized Cost</i>			
Other Loans	8,708	<i>Amortized Cost</i>			
Bank Overdraft	18,305	<i>Amortized Cost</i>			
Financial Instruments	35	<i>Fair Value</i>			35
Trade and Other Payables	96,263	<i>Amortized Cost</i>			
Total Financial Liabilities	374,860		-	-	35

In accordance with the latest amendments to IAS 7, the following table shows the variations in liabilities (and any related assets) recorded in the statement of financial position, whose cash flows are or will be recorded in the statement of cash flows as cash flows from financing activities.

<i>Euro thousands</i>	Bank Loans	Other Loans	Bank Overdrafts	Hedging Derivatives Assets	Hedging Derivatives Liabilities	Total
	<i>Nota 13</i>	<i>Nota 13</i>	<i>Nota 13</i>	<i>Nota 3</i>	<i>Nota 17</i>	
December 31, 2017	(251,549)	(8,707)	(18,306)	1,053	(35)	(277,544)
Cash Flows	(336,448)	7,459	7,338	-	-	(321,651)
Other Variations:						
Translation difference	(1,164)	14	117	-	-	(1,033)
Fair Value variations	(4,796)	(54)	-	(1,053)	(5,067)	(10,970)
Consolidation scope variation effects	-	-	-	-	-	-
December 31, 2018	(593,957)	(1,288)	(10,851)	-	(5,102)	(611,198)

Note 14 - Employee Benefits

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

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

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

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

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

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

Finally, the Group recognises to employees other long-term benefits, generally issued on the reaching of a fixed number of years of service or in the case of invalidity. In this instance, the value of the

obligation recognised in the financial statements reflects the probability that the payment will be issued and the duration for which payment will be made. These plans are calculated on an actuarial basis, utilising the “projected unit credit” method.

The amounts at December 31, 2018 were as follows:

Note 14.A -POST-EMPLOYMENT BENEFITS ITALY (“TFR”) AND OTHER EMPLOYEE BENEFITS			
	Post-employment benefits (Italy)	Other Employee benefits	Total
<i>Euro thousands</i>			
December 31, 2016	2,414	8,929	11,343
Disbursements	(107)	(2,885)	(2,992)
Financial Expense	30	164	194
Pension Cost for Service	47	2,864	2,911
IAS 19 Reserve	7	(2,467)	(2,460)
Change in consolidation scope	-	(5)	(5)
Translation differences	-	(255)	(255)
December 31, 2017	2,391	6,345	8,736
Disbursements	(840)	(1,860)	(2,700)
<i>of which Consolidation Area Change</i>	-	(38)	(38)
Financial Expense	30	144	174
Pension Cost for Service	602	2,141	2,743
<i>of which Consolidation Area Change</i>	-	38	38
IAS 19 Reserve	37	1,893	1,930
Translation differences	-	48	48
December 31, 2018	2,220	8,711	10,931
Change 2017-2018	(171)	2,366	2,195

The Actuarial Gains for 2018 totalled Euro 2,743 thousand, recognised net of the fiscal effect directly in equity. The actuarial loss principally relates to the company Daler Rowney Ltd (United Kingdom) for Euro 2,587 thousand.

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

EMPLOYEE BENEFITS PLANS		
1. Obligations for Employee Benefits	2018	2017
Present Value of Obligations Not Covered by Plan Assets	2,220	2,391
	2,220	2,391
Present Value of Obligations Covered by Plan assets	11,682	9,507
Fair Value of Plan Assets Relating to the Obligations	(2,971)	(3,162)
	8,711	6,345
Total	10,931	8,736

The financial assets at December 31, 2018 invested by the F.I.L.A. Group to cover financial liabilities arising from “Employee Benefits” amount to Euro 2,971 thousand (Euro 3,162 thousand at December 31, 2017) and relate to Dixon Ticonderoga Company (Euro 1,652 thousand) and F.I.L.A.-Dixon, S.A. de C.V. (Euro 1,319 thousand). The financial investments have an average return of 5% on invested capital (equally broken down between investments in the “Ticket PFG” fund and investments in guaranteed investment contracts). The “structure” of financial investments at December 31, 2018 did not change on the previous year.

The table below highlights the net cost of employee benefit components recognised in profit or loss in 2018 and 2017:

2. Cost Recognised in Profit or Loss	2018	2017
Pension Cost for Service	2,743	2,911
Financial Expense	174	194
Cost Recognised in Profit or Loss	2,917	3,105

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

3. Main Actuarial Assumptions at Reporting Date (average values)	2018	2017
Annual Technical Discounting Rate	3.5%	3.3%
Increase in Cost of Living index	4.0%	3.7%
Future Increase in Salaries	2.8%	3.2%
Future Increase in Pensions	2.7%	2.7%

Details of the cash flows of employee benefits at December 31, 2018 are illustrated in the table below.

Nota 14.B - EMPLOYEE BENEFIT: FINANCIAL FLOWS SCHEDULE						
Nature	Ammount	Financial Flows Schedule				
		2019	2020	2021	2022	After 2022
Italian post-employment benefits (TFR)	2,220	214	161	171	179	1,495
Employee Benefits	8,711	214	140	165	375	7,817
Total	10,931					

* Euro thousands

Note 15 - Provisions for Risks and Charges

“Provisions for Risks and Charges” at December 31, 2018 amount to Euro 7,237 thousand (Euro 5,012 thousand at December 31, 2017), of which Euro 3,668 thousand (Euro 2,095 thousand at December 31, 2017) concerning the non-current portion and Euro 3,569 thousand (Euro 2,917 thousand at December 31, 2017) concerning the current portion.

Note 15.A - PROVISIONS FOR RISKS AND CHARGES						
	Provisions for Tax Disputes	Provisions for Legal Disputes	Provisions for Agents	Restructuring Provisions	Other Provisions	Total
<i>Euro thousands</i>						
December 31, 2017	159	213	794	1,957	1,889	5,012
non-current portion	-	-	761	-	1,334	2,095
current portion	159	213	33	1,957	555	2,917
December 31, 2018	9	289	710	2,222	4,007	7,237
non-current portion	-	-	673	-	2,995	3,668
current portion	9	289	37	2,222	1,012	3,569
Change	(150)	76	(84)	265	2,118	2,225
non-current portion	-	-	(88)	-	1,661	1,573
current portion	(150)	76	4	265	457	652

The change in the account “Provision for Risks and Charges” at December 31, 2018 was as follows:

Note 15.B PROVISION FOR RISKS AND CHARGES: CHANGES IN YEAR						
	Provisions for Tax Disputes	Provisions for Legal Disputes	Provisions for Agents	Restructuring Provisions	Other Provisions	Total
<i>Euro thousands</i>						
December 31, 2016	39	231	794	1,845	1,158	4,067
Utilisation of Provisions	-	-	(46)	(985)	(76)	(1,107)
Provisions Accrued	120	-	43	1,161	869	2,193
Release	-	-	(70)	-	-	(70)
Discounting	-	-	73	-	-	73
Exchange Differences	-	(18)	-	(64)	(62)	(144)
December 31, 2017	159	213	794	1,957	1,889	5,012
Utilisation of Provisions	-	-	(182)	(1,012)	(186)	(1,380)
Provisions Accrued	-	87	48	1,510	3,120	4,765
Release	(150)	-	-	(238)	(834)	(1,222)
Discounting	-	-	50	-	-	50
Exchange Differences	-	(11)	-	5	18	12
December 31, 2018	9	289	710	2,222	4,007	7,237
Change 2017-2018	(150)	76	(84)	265	2,118	2,225

Provisions for Tax Disputes

This provision represents the best estimate by management of liabilities relating to tax assessments of F.I.L.A. S.p.A. with a residual amount of Euro 9 thousand pertaining to an assessment by the public tax departments, concerning financial year 2015 and relating to direct and indirect taxes.

Provisions for Legal Disputes

The provision concerns accruals made in relation to:

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

The provision remained essentially unchanged compared to the previous year, with the exception of Euro 11 thousand deriving from exchange differences and a provision recognized by Dixon Ticonderoga Company (U.S.A.) for Euro 87 thousand.

Provisions for Agents

The account includes the agents' leaving indemnity provision at December 31, 2018 of the parent F.I.L.A. S.p.A. and of the subsidiaries Industria Maimeri S.p.A. and Canson Italia S.r.l.. The actuarial loss for 2018 was Euro 50 thousand. The actuarial changes in the year, net of the tax effect, are recognised directly to equity.

Restructuring Provisions

For the integration and reorganization of the Group structure following the corporate operations of recent years, a number of companies established and are using provisions concerning personnel mobility plans amounting to Euro 2,222 thousand at December 31, 2018. The plans involved in particular Canson SAS (France), Canson Inc. (U.S.A.), Lukas-Nerchau GmbH (Germany) and Daler Rowney GmbH (Germany), as per the structural reorganisation projects drawn up by the parent.

Other Provisions

The provision totals Euro 4,007 thousand and principally concerns the subsidiaries Dixon Ticonderoga Company (U.S.A.) and Canson Inc. (U.S.A.) and F.I.L.A. S.p.A.. Dixon Ticonderoga Company (U.S.A.) established provisions for risks concerning environmental reclamation (Euro 316 thousand) relating to actions undertaken in the US in the period prior to acquisition by F.I.L.A. S.p.A.. Reclamation times and estimates will be revised by management until completion. No further disposal and environmental reclamation costs are expected following the reorganisation process involving the F.I.L.A. Group sites.

Canson Inc. (U.S.A.) set aside a provision of Euro 2,962 thousand concerning expected charges for the conclusion of supply contracts and the fitting out of facilities following the sale of the South Hutley (Massachusetts) production site in view of the merger and the transfer of production to Pacon Corporation (U.S.A.). The provision, classified as medium-to-long-term for Euro 2,816 thousand, was discounted using a discount rate of 3.13%.

The provision recognized by F.I.L.A. S.p.A. amounts to Euro 545 thousand and refers, taking account of the information available and the best estimate made by management, to liabilities deriving from the non-current variable remuneration plan for a number of key management personnel of the company. The plan, approved by the Remuneration Committee and ratified by the Board of Directors, is indexed to quantitative and qualitative parameters. The Provision, discounted at December 31, 2017, was not subject in the period to discounting as maturing within 12 months.

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

Note 16 - Deferred Tax Liabilities

“Deferred Tax Liabilities” amount to Euro 75,341 thousand (Euro 39,241 thousand at December 31, 2017).

Note 16.A CHANGES IN DEFERRED TAX LIABILITIES	
<i>Euro thousands</i>	
December 31, 2016	47,034
Provisions	92
Utilisations	(6,253)
Translation differences	(1,655)
Change in Equity	151
Variation in Consolidation Scope	(128)
December 31, 2017	39,241
Provisions	472
Utilisations	(799)
Translation differences	663
Change in Equity	(58)
Variation in Consolidation Scope	35,822
December 31, 2018	75,341
Change 2017-2018	36,100

The change on the previous year was Euro 36,100 thousand and principally relates to the change in the consolidation scope, with a contribution by the Pacon Group of Euro 35,822 thousand. This amount consists above all of the deferred taxes calculated on the revaluations of property, plant and equipment and intangible assets in the purchase price allocation conducted for the Pacon Group.

The change in Equity (Euro 58 thousand) represents the tax effect of the “Actuarial Gains/Losses” calculated on the “Post-Employment Benefits and Employee Benefits” and recognised, in accordance with IAS 19, as an Equity reserve.

The table below shows the deferred tax liabilities by nature of provision:

NOTE 16.B - BREAKDOWN OF DEFERRED TAX LIABILITIES							
	Statement of Financial Position			Profit or Loss		Equity	
	2018	Variation in Consolidation Scope	2017	2018	2017	2018	2017
<i>Euro thousands</i>							
Intangible Assets	67,691	34,168	32,370	1,153	(6,374)	-	-
Property, Plant and Equipment	5,449	1,654	6,482	(2,687)	(1,920)	-	-
Personnel - IAS 19	137	-	223	(28)	2	(58)	151
Dividends	290	-	289	1	4	-	-
Conversion difference accounted for as "Translation Reserve"	663	-	(1,655)	1,655	1,281	663	(1,655)
Other	1,112	-	1,532	(420)	845	-	-
Total deferred tax liabilities	75,341	35,822	39,241	(327)	(6,161)	605	(1,504)

Note 17 - Financial Instruments

The financial instruments carried in the consolidated financial statements at and for the year ended December 31, 2018 refer to the fair value of loan hedging derivatives (hedged instrument), issued in favour of F.I.L.A. S.p.A. and Dixon Ticonderoga Company (U.S.A.), both for the acquisition of the Pacon Group and the refinancing of the debt contracted by F.I.L.A. S.p.A. in 2016 (in support of the M&A transactions relating to the acquisition of the Daler-Rowney Lucas Group, the Canson Group and St. Cuthberts Holding).

On July 31, 2018, to hedge against interest rate risk, F.I.L.A. S.p.A. and Dixon Ticonderoga Company (U.S.A.) entered into interest rate swap (IRS) contracts, running from June 29, 2018 and concluding on loan maturity. The IRS contract was undertaken with the same lending banks and swaps the Euribor at 3 months for the Euro denominated borrowings and the LIBOR at 3 months for the amount issued in Dollars with a fixed rate.

Canson SAS (France) also entered into hedging derivative instruments (interest rate swaps) correlated with the borrowings (hedged instrument) contracted by the company in support of investments relating to the implementation of the Annonay logistics hub.

The financial instruments were designated hedges since their key characteristics such as the following coincide with those of the hedged instrument:

- ▶ Inception;
- ▶ Financial amortization schedule with a quarterly schedule and with deferred payment of interest;
- ▶ Variable interest rate based on a benchmark.

The accounting treatment adopted for the hedging instruments, based on IAS 39, is based on hedge accounting and in particular that concerning “cash flow hedges” and involving the recognition of a financial asset or liability and an equity reserve. At December 31, 2018, the fair value of the financial instruments in question amounted to Euro 5,102 thousand, of which Euro 1,569 thousand concerning F.I.L.A. S.p.A., Euro 3,468 thousand Dixon Ticonderoga Company (U.S.A.) and Euro 65 thousand Canson SAS (France).

As per IFRS 7, the characteristics of the hedge exercised on the underlying loan are outlined below:

F.I.L.A. S.p.A.						Intesa Sanpaolo S.p.A.	Banco BPM	Mediobanca Banca di Credito Finanziario S.p.A.	UniCredit S.p.A.	
<i>value in Euro</i>						Notional	Notional	Notional	Notional	Total
IRS	Date agreed	Loan	% Hedge	Fixed Rate	Variable Rate					
IRS 1	29/06/2018	TLA F.I.L.A. S.p.A.	100%	0.30%	-0.316%	8,250,000	27,750,000	19,500,000	19,500,000	75,000,000
IRS 2	29/06/2018	TLB F.I.L.A. S.p.A.	100%	0.54%	-0.316%	-	43,200,000	23,400,000	23,400,000	90,000,000
IRS 3	29/06/2018	TLC F.I.L.A. S.p.A.	20%	0.40%	-0.316%	-	12,000,000	6,500,000	6,500,000	25,000,000
						8,250,000	82,950,000	49,400,000	49,400,000	190,000,000

Dixon Ticonderoga Company (U.S.A.)						Intesa Sanpaolo S.p.A.	BNP	Mediobanca Banca di Credito Finanziario S.p.A.	UniCredit S.p.A.	
<i>value in USD IRS 1e 2 - value in Euro IRS 3</i>						Notional	Notional	Notional	Notional	Total
IRS	Date agreed	Loan	% Hedge	Fixed Rate	Variable Rate					
IRS 1	29/06/2018	TLA Dixon Tic. - USD	100%	3.05%	2.731%	19,887,435	22,351,365	22,879,350	22,879,350	87,997,500
IRS 2	29/06/2018	TLB Dixon Tic. - USD	100%	3.08%	2.731%	29,832,565	33,528,635	34,320,650	34,320,650	132,002,500
IRS 3	03/11/2016	TLB Dixon Tic. - EUR	100%	0.54%	0.316%	9,603,796	10,793,647	11,048,615	11,048,615	42,494,673
						59,323,796	66,673,647	68,248,615	68,248,615	262,494,673

For information regarding the risks associated with the financial instruments contracted by Group companies, see the section “Information and Management of Financial Risks” of the Directors' Report on Operations.

Note 18 - Current Tax Liabilities

Current tax liabilities total Euro 9,672 thousand at December 31, 2018 (Euro 8,448 thousand at December 31, 2017), relating mainly to the parent (Euro 953 thousand), Dixon Ticonderoga Company (Euro 1,776 thousand), Pacon Corporation (Euro 2,782 thousand) and DOMS Industries Pvt Ltd (Euro 1,796 thousand).

Note 19 - Trade and Other Liabilities

“Trade and Other Liabilities” at December 31, 2018 amount to Euro 105,537 thousand (Euro 96,263 thousand at December 31, 2017). The breakdown of “Trade and Other Liabilities” of the F.I.L.A. Group is reported below:

Note 19.A TRADE AND OTHER LIABILITIES			
<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Trade Liabilities	75,297	68,374	6,924
Tax Liabilities	9,053	7,096	1,956
Other Liabilities	19,949	19,416	533
Accrued Expenses & Def.Income	1,238	1,377	(139)
Total	105,537	96,263	9,274

The increase in trade payables was Euro 6,924 thousand and relates to the change in the consolidation scope for Euro 11,068 thousand and to negative exchange differences for Euro 779 thousand. Net of these effects, the caption decreased by Euro 4,923 thousand, primarily attributable to Canson SAS (France), Dixon Ticonderoga (U.S.A.) and Pacon Corporation (U.S.A.), partially offset by the increase in trade payables recorded by the Parent F.I.L.A. S.p.A. and DOMS Industries Pvt Ltd (India).

The geographic breakdown of trade payables is shown below:

TRADE PAYABLES BY GEOGRAPHICAL AREA			
<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Europe	42,400	35,163	7,237
North America	9,579	10,211	(632)
Central-South America	4,151	4,878	(727)
Asia	18,513	17,836	677
Other	654	286	368
Total	75,297	68,374	6,923

The carrying amount of trade payables at the reporting date approximates their “fair value”.

The trade payables reported above are due within 12 months.

Tax liabilities to third parties amounts to Euro 9,053 thousand at December 31, 2018 (Euro 7,096 thousand at December 31, 2017), of which Euro 6,635 thousand VAT liabilities and Euro 2,418 thousand concerning tax liabilities other than current taxes, primarily recognized by F.I.L.A. S.p.A. (Euro 449 thousand) and relating to liabilities in connection with independent contractors. The residual amount mainly refers to Canson SAS (Euro 446 thousand) and the Chinese subsidiaries (Euro 322 thousand).

“Other Liabilities” amount to Euro 19,949 thousand at December 31, 2018 and principally include:

- ▶ Employee salary payables of Euro 11,022 thousand (Euro 9,671 thousand at December 31, 2017);
- ▶ Social security contributions to be paid of Euro 4,594 thousand (Euro 4,946 thousand at December 31, 2017);
- ▶ Payables for agent commissions of Euro 181 thousand (Euro 241 thousand at December 31, 2017).
- ▶ The residual liabilities of Euro 4,152 thousand principally concern advances to clients (Euro 4,558 thousand at December 31, 2017).

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

With reference to the other non-current payables, the balance at December 31, 2018 amounted to Euro 53 thousand and refers to deposits paid by customers to guarantee long-term supply contracts of the Indian company DOMS Industries Pvt Ltd (India).

Note 20 – Revenue from Sales and Services

Core business revenue in 2018 amounted to Euro 588,747 thousand (Euro 510,354 thousand in 2017).

Note 20.A - REVENUE FROM SALES AND SERVICES			
	2018	2017	Change
<i>Euro thousands</i>			
Revenue from Sales and Services	632,826	536,330	96,496
Adjustments on Sales	(44,079)	(25,976)	(18,103)
<i>Returns on Sales</i>	<i>(24,810)</i>	<i>(13,993)</i>	<i>(10,817)</i>
<i>Discounts, Allowances and Premiums</i>	<i>(19,269)</i>	<i>(11,983)</i>	<i>(7,286)</i>
Total	588,747	510,354	78,393

“Revenue from Sales and Services” of Euro 588,747 thousand increased by Euro 78,393 thousand on the previous year.

This movement relates to the combined impact of application of IFRS 15 which reduced revenues by Euro 14,202 thousand and negative currency effects of Euro 22,359 thousand, offset by the change in the consolidation scope, with revenue generated by the Pacon Group in 2018 of Euro 112,396 thousand. Net of these changes, core business revenue was up Euro 2,558 thousand. This growth principally relates to Asia for Euro 14,548 thousand (+23.36% on the previous year, mainly relating to the Indian company DOMS) and Central-South America for Euro 6,928 thousand (+10.25% on the previous year, mainly in Mexico, Chile, Argentina and Brazil), and was partially offset by the revenue contraction in North America of Euro 11,963 thousand (-7.7% on the previous year), in Europe of Euro 5,956 thousand (-2.7% on the previous year, particularly in Italy and France) and in the Rest of the World for Euro 999 thousand (-19.5% on the previous year, mainly in Australia).

Revenue compared with the previous period by “Strategic Segments”, broken by “Entity Location” according to IFRS 15, is presented below:

2018	Europe	North America	Central - South America	Asia	Rest of the World	F.I.L.A. Group
<i>Euro Thousand</i>						
Fine Art, Hobby & Digital	80,128	75,670	11,973	5,683	2,320	175,773
Industrial	9,170	6,281	2,126	300	4	17,881
School & Office	123,594	152,759	52,296	64,903	1,541	395,093
Revenue from Sales and Services	212,892	234,709	66,395	70,886	3,865	588,747
2017						
<i>Euro Thousand</i>						
Fine Art, Hobby & Digital	82,603	60,039	4,639	4,793	3,790	155,865
Industrial	8,435	7,085	2,190	277	4	17,991
School & Office	128,992	88,212	60,751	57,213	1,330	336,498
Revenue from Sales and Services	220,031	155,336	67,580	62,284	5,123	510,354

Note 21 – Other Revenue and Income

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

For further details on translation differences, reference should be made to “Note 31 - Foreign currency transactions”.

“Other Revenue and Income” in 2018 amounted to Euro 8,607 thousand (Euro 18,300 thousand in 2017).

Note 21 – OTHER REVENUE AND INCOME			
<i>Euro thousands</i>	2018	2017	Change
Gains on Sale of Property, Plant and Equipment	269	68	201
Unrealised Exchange Rate Gains on Commercial Transactions	3,409	9,827	(6,418)
Realised Exchange Rate Gains on Commercial Transactions	3,129	6,225	(3,096)
Other Revenue and Income	1,800	2,180	(380)
Total	8,607	18,300	(9,693)

“Other Revenue and Income” in 2018 of Euro 1,800 thousand principally includes income from the sale of production waste by Group companies and government grant repayments obtained by DOMS Industries Pvt Ltd (India).

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

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

“Costs for Raw Materials, Ancillary, Consumables and Goods” in 2018 totalled Euro 289,485 thousand (Euro 227,453 thousand in 2017).

The breakdown is provided below:

Note 22 - COSTS FOR RAW MATERIALS, ANCILLARY, CONSUMABLES AND GOODS			
<i>Euro thousands</i>	2018	2017	Change
Raw materials, Ancillary, Consumables and Goods	(250,259)	(187,738)	(62,521)
Shipping Expenses on Purchases	(12,595)	(12,411)	(184)
Packaging	(9,923)	(8,340)	(1,583)
Import Charges and Customs Duties	(5,845)	(5,177)	(668)
Other Accessory Charges on Purchases	(10,774)	(12,916)	2,142
Materials for Maintenance	(946)	(985)	39
Adjustments on Purchases	857	114	743
Total	(289,485)	(227,453)	(62,032)

The increase in “Costs for Raw Materials, Ancillary, Consumables and Goods” in 2018 was Euro 62,032 thousand, mainly due to the above-mentioned M&A effects (Euro 60,901 thousand).

The increases in inventories at December 31, 2018 totalled Euro 20,742 thousand, of which:

- Increase in “Raw Materials, Ancillary, Consumables and Goods” for Euro 1,321 thousand (increase of Euro 2,982 thousand in 2017);
- Increase in “Contract Work in Progress and Semi-Finished products” of Euro 3,039 thousand (increase of Euro 1,599 thousand in 2017);
- Movement in “Finished Products” of Euro 16,382 thousand (increase of Euro 8,664 thousand in 2017).

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

Note 23 - Service Costs and Use of Third-Party Assets

“Service Costs and Use of Third-Party Assets” amounted in 2018 to Euro 125,522 thousand (Euro 115,701 thousand in 2017).

Services costs are broken down as follows:

Note 23 - SERVICE COSTS AND USE OF THIRD-PARTY ASSETS			
<i>Euro thousands</i>	2018	2017	Change
Sundry services	(7,501)	(9,976)	2,475
Transport	(25,408)	(20,128)	(5,280)
Warehousing	(1,905)	(1,646)	(259)
Maintenance	(11,008)	(8,925)	(2,083)
Utilities	(8,591)	(7,705)	(886)
Consulting	(17,442)	(9,966)	(7,476)
Directors' and Statutory Auditors' Fees	(2,976)	(4,776)	1,800
Advertising, Promotions, Shows and Fairs	(7,138)	(5,359)	(1,779)
Cleaning	(781)	(594)	(187)
Bank Charges	(1,092)	(1,005)	(87)
Agents	(7,766)	(7,231)	(535)
Sales representatives	(5,435)	(5,565)	130
Sales Commissions	(3,193)	(12,778)	9,585
Insurance	(2,295)	(1,971)	(324)
Other Service Costs	(4,757)	(3,762)	(995)
Hire Charges	(12,629)	(8,962)	(3,667)
Rental	(1,536)	(1,712)	176
Operating Leases	(3,285)	(2,812)	(473)
Royalties and Patents	(784)	(828)	44
Total	(125,522)	(115,701)	(9,821)

The increase in “Service Costs and Use of Third-Party Assets” compared to 2017 was Euro 9,821 thousand, principally relating to the effect deriving from the M&A operations in 2016 for a total amount of Euro 14,091 thousand. Net of this effect, the costs contracted approx. Euro 4,270 thousand, principally thanks to lower sales incentives due to the reclassification of Euro 13,147 thousand from revenues from sales and services in application of IFRS 15 and lower Directors and Statutory Auditors’ fees. The above was partially offset by an increase in consultancy, primarily associated with the corporate operations undertaken by the Group in 2018.

Note 24 – Other Costs

“Other Costs” in 2018 totalled Euro 9,172 thousand (Euro 19,338 thousand in 2017).

The account principally includes realised and unrealised exchange rate losses on commercial transactions. For further details on currency differences, reference should be made to “Note 30 - Foreign currency transactions”.

“Other costs” are broken down as follows:

Note 24 – OTHER COSTS			
<i>Euro thousands</i>	2018	2017	Change
Unrealised Exchange Rate Losses on Commercial Transactions	(4,171)	(9,494)	5,323
Realised Exchange Rate Losses on Commercial Transactions	(4,694)	(8,623)	3,929
Other Operating Charges	(307)	(1,221)	914
Total	(9,172)	(19,338)	10,166

Other costs increased by Euro 914 thousand in 2018, mainly due to costs incurred by the parent F.I.L.A. S.p.A. (Euro 284 thousand, primarily relating to tax charges other than income taxes, such as municipal taxes on property).

Note 25 – Personnel Expenses

“Personnel Expenses” include all costs and expenses incurred for employees.

“Personnel Expenses” in 2018 amounted to Euro 120,407 thousand (Euro 106,283 thousand in 2017).

These costs are broken down as follows:

Note 25 – PERSONNEL EXPENSES			
<i>Euro thousands</i>	2018	2017	Change
Wages and Salaries	(90,438)	(77,708)	(12,730)
Social Security Charges	(21,981)	(17,369)	(4,612)
Employee Benefits	(2,141)	(2,864)	723
Post-Employment Benefits	(602)	(47)	(555)
Other Personnel Expenses	(5,245)	(8,295)	3,050
Total	(120,407)	(106,283)	(14,124)

Personnel expenses increased Euro 14,124 thousand on 2017, mainly as a result of the M&A effect relating to the companies of the Pacon Group (Euro 18,326 thousand). The net increase at like-for-like consolidation scope was Euro 4,202 thousand.

The F.I.L.A. Group workforce at December 31, 2018 numbered 9,560 FTE, compared to 8,439 at December 31, 2017. The increase of 1,121 was mainly in Asia and, particularly, at the Indian company DOMS Industries Pvt Ltd (India) where a major plant expansions plan was launched this year.

The increase in headcount in North America was due to the addition of the staff of the Pacon Group following its acquisition in June 2018.

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

The following table reports the breakdown of the F.I.L.A. Group workforce at December 31, 2018 and December 31, 2017 by geographical segment.

	Europe	North America	Central - South America	Asia	Rest of the World	Total
December 31, 2017	1,099	206	1,836	5,263	35	8,439
December 31, 2018	1,076	705	1,860	5,886	33	9,560
Change	(23)	499	24	623	(2)	1,121

Personnel are broken down as follows:

PERSONNEL - FULL TIME EQUIVALENT				
	Manager	White-collar	Blue-collar	Total
December 31, 2017	181	1,819	6,439	8,439
Increases	23	586	5,152	5,761
Decreases	35	536	4,603	5,174
Career advancement	7	(7)	-	-
Consolidation area change	66	86	382	534
December 31, 2018	242	1,948	7,370	9,560
Change	61	129	931	1,121

The average workforce in 2018 of the F.I.L.A. Group was 9,000, higher than the average workforce in 2017 of 8,082.

PERSONNEL - AVERAGE EMPLOYEES				
	Manager	White Collars	Blue Collars	Totale
December 31, 2017	174	1,759	6,149	8,082
December 31, 2018	207	1,887	6,906	9,000

Note 26 – Amortisation and Depreciation

The account in 2018 amounted to Euro 23,537 thousand (Euro 17,759 thousand in 2017). Amortisation and depreciation in 2018 and 2017 are reported below:

Note 26 – AMORTISATION AND DEPRECIATION			
<i>Euro thousands</i>	2018	2017	Change
Depreciation of Property, Plant and Equipment	(12,802)	(11,045)	(1,757)
Amortisation of Intangible Assets	(10,735)	(6,714)	(4,021)
Total	(23,537)	(17,759)	(5,778)

The change in amortisation and depreciation in 2018 was due to both the M&A effect relating to the companies of the Pacon Group (Euro 4,343 thousand) and the greater depreciation arising from the gradual commissioning of assets relating in particular to the Annonay logistics hub.

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

Note 27 – Recovery (Impairment losses) of Trade Receivables and Other Receivables

Total net recoveries (Impairment losses) on trade receivables and other receivables amounted to Euro 878 thousand in 2018 (Euro 1,963 thousand in 2017).

Note 27 - RECOVERY (IMPAIRMENT LOSSES) OF TRADE RECEIVABLES AND OTHER RECEIVABLES			
<i>Euro thousands</i>	2018	2017	Change
Recovery (Impairment losses) of trade receivables and other receivables	(878)	(1,963)	1,085
Total	(878)	(1,963)	1,085

The decline in recoveries (impairment losses) on trade receivables and other assets was primarily attributable to the positive effect at December 31, 2018 arising from the application of IFRS 9 for the amount of Euro 822 thousand.

Note 28 – Recovery (Impairment losses) of Other Assets

Total recoveries (Impairment losses) on other assets amount to Euro 71 thousand in 2018 (Euro 134 thousand in 2017).

Note 28 – RECOVERY (IMPAIRMENT LOSSES) OF OTHER ASSETS			
<i>Euro thousands</i>	2018	2017	Change
Impairment losses Property, Plant and Equipment	(53)	(63)	10
Impairment losses Intangible Assets	(18)	(71)	53
Total	(71)	(134)	63

Recoveries (Impairment losses) on intangible assets refer to the impairment loss on the goodwill relating to Fila SA (South Africa) for Euro 18 thousand. For further information, reference should be made to “Note 1 - Intangible Assets”.

Note 29 – Financial Income

Total “Financial Income” in 2018 amounted to Euro 7,878 thousand (Euro 3,118 thousand in 2017).

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

Note 29 – FINANCIAL INCOME			
<i>Euro thousands</i>	2018	2017	Change
Interest on Bank Deposits	121	141	(20)
Other Financial Income	1,134	945	189
Unrealised Exchange Rate Gains on Financial Transactions	1,566	3,239	(1,673)
Realised Exchange Rate Gains on Financial Transactions	297	144	153
Total	3,118	4,470	(1,352)

The main change in other financial income was due to the income generated by F.I.L.A. S.p.A. for the unexercised portion of the warrants on the share capital increase for Euro 610 thousand.

Note 30 – Financial Expense

In 2018 financial expense amounted to Euro 34,312 thousand (Euro 25,543 thousand in 2017).

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

Note 30 - FINANCIAL EXPENSE			
<i>Euro thousands</i>	2018	2017	Change
Interest on Bank Overdrafts	(147)	(210)	63
Interest on Bank Loans and borrowings	(19,365)	(8,830)	(10,535)
Interest to Other Lenders	(56)	(27)	(29)
Other Financial Expenses	(6,988)	(10,149)	3,161
Unrealised Exchange Rate Losses on Financial Transactions	(7,217)	(4,731)	(2,486)
Realised Exchange Rate Losses on Financial Transactions	(539)	(1,595)	1,056
Total	(34,312)	(25,543)	(8,769)

The increase in financial expense in 2018 was Euro 8,770 thousand, net of the considerations regarding exchange differences, and principally concerned increased costs incurred by the parent F.I.L.A. S.p.A. for the settlement of the loan contracted in 2016 and the contracting of a new structured loan to support the M&A executed in the period. In addition, the settlement of the loan contracted in 2016 by F.I.L.A. S.p.A. resulted in the release of the full suspended amortized cost in reduction of the loan liability for a total of Euro 2,250 thousand.

The portion of amortized cost accrued in 2018 on the new loan contracted by F.I.L.A. S.p.A. and Dixon Ticonderoga Company (U.S.A.) amounted to Euro 2,367 thousand.

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

Note 31 – Foreign Currency Transactions

Exchange rate differences on financial and commercial transactions in foreign currencies in 2018 are reported below.

Note 31 - FOREIGN CURRENCY TRANSACTIONS			
<i>Euro thousands</i>	2018	2017	Change
Unrealised Exchange Rate Gains on Commercial Transactions	3,409	9,827	(6,418)
Realised Exchange Rate Gains on Commercial Transactions	3,129	6,225	(3,096)
Unrealised Exchange Rate Losses on Commercial Transactions	(4,171)	(9,494)	5,323
Realised Exchange Rate Losses on Commercial Transactions	(4,694)	(8,623)	3,929
Net exchange rate losses on commercial transactions	(2,327)	(2,065)	(262)
Unrealised Exchange Rate Gains on Financial Transactions	4,626	1,566	3,060
Realised Exchange Rate Gains on Financial Transactions	2,285	297	1,988
Unrealised Exchange Rate Losses on Financial Transactions	(7,217)	(4,732)	(2,485)
Realised Exchange Rate Losses on Financial Transactions	(539)	(1,595)	1,056
Net exchange rate gains on financial transactions	(845)	(4,464)	3,619
Total net value of exchange rate differences	(3,172)	(6,529)	3,357

Exchange rate differences in 2018 principally arose from the movement of local currencies (chiefly due to the appreciation of the euro against the Mexican peso, the Indian rupee, the US dollar, the UK Pound sterling and various European currencies such as the Turkish Lira, the Rouble and the Swedish krona) against the euro, in addition to the movement in the period of assets and liabilities in foreign currencies, following commercial and financial transactions.

Note 32 – Income/Expense from Equity-Accounted Investees

“Income/Expense from Equity-Accounted Investees” report income of Euro 15 thousand (Euro 66 thousand in 2017), due to the adjustment of the investments in associated companies held by DOMS Industries Pvt Ltd (India), consolidated under the Equity method.

Note 33 - Income Taxes

These amounted to Euro 12,144 thousand in 2018 (Euro 13,542 thousand in 2017) and concern current taxes for Euro 14,378 thousand (Euro 15,719 thousand in 2017) and net deferred tax income of Euro 2,234 thousand (Euro 2,177 thousand in 2017).

Note 33.A – Current Income Taxes

The breakdown is as follows:

Note 33.A - INCOME TAXES			
<i>Euro thousands</i>	2018	2017	Change
Current Income Taxes - Italy	(588)	(1,083)	495
Current Income Taxes - Foreign	(13,790)	(14,636)	846
Total	(14,378)	(15,719)	1,341

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

The breakdown of current foreign taxes is illustrated below.

Note 33.A.1 - INCOME TAXES			
<i>Euro thousands</i>	2018	2017	Change
FILA (Italy)	(28)	(238)	210
OMYACOLOR (France)	(967)	(800)	(167)
FILA Hispania (Spain)	-	(487)	487
Dixon Ticonderoga Company (U.S.A.)	(2,673)	(7,244)	4,571
Dixon China (China)	(76)	-	(76)
Fila Dixon Kunshan (China)	(569)	(178)	(391)
FILA Yixing (China)	(157)	(85)	(72)
Dixon Canada (Canada)	(274)	(248)	(26)
Dixon Mexico (Mexico)	(1,018)	(922)	(96)
FILA Argentina (Argentina)	(21)	(27)	6
Lyra Akrelux (Indonesia)	(61)	(60)	(1)
Lyra KG (Germany)	(43)	(330)	287
Fila Nordic (Sweden)	(8)	(3)	(5)
Lyra Verwaltungs (Germany)	(2)	(1)	(1)
FILA Hellas (Greece)	(231)	(200)	(31)
FILA Polska (Poland)	(94)	(91)	(3)
DOMS Industries PVT Ltd (India)	(2,104)	(1,825)	(279)
FILA Stationery O.O.O. (Russia)	(4)	(32)	28
FILA Iberia (Spain)	(1,043)	(458)	(585)
FILA Art Products AG (Switzerland)	(1)	(1)	(0)
FILA Chile (Chile)	(130)	(586)	456
Daler Rowney Ltd (UK)	(134)	(85)	(49)
Daler Rowney Group Ltd (Jersey - UK)	(5)	11	(16)
FILA Benelux (Belgium)	(208)	36	(244)
Daler Rowney USA Ltd (U.S.A.)	(629)	-	(629)
St.Cuthberts Mill Limited Paper (UK)	(159)	(188)	29
Canson Bresil (Brazil)	49	(59)	108
Canson SAS (France)	74	(516)	590
Canson Inc. (U.S.A.)	(35)	(17)	(18)
Pacon Canadian Holding Corp (U.S.A)	(113)	0	(113)
Pacon Corporation (U.S.A.)	(2,734)	-	(2,734)
Baywood Paper ULC (Canada)	(191)	-	(191)
Creativity International (UK)	(201)	-	(201)
Total	(13,790)	(14,636)	846

The foreign income taxes also include the tax charge relating to F.I.L.A S.p.A. (Euro 28 thousand) concerning the tax representation of the subsidiary Lyra KG and the tax under Article 167 of Presidential Decree No. 917/1986 concerning “Controlled Foreign Company”.

Nota 33.B – Deferred Tax Income and Expense

The breakdown is provided below:

Note 33.B DEFERRED TAX INCOME AND EXPENSE			
<i>Euro thousands</i>	2018	2017	Change
Deferred Tax Income	1,907	(3,984)	5,891
Deferred Tax Charge	327	6,161	(5,834)
Total	2,234	2,177	57

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

Note 33.C TOTAL INCOME TAXES IN YEAR				
<i>Euro thousands</i>	2018	Effective tax rate	2017	Effective tax rate
Pre-Tax Consolidated Result of the F.I.L.A. Group	22,605		30,909	
Result of Companies of the F.I.L.A. Group not subject to Current Taxes	5,895		3,226	
Consolidation Effect of the F.I.L.A. Group - Before Current Taxes	13,178		14,005	
Theoretical Tax Base	41,678		48,140	
Total current income taxes	(14,378)	34.5%	(15,719)	32.7%
Deferred Tax Assets on Temporary Differences	327		(3,984)	
Deferred Tax Liabilities on Temporary Differences	1,907		6,161	
Total deferred tax income & charges	2,234	-5.4%	2,177	-4.5%
Net tax expense	(12,144)	29.1%	(13,542)	28.1%

The “Net Tax Expense” of Euro 12,144 thousand represent an average effective tax rate for the F.I.L.A. Group of 29.1%, increasing 1% on the previous year.

Commitments and guarantees

Commitments

In 2018, commercial supplier commitments maturing in 2019 totalled Euro 2,981 thousand and concern F.I.L.A. Iberia S.L. (Spain - Euro 58 thousand), Fila Nordic AB (Sweden - Euro 4 thousand) and Daler Rowney Ltd (United Kingdom - Euro 2,919 thousand).

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

<i>Euro thousands</i>	Financial Leasing		Operative leasing	
	Short term	Long Term	Short term	Long Term
FILA S.p.A. (Italy)	-	-	713	4,935
Omyacolor S.A. (France)	56	238	-	-
Lyra KG (Germany)	210	1,220	-	-
F.I.L.A. Nordic AB (Sweden)	-	-	184	343
Industria Maimeri S.p.A. (Italy)	0.4	-	-	-
Fila Hellas SA (Greece)	-	-	9	13
Fila Polska Sp. Z.o.o (Poland)	-	-	4	3
Dixon Ticonderoga Company (U.S.A.)	3	-	972	6,177
Dixon Ticonderoga Inc. (Canada)	-	-	174	336
Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico)	-	-	2,126	9,566
Beijing F.I.L.A.-Dixon Stationery Company Ltd. (China)	-	-	17	-
Xinjiang F.I.L.A.-Dixon Plantation Company Ltd. (China)	-	-	2	8
PT. Lyra Akrelux (Indonesia)	-	-	3	5
FILA Dixon Stationery (Kunshan) Co., Ltd. (China)	-	-	1,211	5,754
Daler Rowney Ltd (UK)	53	190	1,243	15,870
Brideshore Srl (Dominican Republic)	1	-	777	3,166
St. Cuthberts Mill Limited (UK)	39	51	-	-
Pacon Corporation (U.S.A.)	-	-	2,707	15,283
Baywood (Canada)	-	-	346	2,154
Creativity (UK)	-	-	223	5
Canson Inc. (U.S.A.)	-	-	598	16,720
Total Commitments	363	1,700	11,310	80,338

Guarantees

On June 4, 2018, F.I.L.A. S.p.A. signed a loan contract (hereafter the “Facility Agreement”) issued by a banking syndicate comprising UniCredit S.p.A. as “Global Coordinator”, Intesa Sanpaolo S.p.A., Mediobanca Banca di Credito Finanziario S.p.A., Banca Nazionale del Lavoro and Banco BPM S.p.a. as “Mandated Lead Arranger” and UniCredit Bank AG as “Security Agent”, for a total of Euro 546,370 thousand against a total underwritten amount of Euro 570,000 thousand.

The loan was issued in part to Dixon Ticonderoga Company for the acquisition of the Pacon Group on June 7, 2018 and in part to F.I.L.A. S.p.A. for the refinancing of the former SFA for Euro 220,887 thousand, inclusive of Euro 611 thousand of interest accrued at that date.

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

- Renoir Topco Ltd;
- Renoir Bidco Ltd;
- Daler-Rowney Ltd;
- Omyacolor S.A.;
- Grupo F.I.L.A. – Dixon, S.A. de C.V.;
- Canson SAS;
- Canson Inc.;
- Johann Froescheis Lyra-Bleistift-Fabrik GmbH & Co. KG;
- F.I.L.A. Iberia S.L.;
- Pacon Holding Company;
- Pacon Corporation;
- Baywood Paper ULC;

in addition to other guarantees (“other asset security”) on trade receivables and financial loan assets from the acquisitions in 2018.

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

- Brank surety issued in favour of Banco BPM S.p.A. on the credit lines granted to Industria Maimeri S.p.A. (Italy) for Euro 1,000 thousand;
- Bank sureties in favour of third parties:
 - in guarantee of the Pero offices lease contract for Euro 88 thousand;
 - to the Ministry for Economic Development for promotional activities for Euro 15 thousand.
- Stand by given in favour of Banca Nazionale del Lavoro S.p.A. on credit lines granted to:
 - FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey) for Euro 2.5 million;
 - Canson Brésil I.P.E. Ltda (Brazil) for BRL 2.2 million; and
 - Dixon Ticonderoga Co. (USA) for USD 12.550 million.
- Patronage letters provided on opening of credit granted to Industria Maimeri S.p.A. (Italy) in favour of the following credit institutions:
 - Credito Emiliano S.p.A. for Euro 1,000 thousand;
 - Banco BPM for Euro 3,200 thousand;
 - Banca Popolare dell’Emilia Romagna for Euro 1,025 thousand;

- ▶ Loan mandates granted to Unicredit S.p.A. in favour of:
 - ▶ Dixon Ticonderoga Co. (U.S.A.) of USD 28.6 million;
 - ▶ Fila Dixon Stationery Company (Kunshan) Co. Ltd. (China) for Euro 2,100 thousand;
 - ▶ Industria Maimeri S.p.A. (Italy) for Euro 1,950 thousand.
- ▶ Loan mandates granted in favour of Banca Intesa Sanpaolo S.p.A. on its subsidiaries:
 - ▶ Fila Dixon Stationery (Kunshan) Co. Ltd. (China) of Renminbi 32 million;
 - ▶ Fila Dixon Stationery (Kunshan) Co., Ltd. of USD 500 thousand;
 - ▶ Fila Dixon Stationery (Kunshan) Co. Ltd. (China) for Euro 2,000 thousand;
 - ▶ Xinjiang Fila Dixon Plantation Co. Ltd. (China) for Euro 1,600 thousand;
 - ▶ Industria Maimeri S.p.A. (Italy) for Euro 1,000 thousand;
 - ▶ Fila Stationery O.O.O. (Russia) for Euro 1,250 thousand.
- ▶ Loan mandate granted in favour of Credito Valtellinese on Industria Maimeri S.p.A. (Italy) for Euro 350 thousand.
- ▶ Credit mandate granted to Banca Nazionale del Lavoro S.p.A. for Industria Maimeri S.p.A. (Italy) for Euro 1.2 million.

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

Lyra KG “Johann Froescheis Lyra- Bleitstift-Fabrik GmbH&Co-KG” (Germany) provided a guarantee in favour of T. Perma Plasindo (a local F.I.L.A. Group partner) which, in turn, pledged land and buildings in guarantee of the obligations devolving to PT. Lyra Akrelux under the loan contract with PT. Bank Central Asia of February 11, 2010 for a total IDR 2,500,000,000 (Euro 150,000).

Transactions with Related Parties

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

In accordance with Consob Communication No. 6064293 of July 28, 2006, the following table outlines the commercial and financial transactions with related parties for the year ended December 31, 2018:

F.I.L.A. GROUP RELATED PARTIES - 2018													
		December 2018					December 2018						
		Statement of Financial Position					Profit or loss						
		ASSETS			LIABILITIES		REVENUES			COSTS			
Company	Nature	Property, plant & equipment	Trade Receivables	Cash and Cash Equivalents	Financial Liabilities (Banks)	Financial Liabilities (Other)	Trade Payables	Revenue from sales	Other Revenue (Services)	Financial Income	Operating Costs (Products)	Operating Costs (Services)	Financial Expense
Nuova Alpa Collanti S.r.l.	Trade Supplier	-	-	-	-	-	446	-	-	-	1,994	0.43	-
Anda S.p.A.	Trade Supplier	-	-	-	-	-	284	-	-	-	390	-	-
Studio Legale Salonia e Associati	Legal Consultancy	-	-	-	-	-	150	-	-	-	-	419	-
Studio Zucchetti	Tax & Administration Consultancy	-	-	-	-	-	-	-	-	-	-	129	-
Beijing Majestic	Furniture Commerciali	-	-	-	-	-	-	-	-	-	-	-	-
Autogrill S.p.A.	Trade Supplier	-	-	-	-	-	-	-	-	-	-	-	-
Pynturas y Texturizados S.A. de C.V.	Trade Supplier	-	-	-	-	-	-	-	-	-	203	10	-
HR Trustee	Service Supplier	-	-	-	-	-	-	-	-	-	-	19	-
Total		-	-	-	-	-	880	-	-	-	2,587	577	-

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

Studio Legale Salonia e Associati

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

Nuova Alpa Collanti S.r.l.

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

Studio Zucchetti

Studio Zucchetti, in which a partner was a related party to the company's controlling shareholder until June 25, 2018 and a member of the Board of Directors of F.I.L.A. S.p.A. until April 27, 2018, principally provides tax and administrative consultancy.

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

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

HR Trustee

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

Autogrill S.p.A.

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

Arda S.p.A.

ARDA S.p.A., a shareholder of which is related to the management of a F.I.L.A. Group company, is an Italian based company specialised in the production and sale of school and office items.

Beijing Majestic

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

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

On this basis, the exchange of goods, services and financial transactions between the various group companies were undertaken at competitive market conditions.

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

The nature and the balances of transactions of the Parent F.I.L.A. S.p.A. with the companies of the F.I.L.A. Group at December 31, 2018 and December 31, 2017 are detailed below.

F.I.L.A. S.P.A. INTERCOMPANY TRANSACTIONS 2018									
Company	Statement of Financial Position - 2018			Income Statement - 2018					
	Asset		Liabilities	Revenues				Costs	
	Trade Receivables	Financial Assets	Trade Payables	Revenue from sales	Other Revenue	Dividends	Financial Income	Operating Costs (Products)	Operating Costs (Services)
Euro thousands									
Onyacolor S.A. (France)	236	-	609	2,846	156	2,089	-	1,470	17
F.I.L.A. Iberia (Spain)	76	-	13	2,585	139	1,258	-	-	1
Dixon Ticonderoga Company (U.S.A.)	6,370	3,859	227	744	6,591	2,843	3,859	212	-
Beijing F.I.L.A.-Dixon Stationery Company Limited (China)	-	-	6	-	1	-	-	6	-
Dixon Ticonderoga Inc. (Canada)	18	-	1	8	31	-	-	-	2
Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico)	211	-	161	817	88	-	-	438	4
F.I.L.A. Chile Ltda (Chile)	302	-	1	661	2	-	-	-	-
FILA Argentina S.A. (Argentina)	64	21	1	201	2	-	21	-	-
Johann Froescheis Lyra KG (Germany)	220	-	284	346	637	896	-	992	128
F.I.L.A. Nordic (Sweden)	97	-	5	390	23	-	-	-	-
PT. Lyra Akrelux (Indonesia)	-	-	2	121	3	-	-	-	-
FILA Stationary Ltd. Co. (Turkey)	462	358	-	297	9	-	30	-	-
DOMS Industries Pvt Ltd (India)	23	-	156	5	50	297	-	1,208	-
Fila Stationary O.O.O. (Russia)	175	1,516	-	298	7	-	43	-	-
FILA Hellas SA (Greece)	363	-	2	1,146	12	-	-	-	-
Industria Maimeri S.p.A. (Italy)	276	1,482	75	38	352	-	12	151	18
FILA SA (South Africa)	141	2,247	1	251	4	-	68	-	-
FILA Dixon Stationery (Kunshan) Co., Ltd. (China)	86	-	920	32	124	-	-	9,336	21
Renoir Midco (UK)	-	-	-	-	-	-	-	-	-
Renoir Bidco (UK)	-	-	-	-	-	-	-	-	-
F.I.L.A. Benelux (Belgium)	9	-	3	-	37	-	-	-	-
Daler Rowney Ltd (UK)	1,167	3,619	42	1,161	269	-	119	-	-
Bideshore (Dominican Rep.)	27	-	2	46	2	-	-	-	8
Lukas-Nerchau GmbH	-	-	8	3	12	-	-	-	-
FILA Poland (Poland)	13	-	-	95	-	-	-	-	-
Canson Art & Craft Yixing Co., Ltd. (China)	83	-	309	71	208	-	-	1,301	-
St. Cuthberts Mill (UK)	15	-	8	-	42	-	-	-	-
Canson Brasil (Brazil)	196	6,481	1	84	32	-	114	-	-
Lodi 12 (France)	-	422	-	-	-	-	14	-	-
Canson SAS (France)	970	18,127	97	1,138	1,292	-	641	768	1
Euroholdham (U.S.A.)	-	10,858	-	-	-	-	353	-	-
Canson Inc. (U.S.A.)	61	3,684	100	-	302	-	127	-	-
Canson Australia (Australia)	395	1,634	-	39	139	-	57	-	11
Canson Qingdao (China)	-	-	-	-	7	-	-	-	-
Canson Italy Srl (Italy)	80	-	3	-	285	-	-	-	-
Fila Art Products AG (Swiss)	36	239	-	163	-	-	5	-	-
Fila Art & Craft (Israel)	252	630	22	322	-	-	10	-	18
Pacon Corporation (U.S.A.)	130	-	352	-	130	-	-	-	-
Total	12,554	55,177	3,411	13,908	10,988	7,383	5,473	15,882	229

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

Company	Statement of Financial Position - 2017			Income Statement - 2017					
	Asset		Liabilities	Revenues			Costs		
	Trade Receivables	Financial Assets	Trade Payables	Revenue from sales	Other Revenue	Dividends	Financial Income	Operating Costs (Products)	Operating Costs (Services)
Euro thousands									
Omyacolor S.A. (France)	308	-	616	2,997	146	2,089	-	1,473	21
F.I.L.A. Hispania S.L. (Spain)	162	-	5	2,413	43	1,151	-	-	-
Dixon Ticonderoga Company (U.S.A.)	182	-	8	719	314	5,594	-	-	6
Beijing F.I.L.A.-Dixon Stationery Company Limited (China)	2	-	1	-	1	-	-	-	-
Dixon Ticonderoga Inc. (Canada)	9	-	1	9	14	-	-	-	2
Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico)	205	-	179	765	102	-	-	646	7
F.I.L.A. Chile Ltda (Cile)	332	-	1	988	3	-	-	-	-
FILA Argentina S.A. (Argentina)	1,451	-	1	380	1	-	-	-	-
Johann Froescheis Lyra KG (Germany)	96	-	286	835	117	1,293	-	1,041	317
F.I.L.A. Nordic (Sweden)	189	-	22	419	26	-	-	18	-
PT. Lyra Akrelux (Indonesia)	-	-	-	159	4	-	-	-	-
FILA Stationary Ltd. Co. (Turkey)	328	365	1	197	27	-	7	-	4
DOMS Industries Pvt Ltd (India)	6	-	36	-	50	145	-	1,467	5
Licyn Mercantil Industrial Ltda (Brazil)	-	-	-	27	6	-	58	-	-
Fila Stationary O.O.O. (Russia)	611	1,528	-	494	20	-	21	-	-
FILA Hellas SA (Greece)	326	-	2	1,220	9	-	-	-	-
Industria Maineri S.p.A. (Italy)	48	1,076	34	64	100	-	4	155	10
FILA SA (South Africa)	4	2,251	-	176	13	-	28	-	-
FILA Dixon Stationery (Kunshan) Co., Ltd. (China)	93	-	1,371	118	64	-	-	8,839	16
Renoir Midco (UK)	-	-	-	-	61	-	-	-	-
Renoir Bidco (UK)	-	-	-	-	22	-	-	-	-
F.I.L.A. Benelux (Belgium)	7	-	2	-	10	-	-	-	-
Daler Rowney Ltd (UK)	491	3,051	47	811	305	-	95	-	-
Brideshore (Dominican Republic)	-	-	-	-	-	-	-	-	-
Lukas-Nerchau GmbH (Germany)	-	-	7	46	12	-	-	-	-
FILA Polska (Poland)	9	-	-	75	-	-	-	-	-
Canson Art & Craft Yixing Co., Ltd. (China)	37	-	277	94	-	-	-	1,494	1
St. Cuthberts Mill (UK)	-	-	-	-	9	-	-	-	-
FILA Iberia (Spain)	16	-	2	-	24	-	-	-	-
Canson Brasil (Brazil)	110	3,602	1	-	11	-	29	-	-
Lodi 12 (France)	-	425	-	-	-	-	42	-	-
Canson SAS (France)	272	18,969	83	36	643	-	658	44	23
Euroholdham (USA)	-	10,589	-	-	-	-	352	-	-
Canson Inc. (USA)	61	3,686	-	-	87	-	137	-	-
Canson Australia (Australia)	278	1,661	-	283	64	-	56	-	-
Canson Qingdao (China)	60	-	-	-	180	-	-	-	-
Canson Italy Srl (Italy)	2	-	2	-	282	-	-	-	-
Fila Art Products AG (Switzerland)	25	239	-	27	2	-	3	-	-
Total	5,720	47,442	2,985	13,352	2,772	10,272	1,490	15,177	412

In particular, in 2018 the nature of transactions between F.I.L.A. S.p.A. and the other Group companies concerned:

- Sale of products/goods of F.I.L.A. S.p.A. and other Group companies;
- Granting of licenses for the usage of the Suger trademark by F.I.L.A. S.p.A. and Omyacolor S.A. (France);
- Concession of the license for the usage of the Omyacolor S.A. (France) and Lyra KG (Germany) trademarks in favour of F.I.L.A. S.p.A.;
- Concession of a loan in favour of the subsidiary Dixon Ticonderoga Company (USA) Daler Rowney Ltd. (United Kingdom), of the subsidiary Canson SAS (France), of the subsidiary Lodi 12 SAS (France), of the subsidiary Euroholdham USA Inc. (U.S.A.), of the subsidiary Canson Australia Pty. Ltd. (Australia), of the subsidiary Canson Inc. (U.S.A.), FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey), FILA Art Products AG (Switzerland) Canson

Brasil I.P.E. LTDA (Brazil), FILA Stationary O.O.O. (Russia), FILA Art & Craft (Israel) and Industria Maimeri S.p.A.;

- ▶ Dividends received by the Parent F.I.L.A. S.p.A. from the subsidiary Dixon Ticonderoga Co. (U.S.A. - Euro 2,843 thousand), the subsidiary Omyacolor S.A. (France – Euro 2,089 thousand), F.I.L.A. Hispania S.L. (Spain – Euro 1,258 thousand), the subsidiary DOMS Industries PVT Ltd (India – Euro 297 thousand) and the subsidiary Lyra KG (Germany – Euro 896 thousand);
- ▶ Recharges for services and consultancy provided by F.I.L.A. S.p.A. in favour of Canson SAS (France - Euro 252 thousand), Canson Italy S.r.l. (Italy - Euro 247 thousand), Dixon Ticonderoga Company (U.S.A. - Euro 220 thousand), Qingdao Canson Paper Products Co., Ltd (China – Euro 38 thousand), Daler Rowney Ltd (United Kingdom – Euro 146 thousand), Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico - Euro 82 thousand), Industria Maimeri S.p.A. (Italy – Euro 125 thousand), Fila Dixon Stationery (Kunshan) Co, Ltd. (China - Euro 123 thousand), Lyra KG (Germany - Euro 150 thousand), Omyacolor S.A. (France - Euro 75 thousand), DOMS Industries Pvt Ltd (India –Euro 48 thousand), Canson Inc. (U.S.A. – Euro 50 thousand), Canson Australia PTY Ltd. (Australia – Euro 22 thousand), F.I.L.A. Iberia S.L. (Spain - Euro 57 thousand) and Pacon Corporation (U.S.A. – Euro 130 thousand);
- ▶ Recharges for costs, incurred by F.I.L.A. S.p.A. against Group insurance coverage principally related to the companies Canson SAS (France – Euro 167 thousand), Daler Rowney Ltd. (United Kingdom – Euro 82 thousand), Omyacolor S.A. (France - Euro 60 thousand), Lyra KG (Germany - Euro 41 thousand), F.I.L.A. Hispania S.L. (Spain - Euro 11 thousand) and Dixon Ticonderoga Company (U.S.A. – Euro 17 thousand);
- ▶ Recharges of costs incurred by F.I.L.A. S.p.A. related to the ERP roll out at the FILA Group, principally related to Canson Inc. (U.S.A. - Euro 250 thousand), Canson SAS (Euro 804 thousand), Dixon Ticonderoga Company (U.S.A. – Euro 48 thousand), Qingdao Canson Paper Products Co., Ltd (China – Euro 172 thousand), Lyra KG (Germany - Euro 446 thousand), Canson Australia PTY Ltd. (Australia – Euro 115 thousand), Industria Maimeri S.p.A. (Italy – Euro 247 thousand), F.I.L.A. Iberia S.L. (Spain – Euro 54 thousand), Fila Benelux (Euro 31 thousand) and Omyacolor S.A. (France – Euro 15 thousand);
- ▶ Recharges of costs to subsidiaries for sureties granted in favour of FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey - Euro 27 thousand), Dixon Ticonderoga Company (U.S.A. – Euro 33 thousand) and Canson Brasil I.P.E. LTDA (Brazil - Euro 5 thousand) by F.I.L.A. S.p.A., in guarantee of credit lines contracted with Banca Nazionale del Lavoro S.p.A. and in favour of FILA Stationary O.O.O. (Russia - Euro 13 thousand) in guarantee of the credit lines contracted with Banca Intesa Sanpaolo.

- ▶ Recharges for costs associated with the acquisition of Pacon Corporation to the subsidiary Dixon Ticonderoga Company (U.S.A. – Euro 6,272 thousand).

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

Name and Surname	Office held	Duration	Emoluments for office (€)	Bonuses and other incentives (€)
Gianni Mion	Chairman	2018-2020	103,333	-
Massimo Candela	Chief Executive Officer	2018-2020	850,000	588,000
Luca Pelosin	Executive Director	2018-2020	300,000	163,600
Alberto Candela	Director & Honorary Chairman	2018-2020	163,333	-
Annalisa Barbera	Director	2018-2020	15,000	5,667
Gerolamo Caccia Dominioni	Director	2018-2020	15,000	31,333
Francesca Prandstraller	Director	2018-2020	15,000	11,333
Filippo Zabban	Director (from May 2018)	2018-2020	10,000	4,250
Paola Bonini	Director (from May 2018)	2018-2020	10,000	8,000
Alessandro Potestà	Director (from November 2018)	2018-2020	1,875	750
Total Directors in charge as at December 31, 2018			1,483,541	812,933
Fabio Zucchetti	Director (until April 2018)	2015 - 2017	5,000	3,333
Sergio Ravagli	Director (until October 2018)	2015 - 2017	11,425	7,597
Total Directors not in charge as at December 31, 2018			16,425	10,931
Total Directors			1,499,966	823,864

It is noted that the fees reported above do not include Long Term Incentive.

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

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

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

The following table, prepared pursuant to Article 149 of the CONSOB Issuers' Regulation, reports the payments made in 2018 for audit and other services carried out by the audit firm and entities associated with the audit firm.

<i>Euro thousands</i>	Company providing the service	Recipient	2018 Fees
Audit	KPMG S.p.A.	Parent	416
	KPMG S.p.A.	Italian Subsidiaries	25
	KPMG **	Not Italian Subsidiaries	876
Non Audit Services *	KPMG **		885
Total			2,203

* The other services of Euro 885 thousand refer primarily to services rendered in support of the share capital increase completed by F.I.L.A. S.p.A. during the year.

** Other companies belonging to the KPMG S.p.A. network

** KPMG S.p.A. and other companies belonging to the KPMG S.p.A. network.

Subsequent events

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

Attachments

Attachment 1 - List of companies included in the consolidation and other equity investments

Company	Company Country of Residence	Segment IFRS 8 ¹	Year of acquisition of the company	% held directly (F.I.L.A. S.p.A)	% held indirectly	% held by F.I.L.A. Group	Investing Company	Consolidation Method	Non-Controlling interests
Omyacolor S.A.	France	EU	2000	94.94%	5.06%	100.00%	FILA S.p.A. Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG	Line-by-line	0.00%
FILALYRA GB Ltd.	UK	EU	2005	0.00%	100.00%	100.00%	Lyra Bleistift-Fabrik Verwaltungs GmbH Daler Rowney Ltd	Line-by-line	0.00%
Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG	Germany	EU	2008	99.53%	0.47%	100.00%	FILA S.p.A. Lyra Bleistift-Fabrik Verwaltungs GmbH	Line-by-line	0.00%
Lyra Bleistift-Fabrik Verwaltungs GmbH	Germany	EU	2008	0.00%	100.00%	100.00%	Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG	Line-by-line	0.00%
F.I.L.A. Nordic AB ²	Sweden	EU	2008	0.00%	50.00%	50.00%	Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG	Line-by-line	50.00%
FILA Stationery and Office Equipment Industry Ltd. Co.	Turkey	EU	2011	100.00%	0.00%	100.00%	FILA S.p.A.	Line-by-line	0.00%
Fila Stationery O.O.O.	Russia	EU	2013	90.00%	0.00%	90.00%	FILA S.p.A.	Line-by-line	10.00%
Industria Maimeri S.p.A.	Italy	EU	2014	51.00%	0.00%	51.00%	FILA S.p.A.	Line-by-line	49.00%
Fila Hellas SA ²	Greece	EU	2013	50.00%	0.00%	50.00%	FILA S.p.A.	Line-by-line	50.00%
Fila Polska Sp. Z o.o	Poland	EU	2015	51.00%	0.00%	51.00%	FILA S.p.A.	Line-by-line	49.00%
Dixon Ticonderoga Company	U.S.A.	NA	2005	100.00%	0.00%	100.00%	FILA S.p.A.	Line-by-line	0.00%
Dixon Ticonderoga Inc.	Canada	NA	2005	0.00%	100.00%	100.00%	Dixon Ticonderoga Company	Line-by-line	0.00%
Grupo F.I.L.A.-Dixon, S.A. de C.V.	Mexico	MSA	2005	0.00%	100.00%	100.00%	Dixon Ticonderoga Inc. Dixon Ticonderoga Company	Line-by-line	0.00%
F.I.L.A. Chile Ltda	Chile	MSA	2000	0.79%	99.21%	100.00%	Dixon Ticonderoga Company FILA S.p.A.	Line-by-line	0.00%
FILA Argentina S.A.	Argentina	MSA	2000	0.00%	100.00%	100.00%	F.I.L.A. Chile Ltda Dixon Ticonderoga Company	Line-by-line	0.00%
Beijing F.I.L.A.-Dixon Stationery Company Ltd.	China	AS	2005	0.00%	100.00%	100.00%	Dixon Ticonderoga Company	Line-by-line	0.00%
Xinjiang F.I.L.A.-Dixon Plantation Company Ltd.	China	AS	2008	0.00%	100.00%	100.00%	Beijing F.I.L.A.-Dixon Stationery Company Ltd.	Line-by-line	0.00%
PT. Lyra Akrelux	Indonesia	AS	2008	0.00%	52.00%	52.00%	Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG	Line-by-line	48.00%
FILA Dixon Stationery (Kunshan) Co., Ltd.	China	AS	2013	0.00%	100.00%	100.00%	Beijing F.I.L.A.-Dixon Stationery Company Ltd.	Line-by-line	0.00%
FILA SA PTY LTD	Sudafrica	RW	2014	90.00%	0.00%	90.00%	FILA S.p.A.	Line-by-line	10.00%
Canson Art & Craft Yixing Co., Ltd.	China	AS	2015	0.00%	100.00%	100.00%	Beijing F.I.L.A.-Dixon Stationery Company Ltd.	Line-by-line	0.00%
Servidix S.A. de C.V.	Mexico	AS	2005	0.00%	100.00%	100.00%	Grupo F.I.L.A.-Dixon, S.A. de C.V.	Cost	0.00%
Dixon Mexico S.A. de CV	Mexico	AS	2005	0.00%	100.00%	100.00%	Grupo F.I.L.A.-Dixon, S.A. de C.V.	Cost	0.00%
Dixon Comercializadora S.A. de C.V.	Mexico	AS	2005	0.00%	99.99%	99.99%	Grupo F.I.L.A.-Dixon, S.A. de C.V.	Cost	0.01%
Dixon Ticonderoga de Mexico S.A. de C.V.	Mexico	AS	2005	0.00%	100.00%	100.00%	Grupo F.I.L.A.-Dixon, S.A. de C.V.	Cost	0.00%
DOMS Industries Pvt Ltd	India	AS	2015	51.00%	0.00%	51.00%	FILA S.p.A.	Line-by-line	49.00%
Renoir Topco Ltd	UK	EU	2016	100.00%	0.00%	100.00%	FILA S.p.A.	Line-by-line	0.00%
Renoir Midco Ltd	UK	EU	2016	0.00%	100.00%	100.00%	Renoir Topco Ltd	Line-by-line	0.00%
Renoir Bidco Ltd	UK	EU	2016	0.00%	100.00%	100.00%	Renoir Midco Ltd	Line-by-line	0.00%
FILA Benelux SA	Belgium	EU	2016	0.00%	100.00%	100.00%	Renoir Bidco Ltd Daler Rowney Ltd	Line-by-line	0.00%
Daler Rowney Ltd	UK	EU	2016	0.00%	100.00%	100.00%	Daler Board Company Ltd	Line-by-line	0.00%
Daler Rowney GmbH	Germany	EU	2016	0.00%	100.00%	100.00%	Renoir Bidco Ltd	Line-by-line	0.00%
Lukas-Nerchau GmbH	Germany	EU	2016	0.00%	100.00%	100.00%	Daler Rowney Ltd	Line-by-line	0.00%
Nerchauer Malfarben GmbH	Germany	EU	2016	0.00%	100.00%	100.00%	Daler Rowney GmbH	Line-by-line	0.00%
Brideshore srl	Dominican Republic	MSA	2016	0.00%	100.00%	100.00%	Daler Rowney Ltd	Line-by-line	0.00%
St. Cuthberts Holding Limited	UK	EU	2016	100.00%	0.00%	100.00%	FILA S.p.A.	Line-by-line	0.00%
St. Cuthberts Mill Limited	UK	EU	2016	0.00%	100.00%	100.00%	St. Cuthberts Holding Limited	Line-by-line	0.00%
Fila Iberia S.L.	Spain	EU	2016	96.77%	0.00%	96.77%	FILA S.p.A.	Line-by-line	3.23%
Eurholdham USA Inc.	U.S.A.	NA	2016	100.00%	0.00%	100.00%	FILA S.p.A.	Line-by-line	0.00%
Canson Inc.	U.S.A.	NA	2016	0.00%	100.00%	100.00%	FILA S.p.A.	Line-by-line	0.00%
Canson SAS	France	EU	2016	100.00%	0.00%	100.00%	Eurholdham USA Inc.	Line-by-line	0.00%
Canson Brasil L.P.E. LTDA	Brazil	MSA	2016	0.19%	99.81%	100.00%	FILA S.p.A. Canson SAS	Line-by-line	0.00%
Lodi 12 SAS	France	EU	2016	100.00%	0.00%	100.00%	FILA S.p.A.	Line-by-line	0.00%
Canson Australia PTY LTD	Australia	RW	2016	0.00%	100.00%	100.00%	FILA S.p.A.	Line-by-line	0.00%
Canson Qingdao Ltd.	China	AS	2016	0.00%	100.00%	100.00%	Lodi 12 SAS	Line-by-line	0.00%
Canson Italy S.r.l.	Italy	EU	2016	0.00%	100.00%	100.00%	Lodi 12 SAS	Line-by-line	0.00%
FILA Art Products AG	Switzerland	EU	2017	52.00%	0.00%	52.00%	FILA S.p.A.	Line-by-line	48.00%
FILA Art and Craft Ltd	Israel	AS	2018	51.00%	0.00%	51.00%	FILA S.p.A.	Line-by-line	49.00%
Pacon Holding Company	U.S.A.	NA	2018	0.00%	100.00%	100.00%	Dixon Ticonderoga Company	Line-by-line	0.00%
Pacon Corporation	U.S.A.	NA	2018	0.00%	100.00%	100.00%	Pacon Holding Company	Line-by-line	0.00%
Pacon Canadian Holding Co	U.S.A.	NA	2018	0.00%	100.00%	100.00%	Pacon Corporation	Line-by-line	0.00%
Baywood Paper ULC	Canada	NA	2018	0.00%	100.00%	100.00%	Pacon Canadian Holding Co	Line-by-line	0.00%
Castle Hill Crafts	UK	EU	2018	0.00%	100.00%	100.00%	Pacon Corporation	Line-by-line	0.00%
Creativity International	UK	EU	2018	0.00%	100.00%	100.00%	Castle Hill Crafts	Line-by-line	0.00%
Princeton Hong Kong	Hong Kong	AS	2018	0.00%	100.00%	100.00%	Pacon Corporation	Line-by-line	0.00%
Pioneer Stationery Pvt Ltd.	India	AS	2015	0.00%	51.00%	51.00%	DOMS Industries Pvt Ltd	Equity Method	49.00%
Uniwrite Pens and Plastics Pvt Ltd	India	AS	2016	0.00%	60.00%	60.00%	DOMS Industries Pvt Ltd	Equity Method	40.00%

1 - EU - Europe; NA - North America; MSA - Middle and South America; AS - Asia; RoW - Rest of the World

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

Atypical and/or Unusual Transactions

In accordance with Consob Communication of July 28, 2006, during 2018 the F.I.L.A. Group did not undertake any atypical and/or unusual operations as defined by this communication, whereby atypical and/or unusual transactions refer to transactions which for size/importance, nature of the counterparties, nature of the transaction, method in determining the transfer price or time period (close to the period-end) may give rise to doubts in relation to: the correctness/completeness of the information in the financial statements, conflicts of interest, the safeguarding of the company's assets and the protection of non-controlling shareholders.

The Board of Directors
THE CHAIRMAN
Gianni Mion

Statement of the Manager in Charge and Corporate Bodies



F.I.L.A. S.p.A.
 Via XXV Aprile, 5
 20026 Pero (MI)

March 20, 2019

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

The undersigned Massimo Candela, as Chief Executive Officer, and Stefano De Rosa, as Manager in Charge of Financial Reporting of F.I.L.A. S.p.A., confirm, and also in consideration of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 38 of February 24, 1998:

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

of the administrative and accounting procedures for the preparation of the consolidated financial statements as at and ended December 31, 2018.

The assessment of the adequacy of the administrative-accounting procedures for the preparation of the consolidated financial statements at December 31, 2018 is based on a process defined by F.I.L.A. S.p.A. in accordance with the Internal Control - Integrated Framework model issued by the Committee of the Sponsoring Organisations of the Treadway Commission, a benchmark framework generally accepted at international level.

It is also declared that:

1. The Consolidated Financial Statements at December 31, 2018 of F.I.L.A. S.p.A.:
 - have been drawn up in conformity with the applicable IFRS endorsed by the European Union in conformity with Regulation (CE) No. 1606/2002 of the European Parliament and the Commission of 19 July 2002;
 - correspond to the underlying accounting documents and records;
 - provide a true and fair view of the financial position and results of operations of the issuer and of the other companies in the consolidation scope.
2. The Directors' Report includes a reliable analysis on the performance and operating result, as well as the situation of the issuer and of the companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

The Chief Executive Officer

Massimo Candela
 (signed in original)

Manager in Charge of
 Financial Reporting

Stefano De Rosa
 (signed in original)

F.I.L.A. - Fabbrica Italiana Lapis ed Affini Società per Azioni.

Sede Legale, Amministrativa e Commerciale:

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Informativa L. 196/2003 su sito internet www.fila.it



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



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

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

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the F.I.L.A. Group (the "group"), which comprise the statement of financial position as at 31 December 2018, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the F.I.L.A. Group as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

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

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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Società per azioni
Capitale sociale
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20124 Milano MI ITALIA



F.I.L.A. Group
Independent auditors' report
31 December 2018

Key audit matters

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

Recoverability of goodwill

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

Key audit matter	Audit procedures addressing the key audit matter
<p>The consolidated financial statements at 31 December 2018 comprise goodwill of €150.7 million, including €97.0 million allocated to the "Nord America" cash generating unit ("CGU"), €33.3 million to the "DOMS Industries Pvt Ltd" CGU and €12.5 million to the "Canson-Omyacolor Group" CGU, of which €1.6 million was reclassified from the goodwill allocated to the Omyacolor SA CGU.</p> <p>Specifically:</p> <ul style="list-style-type: none"> — as a result of the business combination of the Pacon Holding Company carried out through the subsidiary Dixon Ticonderoga Company in 2018, the group recognised goodwill of €73.4 million allocated to the "North America" CGU at 31 December 2018; — as a result of business combinations of the French Canson Group and the UK Daler-Rowney Lukas Group carried out in 2016, the group recognised goodwill allocated to the "Canson-Omyacolor Group" CGU (€10.9 million) and the "North America" CGU (€23.6 million) at 31 December 2018; — as a result of the business combination of the Indian company DOMS Industries Pvt Ltd. carried out in 2015, the group recognised goodwill of €33.3 million allocated to the "DOMS Industries Pvt Ltd" CGU at 31 December 2018. <p>The group tests the carrying amounts of goodwill for impairment at least annually and whenever there are indicators of impairment, by comparing them to the individual CGU's</p>	<p>Our audit procedures, which also involved our own specialists, included:</p> <ul style="list-style-type: none"> — understanding the process adopted for impairment testing approved by the parent's board of directors; — understanding the process adopted to prepare the forecasts from which the expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the assumptions used by the group to prepare the forecasts; — checking any discrepancies between the previous year forecast and actual figures, in order to check the accuracy of the estimation process; — checking the consistency of the expected cash flows used for impairment testing with those used for the forecasts and analysing the reasonableness of any discrepancies; — analysing the expected cash flows and main assumptions used to calculate the CGUs' value in use, especially the key assumptions, which include: the revenue increase in India, France and the United States, expected synergies and the calculation of the discount and long-term growth rates; — analysing the reasonableness of the valuation methods and key assumptions used by the group, and especially: <ul style="list-style-type: none"> - the application of the discounted cash flow model; - the criteria and parameters used to calculate the discount rate applied to the projected cash flows and the long-term growth rate;



F.I.L.A. Group
Independent auditors' report
31 December 2018

Key audit matter	Audit procedures addressing the key audit matter
<p>estimated recoverable amount, calculated by discounting the expected cash flows using the discounted cash flow model.</p> <p>Calculating the recoverable amount of goodwill requires significant estimates by directors. Specifically, this process has the following characteristics:</p> <ul style="list-style-type: none"> — valuation assumptions affected by the reference market trends, especially with reference to the US, UK and Indian markets, due to the specific economic and political conditions that are difficult to predict and unstable; — assumptions about the synergies expected from the business combinations mentioned above; — a high level of directors' judgement about the estimated long-term growth rate and the discount rate applied to the projected cash flows. <p>For the above reasons, we believe that the recoverability of the goodwill allocated to the "North America", "DOMS Industries Pvt Ltd" and "Canson-Omyacolor Group" CGUs is a key audit matter.</p>	<ul style="list-style-type: none"> - checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — comparing the group's market capitalisation to its reported equity; — assessing the appropriateness of the disclosures provided in the notes about goodwill and related impairment tests.

Inventories

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

Key audit matter	Audit procedures addressing the key audit matter
<p>The carrying amount of inventories at 31 December 2018 is €282.4 million, net of the allowance for inventory write-down of €8.5 million.</p> <p>Recognising and measuring inventories are a complex and structured process considering the various underlying activities and estimates, including taking into account the group's market sector and the related geographical stratification.</p> <p>Recognising and measuring inventories are complex and entail a high level of judgement by the directors as they are affected by many factors, including:</p> <ul style="list-style-type: none"> — the inventory management policy; 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — understanding the process for the recognition and measurement of inventories and the related IT environment and assessing the design and implementation of controls and procedures to assess the operating effectiveness of material controls; — performing substantive analytical procedures for the most significant discrepancies compared to the previous year figures and discussing the outcome with the relevant internal departments; — analysing inventory turnover and discussing the outcome with the relevant internal departments;



F.I.L.A. Group
 Independent auditors' report
 31 December 2018

Key audit matter	Audit procedures addressing the key audit matter
<ul style="list-style-type: none"> — requirement planning and integration with sales planning; — the sales' seasonality; — price volatility. <p>For the above reasons, we believe that the recognition and measurement of inventories are a key audit matter.</p>	<ul style="list-style-type: none"> — checking whether incoming and outgoing inventory items had been recorded on an accruals basis; — for a representative sample of purchase and sale invoices, checking whether inventory item quantities had been correctly recorded; — for a sample of inventory items, performing physical counts of quantities and reconciling them with the related accounting records; — analysing the reasonableness of the assumptions used to measure the allowance for inventory write-down through discussions with the relevant internal departments and checks of the supporting documentation; comparing the assumptions with historical figures and our knowledge of the group and its operating environment; — assessing the appropriateness of the disclosures provided in the notes about inventories.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

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

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

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



F.I.L.A. Group
Independent auditors' report
31 December 2018

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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



F.I.L.A. Group
Independent auditors' report
31 December 2018

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

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

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

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

On 20 February 2015, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2015 to 31 December 2023.

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

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

Report on other legal and regulatory requirements

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

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2018 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.



F.I.L.A. Group
Independent auditors' report
31 December 2018

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

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

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

Milan, 28 March 2019

KPMG S.p.A.

(signed on the original)

Domenico Bellini
Director of Audit

IV - Separate financial statements of F.I.L.A. S.p.A. at December 31, 2018

Separate financial statements of F.I.L.A. S.p.A.

Statement of Financial Position

<i>in Euro</i>		December 31, 2018	December 31, 2017
Assets		593,812,010	408,597,849
Non-Current Assets		371,768,798	305,375,988
Intangible Assets	Note 1	5,970,112	2,830,357
Property, Plant and Equipment	Note 2	9,327,617	9,341,021
Non-Current Financial Assets	Note 3	12,576,786	2,822,952
Investments	Note 4	337,139,276	284,950,722
Deferred Tax Assets	Note 5	6,755,007	5,430,935
Current Assets		222,043,212	103,221,861
Current Financial Asset	Note 3	42,687,951	46,032,358
Current Tax Assets	Note 6	3,067,686	2,929,583
Inventories	Note 7	29,071,865	28,123,593
Trade and Other Assets	Note 8	25,969,056	19,140,052
Cash and Cash Equivalents	Note 9	121,246,654	6,996,275
Liabilities and Equity		593,812,010	408,597,849
Equity	Note 12	265,689,281	168,281,639
Share Capital		46,799,406	37,261,144
Reserves		183,388,769	98,432,047
Retained Earnings		28,868,526	25,655,318
Profit (loss) for the year		6,632,580	6,933,130
Non-Current Liabilities		289,574,309	175,958,689
Non-Current Financial Liabilities	Note 13	284,278,035	171,255,704
Financial Instruments	Note 17	1,568,852	0
Post-Employment Benefits	Note 14	1,693,995	1,779,352
Provisions for Risks and Charges	Note 15	567,301	1,818,998
Deferred Tax Liabilities	Note 16	1,466,126	1,104,636
Current Liabilities		38,548,420	64,357,521
Current Financial Liabilities	Note 13	7,472,987	38,612,028
Provisions for Risks and Charges	Note 15	554,913	75,957
Current Tax Liabilities	Note 18	953,171	1,804,716
Trade and Other Liabilities	Note 19	29,567,349	23,864,820

Statement of Comprehensive Income

<i>in Euro</i>		December 31, 2018	December 31, 2017
Revenue from Sales and Service	Note 20	78,869,677	83,904,894
Other Revenue and Income	Note 21	11,436,764	3,175,211
Total Revenue		90,306,441	87,080,105
Raw Materials, Ancillary, Consumables and Goods	Note 22	(40,277,677)	(39,188,427)
Service costs and Use of third party assets	Note 23	(27,585,763)	(23,041,720)
Other Operating Costs	Note 24	(506,031)	(739,622)
Change in Raw Materials, Semi-Finished, Work-in-progress & Finished Prod.	Note 22	948,271	(1,329,148)
Personnel expenses	Note 25	(12,525,298)	(13,924,563)
Amortisation & Depreciation	Note 26	(2,656,179)	(1,684,718)
Recovery (Impairment losses) of trade receivables and other receivables	Note 27	434,230	(644,284)
Total Operating Costs		(82,168,447)	(80,552,481)
EBIT		8,137,994	6,527,624
Financial Income	Note 29	15,489,017	12,049,761
Financial Expense	Note 30	(14,870,028)	(7,687,866)
Recovery (Impairment loss) of financial assets	Note 31	(200,000)	0
Impairment loss of Investments	Note 32	(650,775)	(3,347,926)
Net financial expenses		(231,786)	1,013,969
Pre-Tax Profit/(loss)		7,906,208	7,541,593
Income Taxes			
Deferred Tax Income and Expenses			
Total Income Taxes	Note 33	(1,273,628)	(608,463)
Profit/(loss) for the Year		6,632,580	6,933,130
Other Comprehensive Income Items which may be reclassified subsequently in the Profit or Loss		(2,621,398)	1,052,547
Adjustment Fair value of Hedges		(2,621,398)	1,052,547
Other Comprehensive Income Items which may not be reclassified subsequently in the Profit or Loss		(4,031,961)	(40,995)
Actuarial Gains/(Losses) for Employee Benefits recorded directly in Equity		(47,463)	(56,493)
Income Taxes on income and expenses recorded directly in Equity		17,778	0
Costs directly accounted in Equity		(5,551,006)	0
Income Taxes on income and expenses recorded directly in Equity		1,548,730	15,498
Other Comprehensive Income Items (net of tax effect)		(6,653,359)	1,011,552
Total Comprehensive Income/(Expenses)		(20,779)	7,944,682

Statement of changes in Equity

STATEMENT OF CHANGES IN EQUITY								
	Share capital	Legal Reserve	Share Premium Reserve	IAS 19 Reserve	Other Reserves	Retained Earnings	Profit for the year	Equity
<i>Euro thousands</i>								
December 31, 2016	37,171	7,434	65,348	(311)	22,832	17,940	11,426	161,840
Changes in the year	90	-	-	-	-	-	0	90
Profit for the year	-	-	-	-	-	-	6,933	6,933
Other Changes in the year	-	-	-	(41)	3,171	-	-	3,130
Gains/(losses) recorded directly in equity	90	-	-	(41)	3,171	-	6,933	10,153
Allocation of the 2016 profit	-	-	-	-	-	11,426	(11,426)	-
Dividends	-	-	-	-	-	(3,711)	-	(3,711)
December 31, 2017	37,261	7,434	65,348	(352)	26,003	25,655	6,933	168,282
Profit for the year	-	-	-	-	-	-	6,633	6,633
Share Capital Increase	9,538	-	90,422	-	-	-	-	99,960
Charges relateto do Capital Increase (Net of Fiscal effect)	-	-	(4,002)	-	-	-	-	(4,002)
Other Changes in the year	-	-	-	(47)	(1,416)	-	-	(1,463)
Gains/(losses) recorded directly in equity	9,538	-	86,420	(47)	(1,416)	-	6,633	101,128
Allocation of the 2017 profit	-	-	-	-	-	6,933	(6,933)	-
Dividends	-	-	-	-	-	(3,720)	-	(3,720)
December 31, 2018	46,799	7,434	151,768	(399)	24,587	28,868	6,633	265,690

Statement of Cash Flows

<i>Euro thousands</i>		December 31, 2018	December 31, 2017
Profit (loss) for the Year		6,633	6,933
adjustments for non-cash items:		3,904	4,623
Amortisation & Depreciation	Note 1 - 2	2,656	1,685
Impairment losses of Trade Receivables & Inventory	Note 9	(434)	644
Post-Employment and Employee Benefits		926	2,278
Provisions for Risk and Charges		(773)	-
Exchange effect on Assets and Liabilities in Foreign Curr. of Commercial Transactions	Note 24	45	426
Gain/Loss on non - current asset Disposals	Note 21 - 24	(22)	(4)
Net Financial Income/Expenses	Note 29 - 30	(619)	(4,362)
Recovery (Impairment losses) of financial assets	Note 31	200	-
Impairment losses of Investments	Note 32	651	3,348
Income Taxes	Note 33	1,274	608
integrations for:		(23)	(3,735)
Income Taxes Paid	Note 7 - 18	(1,609)	(2,316)
Unrealised Exchange Rate Differences on Assets and Liabilities in Foreign Currencies	Note 28 - 29	164	(223)
Realised Exchange Rate Differences on Assets and Liabilities in Foreign Currencies	Note 28 - 29	1,422	(1,196)
Cash Flow from Operating Activities Before Changes in NWC		10,514	7,822
Current Financial Asset		(8,769)	(881)
Change in Inventories	Note 8	(868)	1,302
Change in Trade and Other Assets	Note 9	(7,344)	(1,318)
Change in Trade and Other Liabilities	Note 19	152	(870)
Change in Post-Employment and Employee Benefits	Note 14	(709)	5
Cash Flow from Operating Activities		1,745	6,941
Total Investment/Divestment in Intangible Assets	Note 1	(4,397)	(1,964)
Total Investment/Divestment in Property, Plant and Equipment	Note 2	(1,363)	(856)
Total Investment/Divestment of Investments measured at Cost	Note 4	(53,192)	5,556
Total Investment/Divestment in Other Financial Assets	Note 3	(3,110)	1,601
Dividends from Group companies		7,383	10,389
Interest Received		1,535	999
Cash Flow used in Investing Activities		(53,144)	15,725
Total Change in Equity	Note 12	98,050	(3,710)
Interest Paid	Note 29	(10,864)	(3,038)
Total Increase/Decrease in Loans and borrowing and Other Financial Liabilities	Note 13	87,463	(40,608)
Cash Flow used in Financing Activities		174,650	(47,356)
Other Non-Cash Items		429	65
NET CASH FLOW IN THE YEAR		123,679	(24,625)
Cash and Cash Equivalents net of Bank Overdrafts at beginning of the year		(5,432)	19,193
Cash and Cash Equivalents net of Bank Overdrafts at end of the year		118,247	(5,432)

1. Cash and cash equivalents at December 31, 2018 totalled Euro 121,247 thousand; current account overdrafts amounted to Euro 3,000 thousand net of relative interest.
2. Cash and cash equivalents at December 31, 2017 totalled Euro 6,996 thousand; current account overdrafts amounted to Euro 12,428 thousand net of relative interest.

<i>Euro thousands</i>	December 31, 2018	December 31, 2017
Opening Cash and Cash Equivalents	(5,432)	19,193
Cash and cash equivalents	6,996	19,193
Bank overdrafts	(12,428)	-
Closing Cash and Cash Equivalents	118,247	(5,432)
Cash and cash equivalents	121,247	6,996
Bank overdrafts	(3,000)	(12,428)

Reference should be made to the "Directors' Report" for comment and analysis.

Statement of Financial Position pursuant to CONSOB Resolution No. 15519 of July 27, 2006

<i>Euro thousands</i>		December 31, 2018	<i>of which:</i> Related Parties	December 31, 2017	<i>of which:</i> Related Parties
Assets		593,812		408,598	
Non-Current Assets		371,769		305,376	
Intangible Assets	Note 1	5,970		2,830	
Property, Plant and Equipment	Note 2	9,328		9,341	
Non-Current Financial Assets	Note 3	12,577	12,567	2,823	1,761
Investments	Note 4	337,139	337,109	284,951	284,921
Deferred Tax Assets	Note 5	6,755		5,431	
Current Assets		222,043		103,222	
Current Financial Asset	Note 3	42,688	42,610	46,032	45,680
Current Tax Assets	Note 6	3,068		2,930	
Inventories	Note 7	29,072	8,315	28,124	9,778
Trade and Other Assets	Note 8	25,969	12,554	19,140	5,720
Cash and Cash Equivalents	Note 9	121,247		6,996	
Liabilities and Equity		593,812		408,598	
Equity	Note 12	265,689		168,282	
Share Capital		46,799		37,261	
Reserves		183,389		98,432	
Retained Earnings		28,869		25,655	
Profit (loss) for the year		6,633		6,933	
Non-Current Liabilities		289,574		175,959	
Non-Current Financial Liabilities	Note 13	284,278		171,256	
Financial Instruments	Note 17	1,569		0	
Post-Employment Benefits	Note 14	1,694		1,779	
Provisions for Risks and Charges	Note 15	567		1,819	
Deferred Tax Liabilities	Note 16	1,466		1,105	
Current Liabilities		38,548		64,358	
Current Financial Liabilities	Note 13	7,473		38,612	
Provisions for Risks and Charges	Note 15	555		76	
Current Tax Liabilities	Note 18	953		1,805	
Trade and Other Liabilities	Note 19	29,567	4,283	23,865	4,150

Statement of Comprehensive Income pursuant to CONSOB Resolution No. 15519 of July 27, 2006

<i>Euro thousands</i>		December 31, 2018	<i>of which:</i> Related Parties	December 31, 2017	<i>of which:</i> Related Parties
Revenue from Sales and Service	Note 20	78,870	13,908	83,905	13,354
Other Revenue and Income	Note 21	11,437	10,988	3,175	2,764
TOTAL REVENUE		90,306		87,080	
Raw Materials, Ancillary, Consumables and Goods	Note 22	(40,278)	(18,274)	(39,188)	(17,908)
Services and Rent, Leases and Similar Costs	Note 23	(27,586)	(640)	(23,042)	(957)
Other Operating Costs	Note 24	(506)	(41)	(740)	
Change in Raw Materials, Semi-Finished, Work-in-progress & Finished Prod.	Note 22	948		(1,329)	
Personnel Costs	Note 25	(12,525)		(13,925)	
Amortisation & Depreciation	Note 26	(2,656)		(1,685)	
Recovery (Impairment losses) of Trade Receivables and Other Receivables	Note 27	434		(644)	
TOTAL OPERATING COSTS		(82,168)		(80,552)	
EBIT		8,138		6,528	
Financial Income	Note 29	15,489	12,856	12,050	11,762
Financial Expense	Note 30	(14,870)		(7,688)	
Recovery (Impairment losses) of Financial Assets					
Impairment losses of Investments	Note 32	(651)		(3,348)	
NET FINANCIAL EXPENSES		(232)		1,014	
PRE-TAX PROFIT/(LOSS)		7,906		7,542	
Income Taxes		(619)		(1,012)	
Deferred Tax Income and Charges		(654)		403	
TOTAL INCOME TAXES	Note 33	(1,274)		(608)	
PROFIT (LOSS) FOR THE YEAR		6,633		6,933	
Other Comprehensive Income Items which may be reclassified subsequently in the Profit or Loss		(2,621)		1,053	
Adjustment Fair value of Hedges		(2,621)		1,053	
Other Comprehensive Income Items which may not be reclassified subsequently in the Profit or Loss		(4,032)		(41)	
Actuarial Gains/(Losses) for Employee Benefits recorded directly in Equity		(47)		(56)	
Income Taxes and expenses recorded directly in Equity		18			
Costs directly accounted in Equity		(5,551)		15	
Income Taxes on income and expenses recorded directly in Equity		1,549			
Other Comprehensive Income Items (net of tax effect)		(6,653)		1,012	
Total Comprehensive Income/(expenses)		(21)		7,945	

Notes to the Separate Financial Statements of F.I.L.A. S.p.A.

Introduction

The Separate financial statements of the Parent F.I.L.A. S.p.A. (hereafter also “Parent” or “Company”) at December 31, 2018, prepared by the Board of Directors of F.I.L.A. S.p.A., were drawn up in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

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

For the separate financial statements of F.I.L.A. S.p.A. the first year of application of IFRS was 2013.

The separate financial statements of F.I.L.A. S.p.A. are comprised of the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes.

The presentation of these financial statements as at and for the year ended December 31, 2018, in line with the consolidated financial statements, is as follows:

- Statement of Financial Position: in accordance with IAS 1, the assets and liabilities must be classified between current and non-current or, alternatively, according to the liquidity order. The Company chose the classification between current and non-current;
- Statement of Comprehensive Income: IAS requires alternatively classification based on the nature or destination of the items. The Company chose the classification by nature of income and expenses;
- Statement of Changes in Equity: IAS 1 requires that this statement illustrates the changes in the year of each individual equity account or that it illustrates the nature of income and expenses recorded in the financial statements. The Company chose to utilise this latter in the statement, recovering the opening and closing amounts of in a statement within the Notes;
- Statement of Cash Flows: IAS 7 requires that the statement of cash flow includes the cash flows for the period between operating, investing and financing activities. The cash flows deriving from operating activities may be represented using the direct method or the indirect method. The Company decided to utilise the indirect method.

The financial statements of F.I.L.A. S.p.A. are accompanied by the Directors' Report, to which reference should be made in relation to the business activities, subsequent events and transactions with related parties, the statement of the cash flow, the reclassified income statement and the statement of financial position and the outlook.

The separate financial statements of F.I.L.A. S.p.A. were prepared in accordance with the general historical cost criterion.

During the year, no special circumstances arose requiring recourse to the exceptions allowed under IAS 1.

The preparation of the financial statements and the relative notes in application of IFRS require that management make estimates and assumptions. These estimates and relative assumptions are based on historical experience and other factors considered reasonable and were adopted to determine the carrying amount of the assets and liabilities which are not easily obtained from other sources, are reviewed periodically and the effects of each change are immediately reflected in the Profit or loss. However, as they concern estimates, it should be noted that the actual results may differ from such estimates reflected in the financial statements.

The estimates are used to value the allowance for impairment, depreciation and amortisation, impairment losses of assets, employee benefits, income taxes and other provisions.

The accounting policies utilised in the preparation of the financial statements and the composition and changes of the individual accounts are illustrated below.

For a better comparison of the data, the figures for the prior year were adjusted where necessary.

All amounts are expressed in thousands of Euro, unless otherwise stated.

Accounting Policies

Intangible assets

An intangible asset is a clearly identifiable non-monetary asset without physical substance, subject to control and capable of generating future economic benefits. They are recognised at acquisition cost where acquired separately and are capitalised at Fair Value at the acquisition date where acquired through business combinations.

The interest expense on loans required for the purchase and the development of intangible assets, which would not have been incurred if the investment had not been made, is not capitalised.

Intangible assets with indefinite useful life

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

This is not subject to amortisation but an impairment test is made at least annually on the carrying amount in the accounts. This test is made with reference to the “cash generating unit” to which the goodwill is allocated. An impairment loss on Goodwill is recorded where the recoverable amount of goodwill is lower than the carrying amount; the carrying amount is the higher between the Fair Value of a cash generating unit, less cost to sell, and the value in use, represented by the present value of the estimated cash flows for the years of operation of the cash generating units and deriving from its disposal at the end of the useful life.

The principal assumptions adopted in the determination of the value in use of the “cash generating units”, or rather the present value of the estimated future cash flows which is expected to derive from the continuing use of the activities, relates to the discount rate and the growth rate.

In particular, the F.I.L.A. Group utilised the discount rate which it considers correctly expresses the market valuations, at the date of the estimate, of the present value of money and the specific risks related to the individual cash generating units.

The operating cash flow forecasts derive from the most recent budgets and long-term plans prepared by the F.I.L.A. Group.

The cash flow forecasts refer to current business conditions, therefore they do not include cash flows related to events of a non-recurring nature.

The forecasts are based on reasonableness and consistency relating to future general expenses, expected capital investments, financial conditions, as well as macro-economic assumptions, with particular reference to increases in product prices, which take into account expected inflation rates.

The results of the “impairment tests” did not generate any impairment losses in the previous year.

In the event of an impairment loss, the carrying amount of Goodwill may not be restated. Reference should be made to Note 1 of the separate and consolidated financial statements of the Group for further information on the indicators utilized for the impairment test at December 31, 2018.

Intangible assets with finite useful lives

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

The amortisation policies adopted by the Group provide for:

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

Research and development costs

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

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

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

Property, plant and equipment

Property, plant and equipment are measured at purchase cost, net of accumulated depreciation and any impairment loss. The cost includes all charges directly incurred for the purchase and/or production. The cost includes all charges directly incurred for the purchase and/or production. Where an asset relating to property, plant and equipment is composed of various components with differing useful lives, these components are recorded separately (significant components) and depreciated separately. Property, plant and equipment acquired through business combinations are recognised in the financial statements at fair value at the acquisition date.

The expense incurred for maintenance and repairs is directly charged to the profit or loss in the year in which they are incurred. The costs for improvements, modernisation and transformation of an incremental nature of property, plant and equipment are allocated to the asset. The purchase price or construction cost is net of public grants which are recognised when the conditions for their concession are confirmed. At the date of the present financial statements there are no public grants recorded as a reduction of “Property, Plant and Equipment”.

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

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

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

Finance leases

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

Impairment losses of non-financial assets

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

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

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

Equity investments

Investments in companies represent investments in the share capital of enterprises.

Investments in companies are carried at acquisition or subscription cost, adjusted for any impairment losses, and measured under the cost method. Where the reasons for the impairment loss no longer exist, the original carrying amount is restated.

Financial assets

Financial assets are initially recognised at Fair Value.

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

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

Impairment of financial assets

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

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

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

Cash and cash equivalents

Costs related to operating leases are recognised on a straight-line basis over the duration of the lease. They are measured at fair value and the relative changes are recorded in the Profit or loss. Bank overdrafts are classified under “Current Financial Liabilities”.

Trade receivables and other Assets

Trade receivables and other assets are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. They are impaired to reflect estimated impairment losses, which are recognised to profit or loss. When, in subsequent periods, the reasons for the impairment loss no longer exist, the amount of the assets is restated up to the amount deriving from the application of the amortised cost where no impairment loss had been applied. The allowance for impairment is recognised to state receivables at realisable amount, including impairment losses for any indicators of an impairment losses of trade receivables. The impairment losses, which are based on the most recent information and on the best estimates of the Directors, are made so that the assets are reduced to the present value of the expected future cash flows. The allowance for impairment is recorded as a direct reduction of trade receivables and other assets. These provisions are classified in the profit or loss account “Impairment losses”; the same classification was used for any utilisations and impairment losses on trade receivables.

Inventories

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

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

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

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

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

Distribution costs were excluded from purchase cost and production cost.

Provisions for risks and charges

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

Provisions are recorded at the value representing the best estimate of the amount that the company would pay to discharge the obligation or transfer it to a third party. When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is discounted. The rate used in the determination of the present value of the liability reflects the current market values and includes the further effects relating to the specific risk associated with each liability.

The provisions are periodically updated to reflect the changes in the estimate of the costs, of the time period and of the discount rate; the revisions of estimates are recorded in the same Profit or loss accounts in which the provision was recorded, or when the liability relates to an asset, against the asset account to which it refers.

The notes illustrate the contingent liabilities represented by: (i) possible obligations (but not probable) deriving from past events, whose existence will be confirmed only on the occurrence or otherwise of one or more uncertain future events not fully under the control of the entity; (ii) current obligations deriving from past events whose amount cannot be reliably estimated or whose fulfilment will likely not generate a charge.

Restructuring provisions

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

Employee benefits

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

Defined contribution plans

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

Defined benefit plans

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

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

- ▶ Post-Employment Benefits vested at December 31, 2006 is considered a defined benefit plan as per IAS 19. The benefits guaranteed to employees, under the form of Post-Employment Benefits, paid on the termination of employment, are recognised in the period the right matures.
- ▶ Post-Employment Benefits vested from January 1, 2007 are considered a defined contribution plan and therefore the contributions matured in the period were fully recognised as a cost and

recorded as a payable in the account “Post-Employment Benefits”, after deduction of any contributions already paid.

Other long-term employee benefits

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

Short-term employee benefits

Short-term employee benefits are recorded as non-discounted expenses when the services to which they arise are provided.

The Group records a liability for the amount that it expects to pay in the presence of a present obligation, legal or constructive, as a consequence of past events and for which the obligation can be reliably estimated.

Financial liabilities

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

Financial instruments

Financial instruments are initially recognised at Fair Value and, subsequent to initial recognition, are measured on the basis of classification, as per IAS 39.

For financial assets, this is applied according to the following categories:

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

For financial liabilities however, only two categories are established:

- *Financial liabilities at fair value through profit or loss;*
- *Liabilities at amortised cost.*

In compliance with IAS 39, the derivative financial instruments are recorded in accordance with the “hedge accounting” method only when: (i) at the beginning of the hedge, the formal designation and documentation relating to the hedge exists and it is presumed that the hedge is effective; (ii) such effectiveness can be reliably measured; (iii) the hedge is effective over the accounting periods for which it was designated.

The effectiveness of hedges is documented both at the beginning of the transaction and periodically (at least at the annual or interim reporting dates).

When the hedging derivatives cover the risk of change in the fair value of the instruments subject to the hedge (fair value hedge), the derivatives are recorded at fair value with the effects in profit or loss. When the derivatives hedge the risk of changes in the cash flows of the hedge instrument (cash flow hedge), the effective part of the changes in the fair value of the derivatives is recognized to the statement of comprehensive income and presented in the hedging reserve. The ineffective part of the changes in the fair value of the derivative instrument is immediately recognised in profit or loss.

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

The methods for the calculation of the fair value of these financial instruments, for accounting or disclosure purposes, are summarized below with regards to the main categories of financial instruments:

- *Derivative financial instruments: the pricing models are adopted based on the market values of the interest rates;*

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

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

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

Trade and other liabilities

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

Current, deferred and other taxes

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

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

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

Deferred tax assets and liabilities are determined in accordance with the global assets/liability method and are calculated on the basis of the temporary differences arising between the carrying amounts of the assets and liabilities and the corresponding values recognised for tax purposes, taking into account

the tax rate within current fiscal legislation for the years in which the differences will reverse, with the exception of goodwill not fiscally deductible and those differences deriving from investments in subsidiaries for which it is not expected to be reversed in the foreseeable future, and on the tax losses to be carried forward.

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

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

Revenue and costs

Revenue recognition

The revenue and income are recorded, as per IFRS 15, net of returns, discounts, rebates and premiums as well as direct taxes related to the sale of products and services. In particular, the revenue from the sale of products is recognized when control of the assets is transferred to the buyer. This, according to normal contractual conditions, occurs on shipping of the goods.

Recognition of costs

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

Financial income and expense

Financial income includes interest income on liquidity invested, dividends received and income from the sale of available-for-sale financial assets. Interest income is recorded in the profit or loss on an accruals basis utilising the effective interest method. Dividend income is recorded when the right of the Group to receive the payment is established which, in the case of listed securities, corresponds to the coupon date. Financial income include interest on loans, discounting of provisions, dividends distributed on reimbursable preference shares, changes in the fair value of financial assets recorded through profit or loss and impairment losses on financial assets. Finance expenses are in the profit or loss using the effective interest method. Currency transactions are recorded as the net amount.

Dividends

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

Earnings per share

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

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

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

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

Use of estimates

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

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

- Measurement of receivables: trade receivables are adjusted by the allowance for impairment, taking into account the effective recoverable amount. The calculation of the impairment losses requires the Directors to make valuations based on the documentation and the information available relating to the solvency of the clients, and from market and historical experience;
- Measurement of goodwill and intangible assets with indefinite useful life: in accordance with the accounting principles applied by the Group, goodwill and intangible assets are subject to an annual verification (“impairment test”) in order to verify whether a reduction in value has taken place. This verification requires the Directors to make valuations based on the information available within the Group and from the market, as well as from historical experience; this depends in addition to factors which may change over time, affecting the valuations and estimates made by Directors. In addition, when it is determined that there may be a potential reduction in value, the Group determines this through using the most appropriate technical valuation methods available;
- Risk provisions: the identification of the existence of a present obligation (legal or constructive) in some circumstances may be difficult to determine. The Directors evaluate these factors case-by-case, together with the estimate of the amount of the economic resources required to comply with the obligation. When the Directors consider that a liability is only possible, the risks are disclosed in the notes under the section on commitments and risks, without any provision;
- Measurement of closing inventories: inventories of products which are obsolete or slow moving are periodically subject to valuation tests and written down where the recoverable value is lower than the carrying amount. The write-downs are made based on assumptions and estimates of management deriving from experience and historic results;

- ▶ Pension plans and other post-employment benefits: the companies of the Group participate in pension plans and other post-employment benefits in various countries; in particular in Italy, Germany, the United States, France, Canada and Mexico. Management utilises multiple statistical assumptions and valuation techniques with the objective of anticipating future events for the calculation of the charges, liabilities and assets relating to these plans. The assumptions relate to the discount rate, the expected return of the plan assets and the rate of future salary increases. In addition, the actuarial consultants of the Group utilise subjective factors, for example mortality and employee turnover rates;
- ▶ The calculation of deferred tax assets is supported by a recoverability plan prepared on the basis of the assumptions which the Directors consider reasonable.

Introduction

The company F.I.L.A. S.p.A. operates in the creativity tools market, producing writing and design objects such as crayons, paints, modelling clay and pencils etc..

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

The separate financial statements of the F.I.L.A. S.p.A. were prepared in accordance with International Financial Reporting Standards (IFRS) endorsed by the European Union.

The information relating to the shareholding structure following the share capital increase fully subscribed in December 2018 is shown below:

For further details regarding the share capital increase, see Note 12 – Share capital and equity to the F.I.L.A. Group’s consolidated financial statements as at and for the year ended December 31, 2018.

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

Shareholder	Ordinary shares	%
Pencil S.p.A.	13,694,564	32.00%
Venice European Investment Capital S.p.A.	3,875,832	9.06%
Sponsor	361,291	0.84%
Market Investors	24,857,197	58.10%
Total	42,788,884	

Shareholder	Ordinary shares	Class B Shares	Total	Voting rights
Pencil S.p.A.	13,694,564	8,081,856	21,776,420	56.60%
Venice European Investment Capital S.p.A.	3,875,832		3,875,832	5.78%
Space Holding Srl	361,291		361,291	0.54%
Market Investors	24,857,197		24,857,197	37.08%
Total	42,788,884	8,081,856	50,870,740	

These financial statements as at and for the year ended December 31, 2018, are presented in Euro, the functional currency in which the Company operates and comprise the Statement of Financial Position,



the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes and are accompanied by the Directors' Report.

Changes of accounting standards

F.I.L.A. S.p.A. has adopted IFRS 15 and IFRS 9 from January 1, 2018. The other new standards entering into force from January 1, 2018 did not have significant impacts on the Group consolidated financial statements in accordance with the initial application methods selected. The comparative information has not been restated. The statement of financial position and the statement of comprehensive income with an indication of the effects of the application of IFRS 9 and IFRS 15 are presented below. There was no material impact on F.I.L.A. S.p.A.'s statement of cash flows at December 31, 2018.

Statement of Financial Position

<i>in Euro</i>	December 31, 2018 Ex-post Adjustments	IFRS Adjustments	December 31, 2018 Ex-ante Adjustments
Assets	593,812	250	594,062
Non-Current Assets	371,769	(80)	371,691
Intangible Assets	5,970		5,970
Property, Plant and Equipment	9,328		9,328
Non-Current Financial Assets	12,577		12,577
Investments	337,139		337,139
Deferred Tax Assets	6,755	(80)	6,675
Current Assets	222,043	330	222,373
Current Financial Asset	42,688	200	42,888
Current Tax Assets	3,068		3,068
Inventories	29,072		29,072
Trade and Other Assets	25,969	130	26,099
Cash and Cash Equivalents	121,247		121,247
Liabilities and Equity	593,812	250	594,062
Equity	265,689	250	265,939
Share Capital	46,799		46,799
Reserves	183,389		183,389
Retained Earnings	28,869	576	29,445
Profit (Loss) for the year	6,633	(326)	6,307
Non-Current Liabilities	289,574	-	289,574
Non-Current Financial Liabilities	284,278		284,278
Financial Instruments	1,569		1,569
Post-Employment Benefits	1,694		1,694
Provisions for Risks and Charges	567		567
Deferred Tax Liabilities	1,466		1,466
Current Liabilities	38,548	-	38,547
Current Financial Liabilities	7,473		7,473
Provisions for Risks and Charges	555		555
Current Tax Liabilities	953		953
Trade and Other Liabilities	29,567		29,567

Statement of Comprehensive Income

<i>Euro thousand</i>	December 31, 2018 Ex-post Adjustments	IFRS Adjustments	December 31, 2018 Ex-ante Adjustments
Revenue from Sales and Service	78,870	3,655	82,525
Other Revenue and Income	11,437	-	11,437
Total Revenue	90,306	3,655	93,962
Raw Materials, Ancillary, Consumables and Goods	(40,278)	-	(40,278)
Services and Rent, Leases and Similar Costs	(27,586)	(3,388)	(30,974)
Other Operating Costs	(506)	-	(506)
Change in Raw Materials, Semi-Finished, Work-in-progress & Finished Prod.	948	-	948
Personnel Costs	(12,525)	-	(12,525)
Amortisation & Depreciation	(2,656)	-	(2,656)
Recovery (impairment losses) of trade receivables and other receivables	434	(497)	(63)
Total Operating Costs	(82,168)	(3,885)	(86,054)
EBIT	8,138	(230)	7,908
Financial Income	15,489	-	15,489
Financial Expense	(14,870)	(267)	(15,137)
Recovery (impairment losses) of financial assets	(200)	200	-
Impairment losses of Investments	(651)	-	(651)
Net financial expenses	(232)	(67)	(299)
Pre-Tax Profit (loss)	7,906	(297)	7,609
Income Taxes	(619)	-	(619)
Deferred Tax Income and Expenses	(654)	(29)	(683)
Total Income Taxes	(1,274)	(29)	(1,303)
Profit (loss) for the Year	6,633	(326)	6,307
Other Comprehensive Income Items which may be reclassified subsequently in the Profit or Loss account	(2,621)	-	(2,621)
Adjustment Fair value of Hedges	(2,621)	-	(2,621)
Other Comprehensive Income Items which may not be reclassified subsequently in the Profit or Loss	(4,032)	-	(4,032)
Actuarial Gains/(Losses) for Employee Benefits recorded directly in Equity	(47)	-	(47)
Income Taxes on income and expenses recorded directly in Equity	18	-	18
Costs directly accounted in Equity	(5,551)	-	(5,551)
Income Taxes on income and expenses recorded directly in Equity	1,549	-	1,549
Other Comprehensive Income Items (net of tax effect)	(6,653)	-	(6,653)
Total Comprehensive Income/(Expenses)	(21)	(326)	(347)

Note 1 – Intangible assets

Intangible assets at December 31, 2018 amount to Euro 5,970 thousand (Euro 2,830 thousand at December 31, 2017) and consist only of intangible assets with definite useful lives.

The table below shows the changes in the year.

Note 1 - INTANGIBLE ASSETS WITH FINITE LIFE					
	Industrial Patents & Intellectual Property Rights	Concessions, Licenses, Trademarks & Similar Rights	Construction in progress	Other Intangible Assets	Total
<i>Euro thousands</i>					
Change in Historical Cost					
December 31, 2016	190	3,034	365	2,243	5,832
Increases in the year	-	49	1,642	273	1,964
Increases (Investments)	-	49	1,642	273	1,964
December 31, 2017	190	3,083	2,007	2,516	7,796
Increases in the year	10	17	1,352	3,018	4,396
Increases (Investments)	10	17	3,068	1,302	4,396
Reclassifications	-	-	(1,716)	1,716	-
December 31, 2018	200	3,100	3,359	5,534	12,193
Change in Amortization					
December 31, 2016	(136)	(2,627)	-	(2,020)	(4,783)
Increases in the year	(11)	(80)	-	(91)	(182)
Amortization in Year	(11)	(80)	-	(91)	(182)
December 31, 2017	(147)	(2,707)	-	(2,111)	(4,965)
Increases in the year	(10)	(73)	-	(1,174)	(1,257)
Amortization in Year	(10)	(73)	-	(1,174)	(1,257)
December 31, 2018	(157)	(2,780)	-	(3,285)	(6,222)
Carrying Amount at December 31, 2016	54	407	365	223	1,049
Carrying Amount at December 31, 2017	43	376	2,007	405	2,830
Carrying Amount at December 31, 2018	43	320	3,359	2,249	5,970
Change 2017 - 2018	0	(56)	1,352	1,844	3,140

Industrial patents and intellectual property rights amount to Euro 43 thousand at December 31, 2018 (Euro 43 thousand at December 31, 2017).

The average residual useful life of the industrial patents and intellectual property rights recorded in the financial statements at December 31, 2018, is 5 years.

Concessions, licenses, trademarks and similar rights amount to Euro 320 thousand at December 31, 2018 (Euro 376 thousand at December 31, 2017) and include the costs incurred for the registration and acquisition of trademarks necessary for the marketing of F.I.L.A. products.

Their average residual useful life recorded in the financial statements at December 31, 2018 is 3 years.

“Construction in Progress” totalled Euro 3,359 thousand at December 31, 2018 (Euro 2,007 thousand at December 31, 2017) and include costs relating to the capitalisation of software licenses owned for the SAP system, although not activated in 2018, in addition to consultancy costs incurred for the roll out and development of the Group ERP.

Other intangible assets amount to Euro 2,249 thousand at December 31, 2018 (Euro 405 thousand at December 31, 2017) and include costs relating to the capitalization of the software licenses related to the SAP system activated in 2018 and the consultancy and personnel costs incurred to implement and develop the Group’s ERP system. The average residual useful life of other intangible assets recorded in the financial statements at December 31, 2018, is 3 years.

There are no intangible assets whose usage is subject to restrictions (for further details, reference should be made to the “Directors’ Report - Commitments and Guarantees”).

Note 2 - Property, plant and equipment

At December 31, 2018, property, plant and equipment amounted to Euro 9,328 thousand (Euro 9,341 thousand at December 31, 2017).

The table below shows the changes in the year:

Note 2 - PROPERTY, PLANT AND EQUIPMENT							
<i>Euro thousands</i>	Land	Buildings	Plant and Machinery	Industrial & Commercial Equipment	Other Assets	Construction in progress	Total
Change in Historical Cost							
December 31, 2016	1,977	9,573	16,460	8,531	1,150	902	38,593
Increases in the year	-	0	1,364	312	76	(891)	861
Increases (Investments)	-	0	534	240	76	11	861
Internal work capitalised	-	-	830	72	-	(902)	-
Current Financial Asset	-	-	(33)	(22)	0	-	(55)
Decreases (Divestments)	-	-	(33)	(22)	0	-	(55)
December 31, 2017	1,977	9,573	17,791	8,821	1,226	11	39,399
Increases in the year	-	-	178	145	38	1,026	1,387
Increases (Investments)	-	-	151	132	38	1,066	1,387
Internal work capitalised	-	-	27	14	-	(41)	-
Decrease in the year	-	-	(44)	(3)	-	-	(48)
Decreases (Divestments)	-	-	(44)	(3)	-	-	(48)
December 31, 2018	1,977	9,573	17,791	8,822	1,226	11	39,399
Change in Accumulated Depreciation							
December 31, 2016		(6,498)	(13,057)	(8,180)	(875)		(28,610)
Increases in the year		(369)	(838)	(219)	(77)		(1,503)
Depreciation in Year		(369)	(838)	(219)	(77)		(1,503)
Decreases in the year		-	33	22	0		55
Decreases (Divestments)		-	33	22	0		55
December 31, 2017		(6,867)	(13,862)	(8,377)	(952)		(30,058)
Increases in the year		(369)	(726)	(227)	(77)		(1,399)
Depreciation in Year		(369)	(726)	(227)	(77)		(1,399)
Decreases in the year		-	44	3	-		48
Decreases (Divestments)		-	44	3	-		48
December 31, 2018		(7,236)	(14,544)	(8,601)	(1,029)		(31,409)
Carrying Amount at December 31, 2016	1,977	3,075	3,403	351	275	902	9,983
Carrying Amount at December 31, 2017	1,977	2,706	3,929	445	274	11	9,341
Carrying Amount at December 31, 2018	1,977	2,337	3,381	363	235	1,037	9,328
Change 2017 - 2018	-	(369)	(548)	(82)	(39)	1,025	(12)

Land at December 31, 2018, amounting to Euro 1,977 thousand (Euro 1,977 thousand at December 31, 2017), is comprised of land adjacent to the building owned at the production site in Rufina Scopeti (Florence, Italy).

Buildings at December 31, 2018 totalling Euro 2,337 thousand (Euro 2,706 thousand at December 31, 2017) concern the company's buildings located in Rufina Scopeti (Florence, Italy). During the year there were no improvements made to buildings.

Plant and machinery amounts to Euro 3,381 thousand at December 31, 2018 (Euro 3,929 thousand at December 31, 2017) and mainly includes investments in machinery for the production plant at Rufina Scopeti (Florence, Italy).

At the same time, the account increased due to investment in new plant and machinery of the current production capacity and to streamline production (Euro 178 thousand).

Industrial and commercial equipment to Euro 363 thousand at December 31, 2018 (Euro 445 thousand at December 31, 2017) and mainly relates to investments in production moulds and the updating of the production plant at Rufina Scopeti (Florence, Italy).

Other assets amount to Euro 235 thousand at December 31, 2018 (Euro 274 thousand at December 31, 2017) and include furniture and office equipment, Electronic office equipment and motor vehicles.

Construction in progress amounts to Euro 1,037 thousand at December 31, 2018 and mainly include the costs incurred for investments in new plant and machinery not yet operational at the reporting date, intended to expand current production capacity and increase the efficiency of the production process at the Rufina plant.

Note 3 – Financial Assets

Financial assets amount to Euro 55,265 thousand at December 31, 2018 (Euro 48,855 thousand at December 31, 2017).

The breakdown of the account in 2018 is as follows:

Note 3.A - FINANCIAL ASSETS					
<i>Euro thousands</i>		Loans and Receivables - Subsidiaries	Derivative Financial Instruments	Other Financial Assets - Third Parties	Total
December 31, 2017		47,441	1,053	361	48,855
	non-current portion	1,761	1,053	9	2,823
	current portion	45,680	-	352	46,032
December 31, 2018		54,976	-	288	55,265
	non-current portion	12,567	-	9	12,576
	current portion	42,409	-	278	42,688
Change		7,535	(1,053)	(73)	6,410
	non-current portion	10,806	(1,053)	0	9,753
	current portion	(3,270)	-	(73)	(3,343)

The account “Loans and Receivables - subsidiaries -non-current portion” includes:

- Loans granted in favour of FILA Stationery O.O.O. (Russia) for Euro 668 thousand, as conversion of the commercial payable to the parent;
- Loan granted in favour of FILA SA PTY Ltd. (South Africa) for Euro 1,005 thousand, as conversion of the commercial payable to the parent;
- Loans granted in favour of Daler Rowney Ltd. (United Kingdom) for Euro 3,500 thousand in 2017 and 2018. The amount includes Euro 119 thousand interest reclassified to current assets. The loan vests interest at a variable rate equal to Euribor at 3 months, plus a spread of 350 basis points (floor 0);
- Loans granted to Canson Brasil I.P.E. Ltda (Brazil – former Licyn Mercantil Industrial Ltda) of Euro 3,430 thousand in the years 2012-2016. The loan vests interest at a variable rate equal to Euribor at 6 months, plus a spread of 280 basis points;
- Loans granted to FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey) of Euro 185 thousand in 2017. The loan bears interest at a variable rate equal to the three-month Euribor, plus a spread of 300 basis points;
- Loans granted to Dixon Ticonderoga (U.S.A.) of Euro 3,611 thousand in 2018. The loan vests interest at a variable rate equal to Euribor at 3 months, plus a spread of 300 basis points (floor 0);
- Loans granted to Industria Maimeri (Italy) of Euro 169 thousand in 2014. The loan vests interest at a variable rate equal to Euribor at 6 months, plus a spread of 200 basis points;

- ▶ Recognition of a loss allowance (IFRS 9) on the above loans, calculated on the basis of their average term (three years) and country risk, in the amount of Euro 200 thousand.

The account “Loans and Receivables - subsidiaries -current portion” includes:

- ▶ the current portion of the non interest-bearing loan, granted to Industria Maimeri S.p.A. (Italia) in 2014 of Euro 850 thousand;
- ▶ the current portion, for a total of Euro 34,724 thousand, of loans issued in favour of Canson Sas (France – Euro 17,969 thousand), Eurholdham Usa Inc. (U.S.A. – Euro 10,153 thousand), Canson Inc. (U.S.A. – Euro 3,652 thousand), Canson Australia Pty Ltd. (Australia – Euro 1,619 thousand) and Lodi 12 Sas (France - Euro 418 thousand). The amounts are reported net of partial repayments in 2018 totalling Euro 1,000 thousand. The amount includes Euro 913 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 3 months, plus a spread of 375 basis points;
- ▶ the current portion of the loan, amounting to Euro 3,051 thousand, granted to the subsidiary Canson Brasil I.P.E. Ltda (Brazil - former Licyn Mercantil Industrial Ltda). The amount includes Euro 286 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 3 months, plus a spread of 350 basis points (floor 0);
- ▶ the current portion of the loan, amounting to Euro 1,242 thousand, granted to FILA SA PTY Ltd. (South Africa). The amount includes Euro 68 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 3 months, plus a spread of 275 basis points;
- ▶ the current portion of the loan, amounting to Euro 98 thousand, granted to FILA Stationary O.O.O. (Russia). The amount includes Euro 63 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 3 months, plus a spread of 275 basis points;
- ▶ Loans granted in favour of FILA Stationary O.O.O. (Russia) for Euro 750 thousand in 2017. The loan vests interest at a variable rate equal to Euribor at 3 months, plus a spread of 375 basis points (floor 0);
- ▶ the current portion of the loan, amounting to Euro 57 thousand, granted to Industria Maimeri S.p.A. (Italy) for a total of Euro 225 thousand. The amount includes Euro 1 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 6 months, plus a spread of 200 basis points;
- ▶ the current portion of the loan, amounting to Euro 407 thousand, granted to Industria Maimeri S.p.A. (Italia). The amount includes Euro 7 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 3 months, plus a spread of 220 basis points;

- ▶ the current portion of the loan, amounting to Euro 173 thousand, granted to FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey) in 2016. The amounts are reported net of partial repayments in 2017 totalling Euro 37 thousand. The amount includes Euro 43 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 6 months, plus a spread of 280 basis points;
- ▶ the current portion of the loan, amounting to Euro 239 thousand, granted to FILA Art Product AG (Switzerland) in 2017. The loan vests interest at a variable rate equal to Euribor at 6 months, plus a spread of 250 basis points;
- ▶ the current portion of the loan, amounting to Euro 248 thousand, granted to Dixon Ticonderoga (USA) totalling Euro 3,801 thousand in 2018. The amount includes Euro 58 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 3 months, plus a spread of 300 basis points (floor 0);
- ▶ the current portion of the loan, amounting to Euro 630 thousand, granted to Fila Art & Craft (Israel) in 2018. The amount includes Euro 10 thousand of accrued interest. The loan vests interest at a variable rate equal to Euribor at 3 months, plus a spread of 270 basis points.

The residual loans at December 31, 2017 issued to FILA Stationary O.O.O. (Russia) for Euro 50 thousand, Canson SAS (France) for Euro 1,000 thousand, Industria Maimeri S.p.A. (Italy) for Euro 100 thousand and FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey) for Euro 37 thousand have been partially repaid.

“Other Financial Assets Third Parties” of Euro 288 thousand (Euro 361 thousand at December 31, 2017) include:

- ▶ deposits paid to third parties as contractual guarantees for the provision of services and goods (Euro 9 thousand);
- ▶ A loan disbursed in 2017 to Gianni Maimeri, a non-controlling shareholder of Industria Maimeri S.p.A., in the amount of Euro 276 thousand. In 2018 the outstanding loan was extended until a new maturity date. The maturity date was extended for Euro 270 thousand rather than Euro 350 thousand due to the partial repayment of Euro 80 thousand. The amount includes Euro 8 thousand of accrued interest. The loan vests interest at a fixed rate of 200 basis points.

“Derivative Financial Instruments” relate to the IRS on the loan contracted in 2016 by F.I.L.A. S.p.A., which were thus unwound when it was repaid. Considering that the accounting treatment adopted was that for derivative hedging instruments (hedge accounting), the settlement of the IRS’ opened for Euro

1,053 thousand was entirely offset by the simultaneous elimination of the equity reserve established to incorporate the fair value changes.

Details on the timing of cash flows and financial assets at December 31, 2018 are illustrated in the following table:

Note 3.B - FINANCIAL ASSETS																
Description	General information						Amount					Guarantees Received	Guarantees Granted			
	Amount		Total	Year	Currency	Country	Interest		Current Financial Assets		Non-Current Financial Assets					
	Principal	Interest					Variable	Spread	2019	2020	2021			2022	After 2022	
<i>Euro thousands</i>																
Security Deposits	9	-	9	2004-2015	EUR	Italy	0%	0.00%	-	-	-	-	-	9	None	None
Loan to third parties	270	8	278	2015	EUR	Italy	0%	2.00%	278	-	-	-	-	-	None	None
Loan Canson Sas (France)	17,969	158	18,127	2016	EUR	France	Euribor 3 month	3.75%	18,127	-	-	-	-	-	None	None
Loan Lodi 12 Sas (France)	418	4	422	2016	EUR	France	Euribor 3 month	3.75%	422	-	-	-	-	-	None	None
Loan Eurholdham USA Inc. (U.S.A.)	10,153	705	10,858	2016	EUR	U.S.A.	Euribor 3 month	3.75%	10,858	-	-	-	-	-	None	None
Loan Canson Australia (Australia)	1,619	14	1,633	2016	EUR	Australia	Euribor 3 month	3.75%	1,633	-	-	-	-	-	None	None
Loan Canson Inc. (U.S.A.)	3,652	32	3,684	2016	EUR	U.S.A.	Euribor 3 month	3.75%	3,684	-	-	-	-	-	None	None
Loan Daker Rowney Ltd. (UK)	3,500	119	3,619	2016-2017	EUR	UK	Euribor 3 month	3.50%	119	1,000	2,500	-	-	-	None	None
Loan Industria Maineri S.p.A. (Italy)	850	-	850	2014-2015	EUR	Italy	0%	0.00%	850	-	-	-	-	-	None	None
Loan Industria Maineri S.p.A. (Italy)	400	7	407	2014	EUR	Italy	Euribor 3 month	2.20%	407	-	-	-	-	-	None	None
Loan Industria Maineri S.p.A. (Italy)	225	1	226	2018	EUR	Italy	Euribor 6 month	2.00%	57	56	56.25	56.25	-	-	None	None
Loan FILA Stationery and Office Equipment Industry Ltd. Co. (Turkey)	316	43	358	2015	EUR	Turkey	Euribor 6 month	2.80%	173	185	-	-	-	-	None	None
Loan Dixon Tecnologica (U.S.A.)	3,801	58	3,859	2018	EUR	U.S.A.	Euribor 3 month	3.00%	248	475	666.00	950.00	1,520	-	None	None
Loan F.I.L.A. Argentina (Argentina)	-	21	21	2018	USD	Argentina	Libor 3 month	3.30%	21	-	-	-	-	-	None	None
Loan Canson Brasil I.P.E. Ltda (Brazil)	3,430	270	3,700	2012	EUR	Brazil	Euribor 6 month	2.80%	270	3,430	-	-	-	-	None	None
Loan Canson Brasil I.P.E. Ltda (Brazil)	2,765	16	2,781	2012	EUR	Brazil	Euribor 3 month	3.50%	2,781	-	-	-	-	-	None	None
Loan FILA Stationery O.O.O. (Russia)	1,453	63	1,516	2013-2017	EUR	Russia	Euribor 3 month 2.80% - 3.75%	3.50%	848	35	70	70	493	-	None	None
Loan FILA S.A. (Pty) Ltd (South Africa)	2,179	68	2,247	2014-2017	EUR	South Africa	Euribor 3 month 2.75% - 3.75%	3.50%	1,242	53	106	106	740	-	None	None
Loan F.I.L.A. Art & Craft (Israel)	620	10	630	2018	EUR	Israel	Euribor 3 month	2.70%	630	-	-	-	-	-	None	None
Loan FILA Art & Product AG (Switzerland)	239	-	239	2017	EUR	Switzerland	Euribor 6 month	2.50%	239	-	-	-	-	-	None	None
Total amount	53,868	1,596	55,463						42,887	5,234	3,398	1,182	2,762			

As per IFRS 7, the accounting treatment by class of financial assets at December 31, 2018 was as follows:

		December 31, 2018	Asset and liabilities measurement at FV booked in OCI	Assets and Liabilities evaluated with Amortized Cost	Fair Value
<i>Euro thousands</i>					
Non-Current assets					
Non-Current financial assets	Note 3	12,577		12,577	12,577
Current assets					
Current financial assets	Note 3	42,688		42,688	42,688
Trade and Other Assets	Note 8	20,242		20,242	20,242
Cash and Cash Equivalents	Note 9	19,193		19,193	19,193
December 31, 2017					
<i>Euro thousands</i>					
Non-Current assets					
Non-Current financial assets	Note 3	2,823	1,053	1,770	2,823
Current assets					
Current financial assets	Note 3	46,032		46,032	46,032
Trade and Other Assets	Note 8	19,140		19,140	19,140
Cash and Cash Equivalents	Note 9	6,996		6,996	6,996

Note 4 – Investments

“Investments” at December 31, 2018 amount to Euro 337,139 thousand (Euro 284,951 thousand at December 31, 2017). The movements in the year are shown below:

Note 4.A - INVESTMENTS				
<i>Euro thousands</i>	Investments in Subsidiaries	Investments in Associates	Investments in Other Companies	Total Amount
Prior Year Balance	284,921	28	2	284,951
Increases in the year	59,193	-	-	59,193
Decreases in the year	(7,005)	-	-	(7,005)
Current Year Balance	337,109	28	2	337,139
Change in year	52,188	-	-	52,189

The increase in the year totalling Euro 59,193 thousand relates to the following:

- ▶ The effect of the “2017-2019 Performance Shares Plan” concerning ordinary F.I.L.A. S.p.A. shares reserved for Group executives and managers (Euro 199 thousand);
- ▶ The incorporation of the company FILA Art & Craft (Israel - Euro 0.01 thousand) on January 7, 2018, with the undertaking of a 51% equity stake. The company is involved in the sale of F.I.L.A. Group writing, art and design products in Israel;
- ▶ To the increase in the equity interest in Dixon Ticonderoga Company as a result of the capital injection undertaken by F.I.L.A. S.p.A. in respect of the subsidiary in order to provide the funds required for the acquisition of Pacon Holding Company, in the total amount of Euro 58,994 thousand.

The decrease in the year for Euro 7,005 thousand relates to the following:

- ▶ To the impairment loss on the equity interest held by F.I.L.A. S.p.A. in the subsidiaries F.I.L.A. Stationary and Office Equipment Industry Ltd Co. (Turkey) of Euro 582 thousand, F.I.L.A. SA PTY Ltd (South Africa) of Euro 0.6 thousand and Canson Brasil Industria Papeis Especiais LTD (Brazil) of Euro 69 thousand;
- ▶ The reduction in the value of the investment in Renoir Topco Limited (United Kingdom) of Euro 6,354 thousand, following the return of share capital in 2018.

Investments in subsidiaries at December 31, 2018 and the changes in the year are illustrated in the table below:

Note 4.B - INVESTMENTS IN SUBSIDIARIES

<i>Euro thousand</i>	Decembre 31, 2017	Increase	Decrease	Decembre 31, 2018
F.I.L.A. IBERIA S.L. (Spain)	194	9		204
Omyacolor S.A. (France)	2,637	30		2,667
Dixon Ticonderoga Co.(U.S.A.)	30,938	59,110		90,048
F.I.L.A. Chile Ltda (Chile)	62			62
Lyra Bleistift-Fabrik GmbH & Co. KG (Germany)	12,454			12,454
FILA Stationery and Office Equipment Industry Ltd. Co. (Turkey)	1,299		(582)	717
FILA Art & Craft (Israel)	-	0	0	0
FILA Stationery O.O.O. (Russia)	95			95
Industria Maineri S.p.A. (Italy)	946			946
FILA SA PTY Ltd. (South Africa)	1		(1)	0
FILA Hellas S.A. (Greece)	12			12
Canson Australia Pty Ltd (Australia)	-		0	-
Fila Polska Sp. Z.o.o (Poland)	44			44
Doms Industries Pvt Ltd (India)	57,278			57,278
Renoir Topco Limited (UK)	103,605	19	(6,354)	97,270
St. Cuthberts Holdings Limited (UK)	6,727			6,727
Canson SAS (France)	34,301	11		34,312
Lodi 12 SAS (France)	17,133	-		17,133
Eurholdham USA Inc. (U.S.A.)	17,078	14		17,093
Canson Brasil Industria Papeis Especiais Ltda (Brazil)	69		(69)	-
Fila Art Products AG (Switzerland)	48			48
Total	284,921	59,193	(7,005)	337,109

For further details, reference should be made to the “*Significant events in the year*” paragraph.

A comparison between equity investments and the equity of the subsidiaries at December 31, 2018 is illustrated in the table below:

<i>Euro thousand</i>	Equity at December 31, 2018	Profit (Loss) of the year	Total percentage of Investments*	Equity share	Carrying amount
Dixon Ticonderoga Company (U.S.A.)*	163,324	9,940	100.00%	163,324	90,110
Fila Iberia S. L. (Spain)	6,747	3,102	96.77%	6,529	204
Omyacolor S.A. (France)	13,620	2,085	99.90%	13,606	2,667
Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG (Germany)	11,026	(853)	100.00%	11,026	12,454
FILA Stationery and Office Equipment Industry Ltd. Co. (Turkey)	(1,383)	(636)	99.99%	(1,383)	718
Fila Polska Sp. Z.o.o (Poland)	981	454	51.00%	500	44
Fila Hellas SA (Greece)	1,705	555	50.00%	852	12
Industria Maineri S.p.A. (Italy)	258	(634)	51.00%	132	946
Fila SA PTY LTD (South Africa)	(1,099)	(461)	90.00%	(990)	0
Fila Stationery O.O.O. (Russia)	(560)	16	90.00%	(504)	95
DOMS Industries Pvt Ltd (India)	45,805	2,772	51.00%	23,360	57,277
Ronoir Topo Ltd (UK)	75,687	(3,005)	100.00%	75,687	97,270
St. Cuthberts Holding (UK)	6,347	473	100.00%	6,347	6,726
Canson SAS (France)	35,060	687	100.00%	35,060	34,312
Eurholdham USA Inc. (U.S.A.)	(1,578)	279	100.00%	(1,578)	17,093
Lodi 12 SAS (France)	440	29	100.00%	440	17,133
Canson Brasil Industria Papeis Especiais Ltda (Brazil)	(3,660)	(1,191)	0.19%	(7)	0
FILA Art and Craft Ltd (Israel)	(25)	(25)	51.00%	(13)	0
FILA Art Products AG (Switzerland)	24	138	52.00%	13	48

Information are related to approved December 31, 2018 Financial Statements.

* include the 1% quota in F.I.L.A. CHILE LTDA held by F.I.L.A. S.p.A.

The investments held by F.I.L.A. S.p.A. in subsidiaries were subject to impairment tests where indicators highlighted a possible impairment loss, comparing the carrying amount in the financial statements with the recoverable value as per the Impairment Test (“Equity Value”), at least on an

annual basis. The “Value in use” was utilised to establish the recoverable amount of equity investments. The Value in use as per IAS 36 is calculated as the present value of projected cash flows.

The projected cash flows for calculation of the “Value in use” of each subsidiary are developed based on the 2019 Group Budget and the Industrial Plan approved by the Board of Directors on February 15, 2019.

In particular, the cash flows were determined taking the assumptions from the plan and applying the growth rate identified for each subsidiary in line with the long-term assumptions relating to the growth rate of the sector and the specific country risk in which each company operates. The “Terminal Value” was calculated applying the perpetuity growth method. These financial estimates were subject to approval by the Boards of Directors of the individual Group companies subject to impairments.

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

The table below outlines the main assumptions for the impairment test on the investments held. The discount rate altered on December 31, 2017 to reflect the changed market conditions at December 31, 2018, as commented upon below:

IMPAIRMENT TEST - VALUE IN USE CALCULATION ASSUMPTIONS				
<i>Euro thousands</i>	Discount Rate (W.A.C.C.)	Growth Rate (g rate)	Cash flow horizon	Terminal Value Calculation Method
FILA SA (South Africa)	13.90%	4.6%	5 years	Perpetuing growth rate
Fila Stationary O.O.O. (Russia)	13.88%	4.0%	5 years	Perpetuing growth rate
Fila Stationary and Office Equipment Industry Ltd. Co (Turkey)	18.18%	7.0%	5 years	Perpetuing growth rate
DOMS Industries Pvt Ltd (India)	13.00%	4.3%	5 years	Perpetuing growth rate
Industria Maineri S.p.A. (Italy)	8.20%	1.4%	5 years	Perpetuing growth rate
Renoir Topco Ltd (UK) ⁽¹⁾	7.11%	2.0%	5 years	Perpetuing growth rate
St. Cuthberts Holding (UK) ⁽⁴⁾	7.11%	2.0%	5 years	Perpetuing growth rate
FILA Art Products AG (Switzerland)	5.77%	1.7%	5 years	Perpetuing growth rate
Eurholdham Inc. (U.S.A.) ⁽²⁾	8.42%	1.8%	5 years	Perpetuing growth rate
Lodi 12 (France) ⁽³⁾	6.32%	1.8%	5 years	Perpetuing growth rate
Canson Brazil (Brazil)	13.93%	3.8%	5 years	Perpetuing growth rate
Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG (Germany) ⁽⁵⁾	6.06%	2.1%	5 years	Perpetuing growth rate

(1) - Renoir Topco Ltd (UK); Renoir Midco Ltd (UK); Renoir Bidco Ltd (UK); Daler Rowney Group Ltd (UK); FILA Benelux SA (Belgium); Daler Rowney Ltd (UK); Longbeach Arts Ltd (UK); Daler Board Company Ltd (UK); Daler Holdings Ltd (UK); Bridesore srl (Dominican Republic); Daler USA Ltd (USA) Daler Designs Ltd (UK); Daler Rowney GmbH (Germany); Lukas-Nerchau GmbH (Germany); Nerchauer Malfarben GmbH (Germany); Lastmill Ltd (UK); Rowney & Company Pencils Ltd (UK); Rowney (Artists Brushes) Ltd (UK).

(2) - Eurholdham USA (Inc); Canson Inc (U.S.A).

(3) - Lodi 12 SAS (France); Canson Australia PTY LTD (Australia); Canson Qingdao Ltd.(China) Fila Yixing (China); Canson Italy (Italy).

(4) - St. Cuthberts Holding (UK); St. Cuthberts Mill (UK)

(5) - Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. KG (Germany); FILA Nordic AB (Sweden); PT. Lyra Akrelux (Indonesia)

* Source Bloomberg (source of tax rate: KPMG tax advisory)

With regard to the main considerations upon the change in the year of the discount rates used, reference should be made to “Note 1 - Intangible assets” of the Notes to the consolidated financial statements at December 31, 2018.

Considering the existence of indicators of impairment, impairment tests were carried out on the following subsidiaries:

- ▶ Industria Maimeri S.p.A. (Italy);
- ▶ F.I.L.A. SA PTY LTD (South Africa);
- ▶ FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey);
- ▶ Fila Stationary O.O.O. (Russia);
- ▶ Renoir Topco Ltd (United Kingdom);
- ▶ Eurholdham USA Inc. (U.S.A.);
- ▶ Canson Brasil I.P.E. LTDA (Brazil);
- ▶ DOMS Industries Pvt Ltd (India);
- ▶ St. Cuthberts Holding (United Kingdom);
- ▶ Fila Art Products AG (Switzerland);
- ▶ Canson SAS (France);
- ▶ Johann Froescheis Lyra Bleistift-Fabrik GmbH & Co. Kg (Germany);
- ▶ Lodi 12 (France).

On the basis of the tests performed, it was determined that F.I.L.A. SA PTY LTD (South Africa), FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey) and Canson Brasil I.P.E. LTDA (Brazil) had become impaired, and losses were recognized on the equity investments accordingly, as shown in Table 4.B.

The Group is planning the required recapitalization measures for companies presenting negative equity.

Note 5 – Deferred Tax Assets

Deferred tax assets amount to Euro 6,755 thousand at December 31, 2018 (Euro 5,431 thousand at December 31, 2017).

Note 5.A - CHANGES IN DEFERRED TAX ASSETS	
<i>Euro thousands</i>	
December 31, 2017	5,431
Provisions	1,895
Utilizations	(570)
December 31, 2018	6,755
Change	1,324

Deferred tax assets at December 31, 2018 refer to temporary differences deductible in future years, recorded as there is a reasonable certainty of the existence, in the years in which they will reverse, of taxable profit not lower than the amount of these differences.

The breakdown of deferred tax assets is illustrated below:

NOTE 5.B - BREAKDOWN OF DEFERRED TAX ASSETS						
<i>Euro thousands</i>	Statement of Financial Position		Income Statement		Equity	
	2,018	2,017	2,018	2,017	2,018	2,017
Deferred tax assets relating to:						
Intangible Assets	97	104	(7)	2	-	-
Property, Plant and Equipment	197	274	(77)	(95)	-	-
Directors' Remuneration	332	354	(22)	50	-	-
Allowance for impairment	579	579	-	118	-	-
Inventory	97	119	(22)	7	-	-
Agent Leaving indemnities	220	234	(14)	-	-	-
Exchange Rate adjustments	-	127	(127)	74	-	-
Provisions for risks and charges	107	272	(165)	136	-	-
Other	-	-	-	-	-	-
Deferred deductible costs	51	102	(51)	(223)	-	-
IFRS9	79	-	29	-	50	-
Capital Increase Expenses	1,549	-	-	-	1,549	-
ACE	3,447	3,266	181	(9)	-	-
Total deferred tax assets	6,755	5,431	(275)	60	1,599	-

The “ACE” caption includes deferred tax assets calculated on the excess of the ACE tax deduction which may be carried forward to subsequent years, for a total amount of Euro 267 thousand, in addition to the portion used in coverage of IRES taxable profit generated in 2018 (Euro 88 thousand). The “Deferred deductible costs” related to deferred tax assets on costs for the listing incurred by the company Space S.p.A. in the years 2013 and 2014 and subject to deferred tax deduction and broken down into fifths.

The costs of the 2018 capital increase include the value of the deferred taxes calculated on the costs incurred in connection with the capital increase, deductible on a deferred basis in the amount of Euro 1,549 thousand.

The deferred tax asset calculation was made by F.I.L.A. S.p.A., evaluating the projected future recovery of these assets based on updated strategic plans, together with the relative tax plans.

In accordance with the 2016 Stability Law, reducing the IRES rate from 27.5% to 24% from the tax period subsequent to December 31, 2016, the company, for the identifiable elements, applied the new rate for the calculation of deferred taxes.

Note 6 - Current Tax Assets

Current tax Assets amount to Euro 3,068 thousand at December 31, 2018 (Euro 2,930 thousand at December 31, 2017). The change on December 31, 2017 principally concerns payments on account issued in June and November 2018 (Euro 509 thousand), offset by the IRAP tax charge calculated according to the existing legal provisions (Euro 370 thousand).

Note 7 - Inventories

Inventories at December 31, 2018 amount to Euro 29,072 thousand (Euro 28,124 thousand at December 31, 2017).

The breakdown of inventories is as follows:

Note 7.A - INVENTORIES				
<i>Euro thousands</i>	Raw Materials, Ancillary and Consumables	Work-in-progress and Semi-finished Products	Finished Products and Goods	Total
December 31, 2017	3,825	3,517	20,782	28,124
December 31, 2018	4,273	3,225	21,573	29,071
Change	449	(292)	791	948

The values reported in the previous table are shown net of the provision for write-down of inventory relating to raw materials, products in work in progress and finished products, amounting respectively at December 31, 2018 to Euro 45 thousand (Euro 47 thousand at December 31, 2017), Euro 34 thousand (Euro 90 thousand at December 31, 2017) and Euro 266 thousand (Euro 288 thousand at

December 31, 2017), which refer to obsolete or slow moving materials for which it is not considered possible to recover through sales.

No inventory is provided as a guarantee on liabilities.

The changes in the provision for write-down of inventory in the year were as follows:

Note 7.B- CHANGE IN PROVISION FOR WRITE-DOWN OF INVENTORY				
<i>Euro thousands</i>	Raw Materials, Ancillary and Consumables	Work-in-progress and Semi-finished Products	Finished Products and Goods	Total
December 31, 2016	78	25	295	398
Provisions	0	120	0	120
Utilizations	(31)	(55)	(7)	(92)
December 31, 2017	47	90	288	425
Provisions	35	15	26	76
Utilizations	(37)	(71)	(48)	(156)
December 31, 2018	(31)	65	(7)	27
Change 2017 - 2018	(2)	(56)	(22)	(80)

During 2018 the provision was utilized for disposals and product scrapping. The allocation in the year was made against obsolete materials and slow-moving inventories at December 31, 2018.

Note 8 – Trade and Other Assets

These amount to Euro 25,969 thousand and increased on the previous year by Euro 6,829 thousand.

The breakdown is illustrated below.

Note 8.A - TRADE AND OTHER ASSETS			
<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Trade Assets	11,600	12,047	(447)
Tax Assets	607	440	167
Other Assets	237	438	(202)
Prepayments and Accrued Income	972	495	477
Third parties	13,415	13,420	(3)
Trade Assets - Subsidiaries	12,554	5,720	6,833
Subsidiaries	12,554	5,720	6,833
Associates	-	-	-
Total	25,969	19,140	6,829

Trade assets from subsidiaries amount to Euro 12,554 thousand at December 31, 2018 (Euro 5,720 thousand at December 31, 2017). For further information, reference should be made to the “Directors’ Report - Transactions with Related Parties”.

The movement is related to business dynamics, and in particular, in the reporting year, the re-invoicing undertaken with Dixon U.S.A., relating to all expenses concerning the acquisition of the Pacon Group incurred by F.I.L.A. S.p.A.

The amounts of the previous table are shown net of the allowance for impairment.

At December 31, 2018, there were no trade receivables pledged as guarantees.

All of the above receivables are due within 12 months.

The breakdown by geographical region of trade receivables (by customers) are illustrated in the table below:

Note 8.B - TRADE RECEIVABLES THIRD BREAKDOWN PARTIES BY GEOGRAPHICAL AREA			
<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Europe	11,254	11,566	(312)
Asia	330	474	(144)
Rest of the World	16	7	9
Third parties	11,600	12,047	(447)

The changes in the allowances for impairment to cover difficult recovery positions are illustrated in the table below. The share relating to the application of IFRS 9 of Euro 130 thousand was recognized to the loss allowance.

Note 8.C - CHANGES IN ALLOWANCE FOR IMPAIRMENT	
<i>Euro thousands</i>	Allowance for impairment
December 31, 2016	2,020
Provisions	630
Utilizations	(137)
December 31, 2017	2,513
Provisions	192
Utilizations	(50)
December 31, 2018	2,655
Change 2017 - 2018	142

“Tax assets” includes V.A.T. and other local taxes other than corporation taxes.

Current tax assets amount to Euro 607 thousand at December 31, 2018 (Euro 440 thousand at December 31, 2017) and include the tax credits arising from the IRES refund request relating to IRAP on personnel expenses in previous years and the VAT receivable accrued in respect of the prepayment of Euro 497 thousand made in December 2018.

“Other assets” includes personnel and social security receivables and payments on account to suppliers. At December 31, 2018 the caption amounts to Euro 237 thousand (Euro 438 thousand at December 31, 2017).

Prepayments and accrued income include costs incurred in 2018 but set to accrue in the following year. In particular, the following are included: purchases of catalogues (Euro 163 thousand), advance payment for customer reward trips (Euro 122 thousand), rent for the first quarter of 2019 (Euro 59 thousand), company car lease payments (Euro 41 thousand), insurance premiums (Euro 355 thousand) and costs of sureties (Euro 27 thousand).

The carrying amount of “Other assets” represents the “fair value” at the reporting date.

All of the above receivables are due within 12 months.

Note 9 - Cash and Cash Equivalents

“Cash and Cash Equivalents” at December 31, 2018 amount to Euro 121,247 thousand (Euro 6,996 thousand at December 31, 2017).

The increase in cash and cash equivalents held by F.I.L.A. S.p.A. was primarily due to the subscription of the capital increase on December 17, 2018. The breakdown and comparison with the previous year is illustrated in the table below.

Note 9.A - CASH AND CASH EQUIVALENTS				
<i>Euro thousands</i>	Bank and Postal Deposits	Cash in hand and similar	Cheques	Total
December 31, 2016	6,980	7	9	6,996
December 31, 2018	121,006	7	233	121,247
Change	114,026	0	224	114,251

"Bank and Postal Deposits" consist of temporary liquid funds as part of treasury management and concern the ordinary current accounts of F.I.L.A. S.p.A..

Bank and postal deposits are remunerated at rates which approximate the Euribor.

There are no bank and postal deposits subject to restrictions.

For comments on cash flows in the year reference should be made to the statement of cash flows.

Note 10 - Net Financial Debt

The "Net Financial Debt" at December 31, 2018 was as follows:

<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
A Cash	7	16	(9)
B Other cash equivalents	121,240	6,980	114,260
C Securities held-for-trading	-	-	-
D Cash and Cash Equivalents (A + B + C)	121,247	6,996	114,251
E Current financial loan assets	42,688	46,032	(3,344)
F Current bank loans and borrowings	(3,639)	(12,537)	8,898
G Current portion of non-current debt	(3,750)	(18,000)	14,250
H Other current financial loans and borrowings	(84)	(8,075)	7,991
I Current financial debt (F + G + H)	(7,473)	(38,612)	31,139
J Net current financial debt (I + E+ D)	156,463	14,416	142,047
K Non-current bank loans and borrowings	(284,278)	(171,256)	(113,022)
L Bonds issued	-	-	-
M Other non-current loans and borrowings	(1,569)	-	(1,569)
N Non-current financial debt (K + L + M)	(285,847)	(171,256)	(114,591)
O Net financial debt (J+N)	(129,385)	(156,840)	27,455
P Loans issued to third parties	12,567	1,761	10,806
Q Net financial debt (O + P) - F.I.L.A. S.p.A.	(116,818)	(155,078)	38,260

Note:

1) The net financial debt calculated at point "O" complies with Consob Communication DEM/6064293 of July 28, 2006, which excludes non-current financial assets.

2) At December 31, 2018 there were no transactions with related parties which impacted the net financial debt.

Compared to net financial position at December 31, 2017, the improvement amounts to Euro 38,260.

As may be seen from the statement of cash flows, this change principally related to:

- the generation of net cash flows from operating activities of Euro 261 thousand (generation of cash flows of Euro 6,941 thousand in 2017), thanks to operating income and strong net working capital management;
- net investments in property, plant and equipment and intangible assets of Euro 5,760 thousand (Euro 2,820 thousand in 2017);

- ▶ the cash used in investing activities of Euro 53,192 thousand, primarily related to the capital increase by the U.S. subsidiary Dixon Ticonderoga (U.S.A.) in view of the acquisition of the Pacon Group, partly offset by the return of capital by the U.S. subsidiary Renoir Topco;
- ▶ the capital increase by F.I.L.A. S.p.A. for a total of Euro 99,960 thousand;
- ▶ the subscription of warrants by Pacon's management for Euro 1,810 thousand;
- ▶ the absorption of cash from the distribution of dividends to shareholders of Euro 3,720 thousand;
- ▶ the generation of cash totalling Euro 9,371 thousand from dividends received from subsidiaries;
- ▶ the payment of financial expenses of Euro 10,864 thousand.

We report the absence of balances concerning related parties both for 2018 and 2017.

Note 12 - Share Capital and Equity

Share Capital

Following the capital increase, approved on October 11, 2018 by the extraordinary Shareholders' Meeting of F.I.L.A. S.p.A., on December 17, 2018, a total of 9,336,273 F.I.L.A. shares were subscribed and issued – of which (i) 7,820,925 ordinary F.I.L.A. S.p.A. shares and (ii) 1,515,348 special class B shares – and on December 27, 2018, a total of 201,990 ordinary F.I.L.A. S.p.A. shares were subscribed and issued.

The resulting new breakdown of the share capital of F.I.L.A. S.p.A. is shown below.

Current Share Capital - December 31, 2018	No. of Shares	% of Share Capital	Euro	Listing
Ordinary shares	42,788,884	84.11%	39,364,365	MTA - STAR Segment
Class B Shares (multiple votes)	8,081,856	15.89%	7,435,041	Unquoted Shares
Previous Share Capital	No. of Shares	% of Share Capital	Euro	Listing
Ordinary shares	34,765,969	84.11%	31,341,450	MTA - STAR Segment
Class B Shares (multiple votes)	6,566,508	15.89%	5,919,694	Unquoted Shares

According to the available information, published by Consob and updated to December 31, 2018, the main shareholders were:

Shareholder	Ordinary shares	%
Pencil S.p.A.	13,694,564	32.00%
Venice European Investment Capital S.p.A.	3,875,832	9.06%
Sponsor	361,291	0.84%
Market Investors	24,857,197	58.10%
Total	42,788,884	

Shareholder	Ordinary shares	Class B Shares	Total	Voting rights
Pencil S.p.A.	13,694,564	8,081,856	21,776,420	56.60%
Venice European Investment Capital S.p.A.	3,875,832		3,875,832	5.78%
Space Holding Srl	361,291		361,291	0.54%
Market Investors	24,857,197		24,857,197	37.08%
Totale	42,788,884	8,081,856	50,870,740	

The availability and distributability of equity is outlined in the following table:

NOTE 12.A ORIGIN, POSSIBILITY OF UTILIZATION AND DISTRIBUTION OF THE EQUITY						
Euro thousand	Equity items	Amount at December 31, 2018	Possibility of utilization	Available quota	Summary of the utilizations of the past 3 years (2016 - 2018)	
					Loss Recovery	Other reasons
	Share Capital	46,799			-	
	Reserves					
	Legal Reserve	7,434	B	7,434	-	
	Share Premium Reserve	151,769	A, B, C	136,717	(41,599)	(7,434)
	IAS 19 Reserve	(399)		-	-	-
	Other Reserves	24,587	A, B, C	24,587	-	(3,711)
	Profit/ (Losses) of the year	28,868	A, B, C	28,868	-	(3,720)
		212,258		197,605	(41,599)	(14,865)

Legal Reserve

At December 31, 2018 this caption amounted to Euro 7,434 thousand.

Share premium reserve

The balance at December 31, 2018 amounts to Euro 151,769 thousand (Euro 65,348 thousand at December 31, 2017). The change was due to the subscription of the capital increase by F.I.L.A. S.p.A. described above and may be broken down as follows:

- Share premium reserve of Euro 90,422 thousand;
- Costs associated with the capital increase taken to equity for Euro 5,551 thousand, net of the related tax effect of Euro 1,549 thousand.

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

IAS 19 Reserve

Following the application of IAS 19, the equity reserve amounts to a negative Euro 399 thousand, showing a decrease for the period of Euro 65 thousand, alongside an increase of Euro 18 thousand relating to deferred tax liabilities taken directly to equity.

Other Reserves

At December 31, 2018, the reserve is positive for Euro 24,586 thousand, decreasing Euro 1,417 thousand on December 31, 2017. The increase concerns the following events:

- ▶ The share based premium reserve, which relates to the accounting treatment of the “2017-2019 Performance Shares Plan” concerning ordinary F.I.L.A. S.p.A. shares reserved for Group executives and managers for a total of Euro 523 thousand, on the increase;
- ▶ The reserve for future capital increases was also allocated to service the warrants assigned free of charge to certain managers employed by the subsidiary Pacon Holding Company, as approved on October 11, 2018 by the extraordinary Shareholders’ Meeting of F.I.L.A. S.p.A.; it amounted to Euro 1,810 thousand;
- ▶ The cash flow hedge reserve, recognized to account for fair value changes in the hedging instruments (IRSs) entered into by F.I.L.A. S.p.A., amounted to a negative Euro 1,569 thousand at December 31, 2018. The decrease for the year amounted to Euro 2,622 thousand, as a result of the release of the positive reserve carried at December 31, 2017 (Euro 1,053 thousand) due to the unwinding of the old derivative contracts and the recognition of the change in the fair value of the IRSs hedging the new loan agreement entered into to finance the Pacon deal (Euro 1,569 thousand).
- ▶ The recognition of the currency effect on the reduction of the investment in Renoir Topco Ltd (United Kingdom) for Euro 552 thousand.

In relation to utilizations, in addition, we report the presence in other reserves of reserves in suspension of taxes for Euro 3,885 thousand at December 31, 2018 not released.

Retained Earnings/(losses carried forward)

This caption amounts to Euro 28,868 thousand at December 31, 2018 (Euro 25,655 thousand at December 31, 2017). The movement of Euro 3,213 thousand relates to the application of the Shareholders' Meeting resolution of April 27, 2018 concerning the allocation of the 2017 net profit of Euro 6,933 thousand to retained earnings for Euro 3,213 thousand net of the total dividend distributed of Euro 3,720 thousand.

Dividends

In 2018 F.I.L.A. S.p.A. distributed dividends totalling Euro 3,720 thousand to the company's shareholders.

F.I.L.A. S.p.A. expects to receive approx. Euro 11 million from subsidiary companies in 2019.

Over the last three years and in its forecasts, the F.I.L.A. Group coordinates its dividend policy in line with the financial needs of non-recurring acquisitions.

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The Board of Directors of F.I.L.A. S.p.A. have proposed:

1. to allocate Euro 331,629.02 to the legal reserve, as established in Article 2430 of the Italian Civil Code, and to allocate the remainder of Euro 2,231,292.10 to retained earnings;
2. to distribute the residual “Profit for the year” of Euro 4,069,659.20 as dividend and, therefore, to distribute a dividend of Euro 0.08 for each of the 50,870,740 ordinary shares currently outstanding, while it should be noted that in the case where the total number of shares of the Company currently outstanding should increase, the total amount of dividend will remain unchanged and the unitary amount will be automatically adjusted to the new number of shares; the dividend will be issued with coupon, record and payment dates of May 20, 21 and 22, 2019 respectively.

Note 13 - Financial Liabilities

The balance at December 31, 2018 was Euro 291,751 thousand (Euro 209,868 thousand at December 31, 2017).

The account includes both the current portion of loans issued by other lenders and bank overdrafts concerning ordinary operations.

The breakdown at December 31, 2018 is illustrated below:

Note 13.A - FINANCIAL LIABILITIES							
<i>Euro thousands</i>	Banks		Other Lenders: Third Parties		Bank Overdrafts		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
December 31, 2017	192,656	(3,400)	8,075	-	12,428	109	209,868
non-current portion	174,656	(3,400)	-	-	-	-	171,256
current portion	18,000	-	8,075	-	12,428	109	38,612
December 31, 2018	291,504	(3,476)	84	-	3,000	639	291,751
non-current portion	287,754	(3,476)	-	-	-	-	284,278
current portion	3,750	-	84	-	3,000	639	7,473
Current Financial Asset	98,848	(76)	(7,991)	-	(9,428)	530	81,883
non-current portion	113,098	(76)	-	-	-	-	113,022
current portion	(14,250)	-	(7,991)	-	(9,428)	530	(31,139)

The main change concerns the agreement of a new loan by F.I.L.A. S.p.A. and Dixon Ticonderoga Company (U.S.A.) on June 4, 2018. The structured loan in question was contracted by the two companies from a bank syndicate consisting of UniCredit S.p.A. as global coordinator, Banca IMI S.P.A., Mediobanca Banca di Credito Finanziario S.p.A., Banca Nazionale del Lavoro and Banco BPM S.p.a. as mandated lead arrangers and UniCredit Bank AG as security agent in support of the acquisition of the company Pacon Holding Company, parent of the Pacon Group. In addition, part of the loan issued to F.I.L.A. S.p.A. was utilized to repay the previous loan undertaken in 2016 (in support of M&A's regarding the acquisition of the Daler-Rowney Lucas Group, the Canson Group and of St. Cuthberts Holding) and was subsequently increased in the initial months of 2018 with a further extension of Euro 30,000 thousand. On entering into a new Senior Facility Agreement on June 4, 2018, the existing loan was discharged for a total amount of Euro 220,276 thousand.

The loan was issued through three differing Facilities with a set repayment plan and a total amount of Euro 520,000 thousand, in addition to a Revolving Credit Facility with a maximum Euro 50,000 thousand.

Financial liabilities – Banks – Non-current portion amounted to Euro 287,754 thousand, broken down as follows:

- ▶ the non-current portion of Facility A for Euro 71,250 thousand (amortising line);
- ▶ the non-current portion of Facility B for Euro 90,000 thousand (bullet line);
- ▶ the non-current portion of Facility C for Euro 125,000 thousand (bullet line);
- ▶ the fair value of the negotiation charges related to the derivative financial instruments of Euro 1,504 thousand underwritten in 2018

Financial liabilities – Banks – Current portion amounted to Euro 3,750 thousand, broken down as follows:

- ▶ the current portion of Facility A1 for Euro 3,750 thousand (amortizing line).

We indicate the repayment of the current portion of the additional credit line (hereafter “Revolving Original Facility”) for Euro 5,661 thousand in July 2018.

The loan stipulates a Euribor at 3 months interest rate, plus a spread of 2.3% on Facility A, in addition to a spread of 2.6% on Facility B and C, with quarterly calculation of interest. The spread applied will be subject to changes based on compliance with the covenants established for the loan.

The following is reported with regards to the loan repayment plan:

Note 13.B - BANK LOANS AND BORROWINGS INTEREST RATE AND MATURITY			
<i>Euro thousands</i>	Interest Rate	Maturity	December 31, 2018
Non-current liabilities: bank loans and borrowings			
Facility A	Euribor a 3 months + spread 2,30%	June 2023	71,250
Facility B	Euribor a 3 months + spread 2,60%	June 2024	90,000
Facility C	Euribor a 3 months + spread 2,60%	June 2023	125,000
Total non-current Financial liabilities			286,250
Current liabilities: bank loans and borrowings			
Facility A	Euribor a 3 months + spread 2,30%	December 2019	3,750
Total current Financial liabilities			3,750
Total Financial liabilities			290,000

The repayment plan establishes for settlement by June 4, 2023 (“Termination Date”) through half-yearly capital instalments to be repaid from December 4, 2019.

The repayment plan by maturity is outlined below:

Note 13.C - BANK LOANS AND BORROWINGS: LOAN REPAYMENT PLAN		
<i>Euro thousands</i>	Facility	Principal
December 4th, 2019	Facility A	3,750
Total current Financial liabilities		3,750
June 4th, 2020	Facility A	3,750
December 4th, 2020	Facility A	5,625
June 4th, 2021	Facility A	5,625
December 6th, 2021	Facility A	7,500
June 6th, 2022	Facility A	7,500
December 5th, 2022	Facility A	11,250
June 2nd, 2023	Facility A	30,000
Total non-current financial liabilities		71,250

F.I.L.A. S.p.A., exposed to future cash flow fluctuations in relation to the interest rate indexing mechanism under the loan agreed (hereafter “hedged instrument”), considered a hedge based on the payment of a fixed rate against the variable rate necessary (base parameter of the loan contract) to stabilise future cash flows.

The derivative instruments, qualifying as hedges and represented by Interest Rate Swaps, present characteristics in line with those of the hedged instrument, such as the same maturity and the same repayment plan broken down into quarterly instalments with interest in arrears, in addition to a variable interest rate indexed to the Euribor at 3 months. Derivative financial instruments, in the form of 3 Interest Rate Swaps, were signed with the same banks issuing the loan, concerning a total 10 contracts.

“Financial Liabilities - Other Lenders” includes the payables of F.I.L.A. S.p.A. to factoring companies for advances on transfer of receivables (Ifitalia S.p.A.).

The balance at December 31, 2018 of payables to other lenders was Euro 84 thousand (Euro 8,075 thousand at December 31, 2017).

Details on the timing of cash flows and payables to other Lenders at December 31, 2018 concerning F.I.L.A. S.p.A. are illustrated in the following table:

Note 13.D - LOANS AND BORROWINGS FROM OTHER LENDERS										
Description	General information								Loan Repayment plan	Guarantees Granted
	Amount		Total	Year	Curr.	Country	Interest		Current Financial Liabilities	
	Principal	Interest					Variable	Spread		
<i>Euro thousands</i>										
Ifitalia S.p.A.	84	-	84	2018	EUR	Italy	0.75%	-	84	None
Total	84	-	84						84	

Bank overdrafts at December 31, 2018 amounted to Euro 3,639 thousand, inclusive of unpaid interest accrued.

Note 13.E - BANK OVERDRAFTS										
Description	General information								Loan Repayments	Guarantees Granted
	Amount		Total	Year	Curr.	Country	Interest		Cur. Fin. Liabilities	
	Principal	Interest					Variable	Spread		
<i>Euro thousands</i>										
Banking Institutions	3,000	639	3,639	2018	EUR	Italy	0.80%	Included in Variable Interest rate	3,639	None
Total amount	3,000	639	3,639						3,639	

Reference should be made to “Note 10 - Net financial debt” and the “Directors’ report – Financial highlights of the F.I.L.A. Group – Financial debt” in relation to the net financial debt at December 31, 2018.

As per IFRS 7, the accounting treatment by class of financial liabilities at December 31, 2018 was as follows:

		December 31, 2018	Asset and liabilities measurement at FV booked in OCI	Amortized Cost	Fair Value
Non-Current liabilities					
Non-Current financial liabilities	Note 13	(284,278)	-	(284,278)	(284,278)
Current liabilities					
Current financial liabilities	Note 13	(7,473)	-	(7,473)	(7,473)
Trade payables and other liabilities	Note 19	(29,567)	-	(29,567)	(29,567)

		December 31, 2017	Asset and liabilities measurement at FV booked in OCI	Amortized Cost	Fair Value
Non-Current liabilities					
Non-Current financial liabilities	Nota 13	(171,256)	-	(171,256)	(171,256)
Current liabilities					
Current financial liabilities	Nota 13	(38,612)	-	(38,612)	(38,612)
Trade payables and other liabilities	Nota 19	(23,865)	-	(23,865)	(23,865)

In accordance with the latest amendments to IAS 7, the following table shows the variations in liabilities (and any related assets) recorded in the statement of financial position, whose cash flows are or will be recorded in the statement of cash flows as cash flows from financing activities.

	Bank Loans	Other Loans	Bank Overdrafts	Hedging Derivatives Assets	Total
<i>Euro thousands</i>					
	Nota 13	Nota 13	Nota 13	Nota 3	
December 31, 2017	(189,256)	(8,075)	(12,537)	1,053	(208,815)
Cash Flows	(98,772)	7,991	8,898	(2,622)	(84,505)
Other Variations:					
Translation difference	-	-	-	-	-
Fair Value variations	-	-	-	-	-
Consolidation scope variation effects	-	-	-	-	-
December 31, 2018	(288,028)	(84)	(3,639)	(1,569)	(293,320)

Note 14 - Employee Benefits

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

The Post-Employment Benefits accrued at December 31, 2006 are considered a defined benefit plan as per IAS 19. The benefits guaranteed to employees, under the form of the Post-Employment Benefits, paid on the termination of employment, are recognised in the period the right vests. The relative liability is based on actuarial assumptions and the effective payable accrued and not settled at the reporting date. The discounting process, based on demographic and financial assumptions, is undertaken applying the "Projected Unit Credit Method" by professional actuaries.

The Post-Employment Benefits accrued since January 1, 2007 are considered a defined contribution plan and therefore contributions accrued in the period were fully recognised as a cost and recorded as a payable in the account “Other Current Liabilities”, after the deduction of any contributions already paid.

The amounts at December 31, 2018 were as follows:

Note 14.A - POST-EMPLOYMENT BENEFITS	
<i>Euro thousands</i>	
December 31, 2017	1,779
Disbursements	(712)
Financial Expense	38
Pension Cost for Service	602
IAS 19 Reserve	(13)
December 31, 2018	1,694
Change	(85)

The actuarial revaluation recorded in 2018 amounts to Euro 13 thousand. The actuarial changes in the period, net of the tax effect, were taken directly to equity.

The tables below report that required under IFRS with regards to “Employee Benefits”.

DEFINED BENEFIT PLANS		
1. Obligations for Employee Benefits	December 31, 2018	December 31, 2017
Present Value of Obligations Not Covered by Plan Assets	1,694	1,779
Total	1,694	1,779

There are no financial assets at December 31, 2018 invested by F.I.L.A. S.p.A. to cover financial liabilities relating to Post-Employment Benefits.

The table below highlights the net cost recognized to the Profit or loss in 2018 and 2017:

2. Cost Recognised in Profit or Loss	December 31, 2018	December 31, 2017
Pension Cost for Service	(602)	(612)
Financial Expense	(38)	(22)
Cost Recognised in Profit or Loss	(639)	(634)

The obligations deriving from the above-mentioned plans are calculated based on the following actuarial assumptions:

3. Main Actuarial Assumptions at Reporting Date (average values)	December 31, 2018	December 31, 2017
Annual Technical Discounting Rate	1.1%	1.3%
Increase in Cost of Living index	1.5%	1.5%
Future Increase in Pensions	2.6%	2.6%

For comparative purposes we illustrate the actuarial assumptions applied in 2018.

Details on the timing of cash flows relating to post-employment benefits at December 31, 2018 are illustrated in the following table:

Note 14.B - POST-EMPLOYMENT BENEFITS: TIMING OF CASH FLOWS						
Nature	Amount	Timing of cash flows				
		2019	2020	2021	2022	Beyond 2022
<i>Euro thousands</i>						
Post-Employment Benefits	1,694	186	133	113	111	1,151
Total	1,694					

Note 15 - Provision for Risks and Charges

Provisions amount to Euro 1,122 thousand at December 31, 2018 and decreased by Euro 773 thousand on the previous year.

The change in provisions at December 31, 2018 was as follows:

Note 15.A - PROVISION FOR RISKS AND CHARGES				
<i>Euro thousands</i>	Risks Provisions for Legal Disputes	Provisions for Pensions and Similar Obligations	Other Provisions	Total
Balance at December 31, 2017	39	655	1,201	1,895
<i>non-current portion</i>	-	655	1,164	1,819
<i>current portion</i>	39	0	37	76
Balance at December 31, 2018	9	567	546	1,122
<i>non-current portion</i>	-	567	-	567
<i>Current Financial Asset</i>	9	-	546	555
Change	(30)	(88)	(655)	(773)
<i>non-current portion</i>	0	(88)	(1,164)	(1,252)
<i>current portion</i>	(30)	0	509	479

The relative "Provisions for Risk and Charges" are classified, by nature, in the related Profit or loss accounts.

Provisions for Tax Disputes

This provision represents the best estimate by management of liabilities relating to tax assessments of F.I.L.A. S.p.A. with a residual amount of Euro 9 thousand pertaining to an assessment by the tax authority, concerning 2015 and relating to direct and indirect taxes.

Provisions for Agents

The provision for pensions and similar obligations concerns the agent leaving indemnity. The use of the provision relates to the termination of contracts with three agents in 2018. The actuarial revaluation recorded in 2018 amounts to Euro 55 thousand. The actuarial changes in the period, net of the tax effect, were taken directly in equity.

Other Provisions

This provision was established, taking account of the information available and the best estimate made by management, for Euro 545 thousand against liabilities deriving from the medium/long-term variable remuneration plan for the Chief Executive Officer and Executive Director of the company. The plan, approved by the Remuneration Committee and ratified by the Board of Directors, is indexed to quantitative and qualitative parameters. The Provision, discounted at December 31, 2017, was not subject in the period to discounting as maturing within 12 months.

Details on the timing of cash flows relating to provisions at December 31, 2018 are illustrated in the following table:

Note 15.C - PROVISIONS FOR RISKS AND CHARGES: TIMING OF CASH FLOWS						
Nature	Amount	Actuarial Value Year 2018	Discount Rate Applied for Actuarial Value	Timing of cash flows		
				2018	2019	Beyond 2019
<i>Euro thousands</i>						
Provisions for Tax Disputes						
Assessment Year 2004	9	-	-	9	-	-
Provisions for Pensions and similar obligations						
Agents' Supplementary Indemnity Provision	568	568	1.57%	-	-	568
Other Provisions						
Other Provisions for Risks and Charges	545	512	0.00%	540	-	5
Current Financial Asset	1,122	1,080		549	0	573

Note 16 - Deferred Tax Liabilities

Deferred tax liabilities amount to Euro 1,466 thousand at December 31, 2018 (Euro 1,105 thousand at December 31, 2017).

Note 16.A CHANGES IN DEFERRED TAX LIABILITIES	
<i>Euro thousands</i>	
December 31, 2017	1,105
Provisions	472
Utilizations	(93)
Change in Equity	(18)
December 31, 2018	1,466
Change	361

The nature of the deferred tax liabilities and the relative effects on the Statement of Financial Position, Profit or loss and Equity are illustrated in the table below.

NOTE 16.B - BREAKDOWN OF DEFERRED TAX LIABILITIES						
<i>Euro thousands</i>	Statement of Financial Position		Income Statement		Equity	
	2018	2017	2018	2017	2018	2017
Deferred tax liabilities relating to:						
Intangible Assets	(8)	(8)	-	-	-	-
Property, Plant and Equipment	1,150	1,243	(93.20)	(93)	-	-
Personnel - IAS 19	(2)	16	0.00	-	(18)	(15)
Dividends	289	289	0.00	4	-	-
Other	37	(435)	471.60	(255)	-	-
Total deferred tax liabilities	1,466	1,105	379	(344)	(18)	(15)

In 2018 deferred tax liabilities were taken directly to profit or loss for Euro 379 thousand and in equity for Euro 18 thousand (decrease). The deferred tax liabilities recorded directly in Equity relate to “Actuarial Gains/Losses” on the Post-Employment Benefit Provision.

“Deferred Tax Liabilities” on “Property, Plant and Equipment” mainly relate to the application of IFRS 16 (Leasing) to the production plant at Rufina Scopeti (Florence); the temporary differences refer to the difference between the lease payments deducted until the redemption date and the net carrying amount of the assets.

Deferred tax liabilities were recognised on expected dividends to be received in 2017-2019 three-year period under the approved industrial plan.

In accordance with the 2016 Stability Law, reducing the IRES rate from the current 27.5% to 24% from the tax period subsequent to December 31, 2016, the company, for the identifiable elements, applied the new rate for the calculation of deferred taxes.

Note 17 - Financial Instruments

Financial instruments amounted to Euro 1,569 thousand, including the fair value of trading costs, expressed in terms of the discounted future cash flows at December 31, 2018, applied on inception by the banks, related to the elimination of the zero floor on the hedged instrument. The accounting treatment adopted for the hedging instruments, based on IAS 39, centres on hedge accounting and in particular that concerning “cash flow hedges” and involving the recognition of a financial asset or liability and an equity reserve with reference to pure cash flows (fixed and variable rate) which establishes the efficacy of the hedge (reference should be made to “Note 17 - Derivative Financial Instruments” and “Note 12 - Share Capital and Equity”), while the negotiating charges incurred against the contractual amendment to the hedged instrument (elimination of the floor to zero) were subject to amortised cost and bank financial liabilities, with subsequent reversal to the income statement for the amount accrued each year until conclusion of the contract.

We breakdown below by bank the notionals subject to hedging under derivative instruments, of the relative fair values, in addition to the relative contractual conditions:

Note 17 - FINANCIAL INSTRUMENTS											
F.I.L.A. S.p.A.						Intesa Sanpaolo S.p.A.	Banco BPM	Mediobanca Banca di Credito Finanziario S.p.A.	UniCredit S.p.A.		
<i>value in Euro</i>											
IRS	Date agreed	Loan	% Hedge	Fixed Rate	Variable Rate	Notional	Notional	Notional	Notional	Total	
IRS 1	29/06/2018	TLA F.I.L.A. S.p.A.	100%	0.30%	-0.316%	8,250,000	27,750,000	19,500,000	19,500,000	75,000,000	
IRS 2	29/06/2018	TLB F.I.L.A. S.p.A.	100%	0.54%	-0.316%	-	43,200,000	23,400,000	23,400,000	90,000,000	
IRS 3	29/06/2018	TLC F.I.L.A. S.p.A.	20%	0.40%	-0.316%	-	12,000,000	6,500,000	6,500,000	25,000,000	
						8,250,000	82,950,000	49,400,000	49,400,000	190,000,000	

Financial liabilities are initially recognised at Fair Value, including directly attributable transaction costs. The initial carrying amount is subsequently adjusted to account for payments of principal and interest calculated under the effective interest rate method represented by the rate that at the moment of initial recognition renders the present value of expected cash flows equal to the initial carrying amount (amortized cost method) and the interest paid.

Nota 18 - Tax Current Liabilities

The account totalled Euro 953 thousand at December 31, 2018 (Euro 1,805 thousand at December 31, 2017) and includes the tax charge of Article 167 of Presidential Decree 917/1986 concerning “Controlled Foreign Companies”.

An analysis was conducted on the foreign subsidiaries in order to establish whether concerning parties qualifying as “Controlled Foreign Companies” For these companies, the national tax charge borne by FILA S.p.A. was calculated in relation to the income earned by them abroad (Euro 128 thousand).

Note 19 - Trade and Other Liabilities

The breakdown of “Trade and Other Payables” of F.I.L.A. S.p.A. is reported below:

Note 19.A - TRADE AND OTHER LIABILITIES			
<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Trade Liabilities	22,720	16,708	6,012
Tax Liabilities	449	743	(294)
Other Liabilities	2,981	3,429	(448)
Accrued Liabilities & Def.Income	6	0	6
Third parties	26,156	20,880	5,276
Trade liabilities - Subsidiaries	3,091	2,773	318
Other liabilities - Subsidiaries	83	0	83
Accrued Income and Prepayment	237	212	25
Subsidiaries	3,411	2,985	426
Total	29,567	23,865	5,702

Trade and other liabilities at December 31, 2018 amount to Euro 29,567 thousand (Euro 23,865 thousand at December 31, 2017).

Trade payables with third parties amount to Euro 22,720 thousand at December 31, 2018 (Euro 16,708 thousand at December 31, 2017), increasing largely due to invoices for consultancy fees relating to the capital increase that have not yet been paid, in addition to purchases of goods in the normal course of business.

The breakdown of trade payables by geographical area is reported below:

Note 19.B - TRADE PAYABLES THIRD PARTIES BREAKDOWN BY GEOGRAPHICAL AREA

<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Europe	22,448	14,546	7,902
North America	212	40	172
Central/South America	-	188	(188)
Asia	60	1,934	(1,874)
Rest of the World	-	-	-
Total	22,720	16,708	6,012

The carrying amount of trade payables at the reporting date approximates their “fair value”.

The trade payables reported above are due within 12 months.

Trade payables to subsidiaries at December 31, 2018 amount to Euro 3,091 thousand (Euro 2,773 thousand at December 31, 2017). For further information, reference should be made to the “Directors’ Report - Transactions with related parties”.

The movement is related to business levels in the year.

Tax liabilities with third parties amount to Euro 449 thousand at December 31, 2018 (Euro 743 thousand at December 31, 2017) and primarily consist of tax liabilities other than current taxes. Other tax payables refer to withholding taxes on self employed work.

Other liabilities amount to Euro 2,981 thousand at December 31, 2018 (Euro 3,429 thousand at December 31, 2017) and primarily include:

- social security contributions to be paid of Euro 618 thousand (Euro 630 thousand at December 31, 2017);
- accrued remuneration payable to employees of Euro 1,311 thousand (Euro 1,228 thousand at December 31, 2017);
- short-term variable compensation payable to the Chief Executive Officer and the Executive Director of Euro 751 thousand related to the achievement of the targets fixed under board’s resolutions.

The carrying amount of “Other Payables” and “Tax Liabilities” at the reporting date approximate their fair value.

Note 20 – Revenue from Sales and Services

Revenue from Sales and Services in 2018 amounted to Euro 78,870 thousand (Euro 83,905 thousand in 2017).

Revenue was broken down as follows:

Note 20.A - REVENUE FROM SALES AND SERVICES			
<i>Euro thousands</i>	2018	2017	Change
Revenue from Sales and Services	89,714	90,246	(532)
Adjustments on Sales	(10,844)	(6,341)	(4,503)
Returns on Sales	(946)	(913)	(33)
Discounts, Allowances and Premiums	(9,898)	(5,428)	(4,470)
Total	78,870	83,905	(5,035)

“Revenue from Sales and Services” of Euro 78.870 thousand decreased by Euro 5,035 thousand on the previous year.

The movement relates to the combined impact of application of IFRS 15 which reduced revenues by Euro 3,655 thousand.

The breakdown of revenue by geographical area is reported in the following table:

Note 20.B - REVENUE FROM SALES AND SERVICES BY GEOGRAPHICAL AREA			
<i>Euro thousands</i>	2018	2017	Change
Europe	74,609	78,480	(3,871)
North America	753	728	25
Central/South America	1,781	2,160	(379)
Rest of the World	1,727	2,537	(810)
Total	78,870	83,905	(5,035)

The following table illustrates the breakdown of revenues by strategic business area:

<i>Euro thousands</i>	2018	2017	Change
Fine Art, Hobby & Digital	522	635	(113)
Industrial	15	20	(5)
School & Office	78,334	83,250	(4,916)
Total	78,870	83,905	(5,035)

Note 21 – Other Revenue and Income

The account other income relates to ordinary operations and does not include the sale of goods and provision of services.

Other revenue and income in 2018 amounted to Euro 11,437 thousand (Euro 3,175 thousand in 2017).

Note 21 – OTHER REVENUE AND INCOME			
<i>Euro thousands</i>	December 31, 2018	December 31, 2017	Change
Gains on Sale of Property, Plant and Equipment	22	4	18
Unrealized Exchange Rate Gains on Commercial Transactions	14	4	10
Realized Exchange Rate Gains on Commercial Transactions	163	77	86
Other Revenue and Income	11,238	3,090	8,148
Total	11,437	3,175	8,262

Other revenue and income (Euro 11,437 thousand) mainly includes:

- ▶ recharges for services and consultancy provided by F.I.L.A. S.p.A. in favour of Canson SAS (France - Euro 252 thousand), Canson Italy S.r.l. (Italy - Euro 247 thousand), Dixon Ticonderoga Company (U.S.A. - Euro 220 thousand), Canson Qingdao Co., Ltd (China – Euro 38 thousand), Daler Rowney Ltd (United Kingdom – Euro 146 thousand), Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico - Euro 82 thousand), Industria Maimeri S.p.A. (Italy – Euro 125 thousand), Fila Dixon Stationery (Kunshan) Co, Ltd. (China - Euro 123 thousand), Lyra KG (Germany - Euro 150 thousand), Omyacolor S.A. (France - Euro 75 thousand), DOMS Industries Pvt Ltd (India –Euro 48 thousand), Canson Inc. (U.S.A. – Euro 50 thousand), Canson Australia PTY Ltd. (Australia – Euro 22 thousand) and F.I.L.A. Iberia S.L. (Spain - Euro 57 thousand) and Pacon Corporation (U.S.A. - Euro 130 thousand).
- ▶ recharges for costs incurred by F.I.L.A. S.p.A. against Group insurance coverage principally related to the companies Canson SAS (France – Euro 167 thousand), Daler Rowney Ltd. (United Kingdom – Euro 82 thousand), Omyacolor S.A. (France - Euro 60 thousand), Lyra KG (Germany - Euro 41 thousand), F.I.L.A. Iberia S.L. (Spain - Euro 11 thousand) and Dixon Ticonderoga Company (U.S.A. - Euro 17 thousand);
- ▶ recharges of costs incurred by F.I.L.A. S.p.A. related to the ERP roll out at the F.I.L.A. Group, principally related to Canson Inc. (U.S.A. - Euro 250 thousand), Dixon Ticonderoga Company (U.S.A. – Euro 48 thousand), Canson Qingdao Ltd (China – Euro 172 thousand), Lyra KG (Germany - Euro 446 thousand), Canson Australia PTY Ltd. (Australia – Euro 115 thousand), Industria Maimeri S.p.A. (Italy – Euro 247 thousand), F.I.L.A. Iberia S.L. (Spain –

Euro 54 thousand), Canson SAS (France – Euro 804 thousand) and Omyacolor S.A. (France – Euro 15 thousand);

- recharges for costs associated with the acquisition of Pacon Corporation to the subsidiary Dixon Ticonderoga Company (U.S.A. – Euro 6,272 thousand);
- recharges of costs to subsidiaries for sureties granted in favour of FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey - Euro 27 thousand), Dixon Ticonderoga Company (U.S.A. - Euro 33 thousand) and Canson Brasil I.P.E. LTDA (Brazil - Euro 5 thousand) by F.I.L.A. S.p.A., in guarantee of credit lines contracted with Banca Nazionale del Lavoro S.p.A. and in favour of FILA Stationary O.O.O. (Russia - Euro 13 thousand) in guarantee of the credit lines contracted with Banca Intesa Sanpaolo.

Note 22 - Costs for Raw Materials, Ancillary, Consumables and Goods

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

The breakdown is provided below:

Note 22 - COSTS FOR RAW MATERIALS, ANCILLARY, CONSUMABLES AND GOODS			
<i>Euro thousands</i>	2018	2017	Change
Raw materials, Ancillary, Consumables and Goods	(35,644)	(34,818)	(825)
Shipping Expenses on Purchases	(1,735)	(1,602)	(133)
Packaging	(324)	(269)	(56)
Other Accessory Charges on Purchases	(2,575)	(2,500)	(75)
Total	(40,278)	(39,188)	(1,090)

“Cost for Raw Materials, Ancillaries, Consumables and Goods” includes purchases for production and the provision of adequate inventory for future sales.

“Other Accessory Charges and Other Raw Material, Consumable and Goods Purchases” include all accessory charges, such as outsourcing and consortium fees.

“Raw Materials, Semi-Finished, Work in Progress and Goods” at December 31, 2018 increased Euro 948 thousand (decrease of Euro 1,329 thousand at December 31, 2017), due to:

- increase in raw materials, consumables, supplies and goods for Euro 448 thousand;
- work in progress and semi-finished products of Euro 291 thousand;
- increase in “Finished Products” of Euro 791 thousand.

Note 23 - Service Costs and Use of Third-Party Assets

Services and use of third-party assets amounted in 2018 to Euro 27,586 thousand (Euro 23,042 thousand in 2017). Services costs are broken down as follows:

Note 23 - SERVICE COSTS AND USE OF THIRD PARTY ASSETS			
<i>Euro thousands</i>	2018	2017	Change
Sundry services	(468)	(3,950)	3,482
Transportation Costs	(3,855)	(3,936)	81
Maintenance	(1,488)	(364)	(1,124)
Utilities	(1,089)	(1,016)	(73)
Consulting fees	(11,391)	(3,052)	(8,339)
Directors and Statutory Auditors Fees	(1,890)	(3,478)	1,588
Advertising, Promotions, Shows and Fair	(1,735)	(1,228)	(507)
Cleaning costs	(58)	(83)	25
Bank Commissions	(390)	(369)	(21)
Agents	(1,959)	(2,148)	189
Travelling and Representation Expenses	(680)	(649)	(31)
Sales Incentives	(779)	(823)	44
Insurance	(627)	(552)	(75)
Other Service Costs	(131)	(249)	118
Hire Charges	(436)	(433)	(3)
Rental Charges	(272)	(252)	(20)
Operating Leases	(83)	(84)	1
Royalties and Patents	(255)	(376)	121
Total	(27,586)	(23,042)	(4,544)

The increase in services and use of third-party assets primarily relates to consulting (Euro 8,339 thousand). These one-off costs refer to the services rendered by consultants in connection with the acquisition of the Pacon Group. It bears reiterating, as mentioned above with regard to other revenue and income (Note 21), that these costs have been charged proportionally to the subsidiary Dixon Ticonderoga (U.S.A.).

Operating leases amount to Euro 83 thousand, concerning operating leases undertaken by F.I.L.A. S.p.A. for company cars. Operating lease payments to be made in the following year amount to Euro 84 thousand, whereas those to be made within the next five years amount to Euro 252 thousand.

Maintenance includes the contracts entered into at the end of the previous year and in force in the reporting year, governing software maintenance relating to the SAP project and amounting to

approximately Euro 1,200 thousand. The sums concerned are recharged to Group companies on the basis of the number of users benefiting from the maintenance service.

Note 24 – Other Costs

Other costs in 2018 totalled Euro 506 thousand (Euro 740 thousand in 2017).

Note 24 – OTHER COSTS			
<i>Euro thousands</i>	2018	2017	Change
Unrealized Exchange rate Losses on Commercial Transactions	(6)	(225)	219
Realized Exchange rate Losses on Commercial Transactions	(216)	(282)	66
Other Operating rate Charges	(284)	(233)	(51)
Total	(506)	(740)	234

“Other Operating Charges” include residual costs such as municipal property tax (IMU - Euro 76 thousand).

Note 25 – Personnel Expenses

“Personnel Expenses” include all costs and expenses incurred for employees.

These costs are broken down as follows:

Note 25.A - PERSONNEL EXPENSES			
<i>Euro thousands</i>	2018	2017	Change
Wages and Salaries	(8,523)	(8,596)	73
Social Security Charges	(2,836)	(2,739)	(97)
Employment Benefits	(602)	(612)	10
Other Personnel Expenses	(565)	(1,977)	1,412
Total	(12,525)	(13,925)	1,399

Other personnel expenses include the costs related to the “2017-2019 Performance Shares Plan” concerning ordinary F.I.L.A. S.p.A. shares reserved for Group executives and managers. The change in this caption compared to 2017 was due to the fact that in the previous year the caption also included the costs associated with the one-off bonus paid in ordinary F.I.L.A. S.p.A. shares.

At December 31, 2018, the workforce of F.I.L.A. S.p.A. was as follows:

Note 25.B - PERSONNEL				
	Manager	White-collars	Blue-collars	Total Amount
Total at December 31, 2017	11	86	117	214
Increases	1	8	10	19
Decreases	-	(7)	(12)	(19)
Total at December 31, 2018	12	87	115	214
2018 Average headcount	11	87	116	214

Turnover in 2018 related to normal staffing changes, which mainly involved the blue-collar category.

Note 26 – Amortisation and Depreciation

Amortisation and depreciation in 2018 and 2017 are reported below:

Note 26 – AMORTISATION AND DEPRECIATION			
	2018	2017	Change
<i>Euro thousands</i>			
Depreciation of Property, Plant and Equipment	(1,399)	(1,503)	104
Amortisation of Intangible Assets	(1,257)	(182)	(1,075)
Total	(2,656)	(1,685)	(971)

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

No impairment losses were recognized in the year.

Note 27 – Recoveries (Impairment Losses) Trade Receivables and Other Assets

Total net recoveries (impairment losses) on trade receivables and other assets amounted to net recoveries of Euro 434 thousand in 2018, compared to net impairment losses of Euro 644 thousand in 2017.

Nota 27 - RECOVERY (IMPAIRMENT LOSSES) OF TRADE AND OTHER RECEIVABLES			
	2018	2017	Change
<i>Euro thousands</i>			
Recovery (impairment losses) of Trade and Other Receivables	434	(644)	1,078
Total	434	(644)	1,078

The decline in recoveries (impairment losses) on trade receivables and other assets was primarily attributable to the positive effect at December 31, 2018 arising from the application of IFRS 9 for the positive amount of Euro 497 thousand.

Note 29 – Financial income

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

Note 29 – FINANCIAL INCOME			
<i>Euro thousands</i>	2018	2017	Change
Investment Income	7,384	10,272	(2,888)
<i>Dividends</i>	<i>7,384</i>	<i>10,272</i>	<i>(2,888)</i>
Interest and Income from Group Companies	1,651	1,490	161
Bank Interest Income	17	23	(6)
Other Financial Incomes	4,671	9	4,663
Unrealized Exchange Rate Gains on Financial Transactions	156	0	156
Realized Exchange Rate Gains on Financial Transactions	1,610	256	1,354
Total	15,489	12,050	3,439

Investment income includes the dividends distributed by the subsidiary Dixon Ticonderoga Co. (U.S.A. - Euro 2,843 thousand), by the subsidiary Omyacolor S.A. (France – Euro 2,089 thousand), by the subsidiary Lyra KG (Germany – Euro 896 thousand), by the subsidiary F.I.L.A. Iberia S.L. (Spain – Euro 1,258 thousand) and by the subsidiary DOMS Industries Pvt Ltd (India – Euro 298 thousand).

Interest and income from Group companies includes financial income recharged principally to the subsidiaries of the Canson Group (Euro 1,091 thousand), to the subsidiary Daler Rowney Ltd. (United Kingdom – Euro 112 thousand), to the subsidiary FILA SA PTY Ltd. (South Africa – Euro 63 thousand), to the subsidiary Canson Brasil I.P.E. Ltda (Brazil – Euro 116 thousand) and to the subsidiary FILA Stationery O.O.O. (Russia – Euro 39 thousand), calculated on the loans granted by F.I.L.A. S.p.A.

Other financial income includes the recharge of fees on the new loan disbursed in June 2018, attributable to the subsidiary Dixon Ticonderoga (U.S.A.) in the amount of Euro 3,801 thousand, and the income generated for F.I.L.A. S.p.A. by the unexercised portion of the warrants on the share capital increase in the amount of Euro 610 thousand.

For further information, reference should be made to “Note 3 - Financial Assets”.

Note 29.A - Foreign currency transactions

Exchange rate differences on financial and commercial transactions in foreign currencies in 2018 are reported below.

Note 29.A - FOREIGN CURRENCY TRANSACTIONS			
<i>Euro thousands</i>	2018	2017	Change
Unrealized Exchange rate Losses on Commercial Transactions	14	4	10
Realized Exchange rate Losses on Commercial Transactions	163	77	86
Unrealized Exchange rate Gains on Commercial Transactions	(6)	(225)	219
Realized Exchange rate Gains on Commercial Transactions	(216)	(282)	66
Total exchange differences on commercial transactions	(46)	(426)	380
Unrealized Exchange rate Gains on Financial Transactions	-	0	0
Realized Exchange rate Gains on Financial Transactions	1,610	256	1,354
Unrealized Exchange rate Losses on Financial Transactions	-	-	-
Realized Exchange rate Losses on Financial Transactions	(135)	(1,247)	1,112
Total exchange differences on financial transactions	1,475	(991)	2,466
Total net value of exchange differences	1,429	(1,417)	2,846

Exchange rate differences in 2018 arose from transactions in US dollars against the euro, in addition to the movement in the year of assets and liabilities in foreign currencies, following commercial and financial transactions. Net realized gains on financial transactions include the benefit obtained through a foreign exchange hedging transaction (EUR-USD) in conjunction with the June 2018 financing transaction, amounting to Euro 1,443 thousand.

Note 30 – Financial Expense

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

Note 30 - FINANCIAL EXPENSE			
<i>Euro thousands</i>	2018	2017	Change
Interest on Bank Overdrafts	(28)	(88)	60
Interest on Bank Loans and borrowings	(6,503)	(4,451)	(2,052)
Other Financial Expense	(8,204)	(1,902)	(6,302)
Realised Exchange Rate Losses on Financial Transactions	(135)	(1,247)	1,112
Total	(14,870)	(7,688)	(7,182)

Other financial expense amounted to Euro 8,204 thousand in 2018 (Euro 1,902 thousand in 2017) and is broken down as follows:

- the charges accrued in 2018 relating to the amortized cost of the new loan contracted by F.I.L.A. S.p.A. amounted to Euro 1,272 thousand. It should also be noted that in conjunction with the issue of the new SFA, the residual amortized cost relating to the previous loan of Euro 2,250 thousand was released (for further details, see Note 13 - Financial liabilities);
- financial commissions (Euro 394 thousand) applied by credit institutions issuing the loan for the acquisitions carried out in 2018.

“Interest expense on Bank Loans and Borrowings” include interest matured on loans undertaken by F.I.L.A. S.p.A. (Euro 5,022 thousand) against the acquisitions executed in 2017 and 2018. In addition, the account includes the interest differentials paid following the issue of interest rate hedging instruments on the notional of the overall loan (Euro 1,481 thousand). For further details, reference should be made to “Note 13 - Financial Liabilities”.

Nota 31 – Recoveries (Impairment losses) on financial assets

Total recoveries (impairment losses) on financial assets amount to Euro 200 thousand in 2018.

Nota 31 - RECOVERY (IMPAIRMENT LOSSES) OF FINANCIAL ASSETS			
<i>Euro thousands</i>	2018	2017	Change
Recovery (impairment losses) of Financial Assets	200	0	200
Total	200	0	200

The decline in recoveries (impairment losses) on financial assets was primarily attributable to the effect of the application of IFRS 9 in the amount of Euro 200 thousand at December 31, 2018.

Note 32 – Impairment losses on equity investments at cost

Impairment losses on equity investments at cost include the impairment loss on the investments held by F.I.L.A. S.p.A. in the subsidiaries FILA SA PTY Ltd. (South Africa) of Euro 0.6 thousand, Canson Brasil I.P.E. Ltda (Brazil) of Euro 69 thousand and FILA Stationary and Office Equipment Industry Ltd. Co. (Turkey) of Euro 582 thousand in 2018.

Note 33 – Income taxes

Collectively they amount to Euro 1,274 thousand in 2018 (Euro 608 thousand in 2017) and consist of current taxes of Euro 619 thousand (Euro 1,011 thousand in 2017) and net deferred tax assets of Euro 654 thousand (net deferred tax liabilities of Euro 403 thousand in 2017).

Note 33.A – Current Income Taxes

The breakdown is provided below:

Note 33.A - CURRENT INCOME TAXES			
<i>Euro thousands</i>	2018	2017	Change
Current taxes	(619)	(1,011)	392
Total	(619)	(1,011)	392

Current income taxes in 2018 refer to IRAP calculated in accordance with current legislation (Euro 371 thousand) and the tax charge relating to the tax representation of the subsidiary Lyra KG, in addition to the tax charge as per Art. 167 of Presidential Decree No. 917/1986 concerning controlled foreign companies for Euro 28 thousand.

IRES was fully offset by the tax credit under the economic growth aid (ACE) program.

In addition, current income taxes include tax credits for consolidated income produced overseas (principally dividends) for Euro 221 thousand under Article 165 of the Income Tax Act following the absence of an IRES tax charge.

Note 33.B - Deferred tax income and expense

The breakdown is provided below:

Note 33.B DEFERRED TAX INCOME & EXPENSE			
<i>Euro thousands</i>	2018	2017	Change
Deferred Tax Income	(379)	343	(722)
Deferred Tax Expense	(275)	60	(335)
Total	(654)	403	(1,057)

The overall tax effects in the year, compared to the previous year, are reported below.

Note 33.C TOTAL INCOME TAXES IN YEAR			
<i>Euro thousands</i>	2018		Total Income Taxes
	I.R.E.S.	I.R.A.P.	
Assessable Tax Base	7,906	21,791	-
Tax adjustments	(7,409)	(12,286)	-
Taxable profit	497	9,505	-
Total current income taxes	-	(371)	(371)
IRES tax credit on overseas income	(221)	-	(221)
Lyra KG (Germany) German tax representation	-	-	-
Controlled Foreign Company	(128)	-	(128)
Other changes	100	-	100
Total current income taxes	(249)	(371)	(620)
Deferred Tax Income in Year on Temporary Differences	(379)	0	(379)
Deferred Tax Expense in Year on Temporary Differences	(275)	-	(275)
Total deferred tax income & expenses	(654)	0	(654)
Total income taxes	(903)	(371)	(1,274)

The breakdown of current and deferred taxes recognised to the Profit or loss was as follows:

Note 33.D - DEFERRED AND CURRENT TAXES		
<i>Euro thousands</i>	2018	2017
Current taxes	(619)	(1,011)
Current taxes	(619)	(1,011)
Deferred Taxes	(654)	(283)
Deferred tax charges	(654)	(283)
Total	(1,274)	(1,294)

In relation to deferred tax liabilities recorded through equity, reference should be made to “Note 16 - “Deferred Tax Liabilities”.

Subsequent events

On January 11, 2019, a partial repayment of Euro 100 million was made on one of the various medium/long-term credit lines granted for the acquisition of the Pacon Group (line of Euro 125 million with bullet repayment at 5 years).

Atypical and/or Unusual Transactions

In accordance with Consob Communication of July 28, 2006, during 2018, F.I.L.A. S.p.A. did not undertake any atypical and/or unusual transactions as defined by this communication, whereby atypical and/or unusual transactions refers to transactions which for size/importance, nature of the counterparties, nature of the transaction, method in determining the transfer price or time period (close to the year-end) may give rise to doubts in relation to: the correctness/completeness of the information in the financial statements, conflicts of interest, the safeguarding of the company's assets and the protection of non-controlling shareholders.

The Board of Directors
THE CHAIRMAN
Gianni Mion

Final considerations

These notes, as is the case for the financial statements, as a whole, of which they are an integral part, provide a true and fair view of the financial position of F.I.L.A. S.p.A. at December 31, 2018 and the result of operations for the year ended.

These separate financial statements 2018 comprise the statement of financial position, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the notes, and reflect the underlying accounting records.

Statement of the Manager in Charge and Corporate Bodies



F.I.L.A. S.p.A.
 Via XXV Aprile, 5
 20016 Pero (Milan)

March 20, 2019

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

The undersigned Massimo Candela, as Chief Executive Officer, and Stefano De Rosa, as Manager in Charge of Financial Reporting of F.I.L.A. S.p.A., confirm, and also in consideration of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 38 of February 24, 1998:

- o the adequacy in relation to the characteristics of the company and
- o the effective application

of the administrative and accounting procedures for the preparation of the financial statements as at and for the year ended December 31, 2018.

The assessment of the adequacy of the administrative-accounting procedures for the preparation of the separate financial statements at December 31, 2018 is based on a process defined by F.I.L.A. S.p.A. in accordance with the Internal Control - Integrated Framework model defined by the Committee of the Sponsoring Organisations of the Treadway Commission, a benchmark framework generally accepted at international level.

It is also declared that:

1. The 2018 Separate Financial Statements of F.I.L.A. S.p.A.:
 - o have been drawn up in conformity with the applicable IFRS endorsed by the European Union in conformity with Regulation (CE) No. 1606/2002 of the European Parliament and the Commission of 19 July 2002;
 - o correspond to the underlying accounting documents and records;
 - o provide a true and fair view of the financial position and results operations of the Issuer.
2. The Directors' Report includes a reliable analysis on the performance and operating result, as well as on the situation of the issuer, together with a description of the principal risks and uncertainties to which they are exposed.

The Chief Executive Officer

Massimo Candela
 (signed in original)

Manager in Charge of

Financial Reporting
 Stefano De Rosa
 (signed in original)

F.I.L.A. - Fabbrica Italiana Lapis ed Affini Società per Azioni.

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**Board of Statutory Auditors' Report on the separate financial statements at
December 31, 2017 prepared as per Article 2429 of the Italian Civil Code.**

**BOARD OF STATUTORY AUDITORS' REPORT
TO THE SHAREHOLDERS' MEETING
OF F.I.L.A. – FABBRICA ITALIANA LAPIS ED AFFINI S.p.A.
IN ACCORDANCE WITH ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/1998**

Dear Shareholders,

The Board of Statutory Auditors of F.I.L.A - Fabbrica Italiana Lapis ed Affini S.p.A (hereafter also "FILA S.p.A." or "the Company"), in accordance with Article 153 of Legislative Decree 58/1998 (hereafter the "CFA") is required to report to the Shareholders' Meeting, called for the approval of the financial statements at December 31, 2018, on the result for the year, on the supervisory activities carried out in execution of its duties, on any omissions and citable events, while in addition required to draw up observations and proposals regarding the financial statements, their approval and the matters within its scope.

The Board of Statutory Auditors has fulfilled its oversight duties, as per Article 149 of the CFA and, in addition, the duties established by Article 19 of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, concerning its role as the Internal Control and Audit Committee, taking account also of the conduct rules for the Boards of Statutory Auditors of listed companies issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili). In addition, it carried out oversight activities regarding the principles and communications issued by Consob regarding corporate controls and the activities of the Board of Statutory Auditors.

This Report was prepared in compliance with the indications provided by Consob with Communication DEM/1025564 of April 6, 2001 and subsequent amendments and rule Q.7.1. of the Conduct Rules of Boards of Statutory Auditors of listed companies issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili).

The audit appointment, as per Legislative Decree 58/1998 and Legislative Decree 39/2010, was undertaken by KPMG S.p.A. (hereafter also "KPMG" or "the Independent Audit Firm"), as awarded by the Shareholders' Meeting of February 20,

2015 for a period of nine years (for the financial years 2015 to 2023 inclusive).

1. Board of Directors - appointment, duration of office and functioning

The Board of Directors in office at the date of this Report (with the sole exception of the Director Alessandro Potestà, as outlined below) was appointed by the Shareholders' Meeting of FILA S.p.A. of April 27, 2018 for three financial years, and specifically until the approval of the financial statements at December 31, 2020.

The Board of Directors on November 13, 2018 co-opted as per Article 2386 of the Civil Code, with the favourable opinion of the Board of Statutory Auditors, Mr. Alessandro Potestà as a new director of the company until the next Shareholders' Meeting, in replacement of the resigning Mr. Sergio Ravagli.

The Board of Directors of April 27, 2018, in its first meeting subsequent to appointment, positively assessed the independence of directors Francesca Prandstraller, Paola Bonini, Gerolamo Caccia Dominioni and Sergio Ravagli and, on November 13, 2018, the independence of director Alessandro Potestà, with regards to Article 148, paragraph 3, of the CFA, as restated in Article 147-ter, paragraph 4, of the CFA and Article 3 of Self-Governance Code for listed companies (hereafter the "Self-Governance Code"). Subsequently, the Board of Directors on December 13, 2018, following a fresh assessment, confirmed the independence of the director Paola Bonini and declared the independence of director Filippo Zabban, as the circumstances for which he was not considered independent on appointment were no longer applicable. Latterly, the Board of Directors on March 20, 2019 newly verified and confirmed the independence of the above directors still in office.

On all of the above indicated occasions, the Board of Statutory Auditors verified the correct application of the criteria and procedures adopted by the Board of Directors to assess the independence of its members, in accordance with criterion 3.C.5 of the Self-Governance Code.

At the meeting of April 27, 2018, the Board of Directors also approved: i) the setting up internally of the Remuneration Committee and the Control and Risks Committee, assigning this latter also duties regarding related party transactions and therefore renaming it the "Control and Risks and Related Parties Committee" and ii) the appointment of the director Gerolamo Caccia Dominioni as lead independent director, assigning him the functions as per application criteria 2.C.4 of the Self-Governance Code. At the subsequent meeting of December 13, 2018, the Board

supplemented the Remuneration Committee with the appointment of Filippo Zabban as its fourth member.

The Board of Statutory Auditors noted the substantially positive outcomes of the assessments undertaken by the Board of Directors at the meeting of March 20, 2019 concerning the size and composition of the Board and of its functioning, in addition to the size, composition and functioning of the Internal Board Committees, communicating the improvements noted during this assessment.

2. Board of Statutory Auditors - Appointment, duration of office and functioning.

The Board of Statutory Auditors in office at the date of this report was appointed by the Shareholders' Meeting of FILA S.p.A. of April 27, 2018 for three financial years and therefore until the approval of the financial statements at December 31, 2020.

The Board of Statutory Auditors, on its appointment and subsequently on February 19, 2019, verified the absence of causes of ineligibility, lapse and incompatibility of its members, as per Article 148 of the CFA and rule Q.1.1. of the conduct rules of Boards of Statutory Auditors of listed companies issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), in addition to their satisfaction of the independence requirements as per application criterion 8.C.1. of the Self-Governance Code.

On these occasions, the Board of Statutory Auditors in addition considered itself, overall, adequate to execute the appointment assigned to it regarding its composition and the training and professional characteristics, experience, gender and age of its members and communicated the outcomes of this self-assessment to the Board of Directors for fulfillment of the necessary requirements.

The members of the Board of Statutory Auditors have declared compliance with the limit on the number of offices envisaged by Art. 144-*terdecies* of the Issuers' Regulation and of the availability of the time and resources necessary to undertake the appointment.

In the undertaking its duties, the Board of Statutory Auditors met on 19 occasions (of which on 10 occasions in its current composition) in 2018 (and has met on 6 occasions thus far in 2019), with the full attendance of all members, in addition to, informally, on various other occasions to meet, examine documents, set out work

schedules, and to prepare minutes and communications. In addition, the Board of Statutory has attended, always with its Chairperson and in many cases with at least one other member, the meetings of the Control and Risks and Related Parties Committee and of the Remuneration Committee (meeting respectively on 12 and 6 occasions in 2018), as outlined in greater detail in the table presented in the specific section of the Corporate Governance Report for the year ended December 31, 2018.

3. Compliance of the company with the Self-Governance Code

The company adopted the Self-Governance Code of listed companies with motion of the Board of Directors of March 15, 2016.

The Board of Statutory Auditors has monitored the correct application by the company of the corporate governance rules outlined in the Self-Governance Code and, to the extent of its scope, acted in compliance with the code.

4. Oversight and control activities

Considering that outlined above, during the year in question and with reference to activities that fall within the scope of its responsibility, the Board of Statutory Auditors declares to have:

- participated at the Shareholders' Meeting of October 11, 2018, which approved the share capital increase, and 13 Board of Directors' meetings, obtaining appropriate information from directors on the general performance of operations and their expected development, as well as on significant transactions in terms of size and characteristics, carried out by the Company and its subsidiaries;
- acquired the elements of information needed to verify compliance with the law, By-Laws, principles of good administration and suitability of the company's organisational structure of the company, through the acquisition and review of relevant documents and the minutes of the previous corporate boards, meetings with the heads of the various company departments and periodical exchanges of information with the Independent Audit Firm;
- attended, as previously stated always with its Chairperson and on many cases also with at least one other member, the meetings of the Control and Risks and Related Parties Committee and of the Remuneration Committee;

- met the members of the Supervisory Board, also at the meetings of the Control and Risks and Related Parties Committee;
- monitored the functioning and effectiveness of internal control systems and the suitability of the administrative and accounting system, particularly in terms of the latter's reliability in representing accounting data;
- in accordance with Article 150, paragraph 1, of the CFA, obtained from the directors at least on a quarterly basis adequate information on the activities and significant economic, financial and equity transactions carried out by the Company and its subsidiaries.
- exchanged in a timely manner with the managers of the Independent Audit Firm the relevant data and information for the undertaking of the respective duties as per Article 150, paragraph 3, of the CFA, examining to the extent necessary the result of the work carried out and acquiring the auditor's report prepared in accordance with Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EC) No. 537/2014;
- exchanged information on administration and control systems and on the general operating performance with the Board of Statutory Auditors of the Italian subsidiaries in accordance with Article 151, paragraph 1 and 2 of the CFA and requested from the Executive Director, the Internal Audit function and the independent audit firm information concerning the most significant matters regarding the main overseas investees of the FILA Group (hereafter also the "Group");
- reviewed (as outlined in greater detail below) the content of the Additional report to the Board of Statutory Auditors on the functioning of the Internal Control and Audit Committee prepared as per Article 11 of Regulation (EC) 537/2014, whose review did not indicate any aspects requiring reporting herein;
- monitored the functionality of the control system on Group companies and the suitability of the instructions imparted to them, also pursuant to Article 114, paragraph 2 of the CFA;
- noted the preparation of the Remuneration Report pursuant to Article 123-*ter* of the CFA and Article 84-*quater* of the Issuers' Regulation, without any particular observations to report;

- declared compliance of the By-Laws with the legal and regulatory provisions;
- supervised the compliance of the internal procedure concerning Related Parties Transactions according to the principles indicated in the Regulation approved by Consob with Resolution No. 17221 of March 12, 2010 and subsequent amendments, and its observance, pursuant to Article 4, paragraph 6 of this Regulation, attending, with its Chairperson and in many cases with at least one other member, all periodic meetings of the Control and Risks and Related Parties Committee called to review these transactions;
- supervised the corporate information process, verifying the directors' compliance with procedural rules concerning the drafting, approval and publication of the statutory and consolidated financial statements;
- ascertained the methodological suitability of the impairment process implemented by the competent company functions and approved by the Board of Directors in order to verify the possible existence of impairment losses on the assets recorded in the balance sheet;
- verified that the Directors' Report for the financial year 2018 complies with applicable legislation and was consistent with the decisions taken by the Board of Directors and with the facts represented in the statutory and consolidated financial statements;
- noted the content of the Consolidated Half-Year Report, without the need to report any observations, and also ascertained that the latter was published in accordance with the procedures laid down by law;
- noted that the company continued to publish on a voluntary basis the Quarterly Reports according to the deadlines established by the pre-existing rules;
- carried out, in the role of Internal Control and Audit Committee, pursuant to Art. 19, paragraph 1 of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, the specific information, monitoring, control and audit functions envisaged therein and accomplished the duties and tasks indicated by the aforesaid legislation;
- supervised compliance with the provisions set forth in Legislative Decree No. 254/2016 by examining, inter alia, the Non-Financial Consolidated Statement, while also ascertaining compliance with the provisions governing its

preparation pursuant to the abovementioned decree;

- attended, as part of its collective activities, training and information sessions for Directors and Statutory Auditors and undertook a visit to the production facility in Rufina (Florence) in order to acquire adequate knowledge of the sector in which the company and the Group operates, of the main products and markets and of the regulatory framework;
- particularly attended the induction and exploration meetings specifically dedicated to the acquisition of Pacon Holding Company (Pacon Group) and the share capital increase with the financial consultants, those with the legal experts and with the consultancy company which, in various forms, assisted the company in these transactions;
- oversaw the adjustment activities to Regulation (EC) 2016/679 concerning personal data protection (GDPR).

During the supervisory activities carried out by the Board of Statutory Auditors in accordance with the methods described above, the information and data acquired did not reveal any facts that inferred non-compliance with the law and the articles of association, nor to justify reports to the Supervisory Authorities or a mention in this report.

In addition, the Board of Statutory Auditors, on the basis of the information made available to it, reasonably consider that these operations comply with law and the By-Laws and were not manifestly imprudent, hazardous or against the motions undertaken by the Shareholders' Meeting or such as to compromise the integrity of the company's assets.

In this regard, it is highlighted that the Board of Statutory Auditors, in accordance with its role, dedicated particular attention to the acquisition of the Pacon Group, acquiring from the management of FILA S.p.A. and its consultants extensive information and adequate documentation on the strategic reasoning, price and funding of the transaction, and its sustainability from an economic-financial and management viewpoint, whose relevant aspects include a) the decision to launch a share capital increase, thereafter completed, in addition to b) the agreement reached with some executives of the Group, considered particularly expert and qualified, to guarantee and incentivise their continuance at the company and commitment over the medium-term.

With regards to the above acquisition and the other transactions undertaken in the

recent past (Daler-Rowney-Lukas on February 3, 2016, Canson Group - France on October 5, 2016 and St. Cuthberts Holding Limited on September 14, 2016), the Board of Statutory Auditors, within its supervisory activities regarding the adequacy of the organisational, administrative and accounting structure of the company, consistently monitored the integration of the Groups and the companies acquired, from a logistical-organisational viewpoint and with regards the flow of operating and financial information, and on the basis of the information provided by the company does not highlight any particular issues in this regard.

The Board of Statutory Auditors consistently supervised with particular attention the concrete functioning of the corporate governance boards and, in this regard, highlights that the company, in 2018, made indications previously regarding the functioning of its corporate governance bodies, concerning the adoption of the best practices of listed companies.

5. Oversight on atypical or unusual transactions and related party transactions

In 2018, the Board of Statutory Auditors did not note any atypical or unusual transactions with Group companies, third parties or with other related parties.

The Board of Statutory Auditors had not received at the date of the present report any communication from the control boards of the subsidiaries, associates or investees, or from the independent audit firm containing issues which require disclosure in this report.

The Board of Statutory Auditors, in addition, noted that the characteristics of the inter-company transactions and those with related parties undertaken by the company and its subsidiaries in 2018, the parties involved and the relative economic effects are indicated in the "Balance sheet with indication of transactions with related parties in accordance with Consob Motion No. 15519 of July 27, 2006", in the "Statement of comprehensive income with indication of transactions with related parties in accordance with Consob Motion No. 15519 of July 27, 2006" and in greater detail in the "Related party transactions" paragraph of of the Consolidated Financial Statements of the F.I.L.A. Group at December 31, 2018, to which reference should be made. In particular, in this paragraph the transactions executed by the FILA Group with related parties in the course of ordinary operations and based on market conditions are outlined.

The Board of Statutory Auditors assessed the information provided on the aforesaid

transactions as being overall suitable and has concluded that, on the basis of data so acquired, the latter appear consistent and in line with the company's interests. The Related Party Transactions, identified on the basis of international accounting standards and Consob's provisions, were governed by an internal policy (the "Policy"), adopted by the Board of Directors of Space S.p.A. (now F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A.) on October 15, 2013 and subsequently amended by the Board of Directors of FILA S.p.A. on March 21, 2017, May 10, 2017 and, latterly, on May 15, 2018.

The Board of Statutory Auditors examined the Procedure, ascertaining compliance with Consob Regulation No. 17221 of March 12, 2010, as amended by Resolution No. 17389 of June 23, 2010 and interpreted with Motion No. 78683 of September 24, 2010.

6. Relations with the Independent Audit Firm, in accordance with Legislative Decree 39/2010 and observations on its independence

The Board of Statutory Auditors oversaw the efficacy of the legal audit, discussing and examining through specific meetings with KPMG S.p.A. aspects concerning:

- the planning of activities, the methodological approach and the supervision and co-ordination of works carried out by the auditors of the overseas subsidiaries;
- the particularly significant areas in terms of audit risks;
- the efficacy and reliability of the internal control system;
- the periodic checks on the proper keeping of accounting records.
- the results emerging from the work carried out.

The Board of Statutory Auditors announced the fees accruing in 2018 for audit services provided to FILA S.p.A. and to the other Group companies, including the services regarding the audit appointment, in addition to those for the limited audit of the half-year financial statements at June 30, 2018 and the interim report at September 30, 2018.

In this regard, for the legal audit appointment the company recognised KPMG, for 2018 and for subsequent years until the conclusion of the current appointment, an integration of fees of Euro 133 thousand (of which Euro 40 thousand concerning the parent company and Euro 93 thousand the subsidiaries in North America) on an annual basis compared to those accruing in 2017 on the basis of the greater

commitment required regarding the acquisition of the Pacon Group. The fees accruing in 2018 regarding the service provided to F.I.L.A. S.p.A. and the Group by the Independent Audit Firm and the entities belonging to its network, including non-audit services ("non-audit services" or "NAS") are summarised in the Information provided as per Article 149-*duodecies* of Consob Issuers' Regulation of the Consolidated Financial Statements of the F.I.L.A. Group at December 31, 2018, in compliance with Article 149-*duodecies* of the Issuers' Regulation.

In particular, during 2018 FILA S.p.A. and its subsidiaries appointed the Independent Audit Firm and entities within its network to carry out non-audit services, for which in accordance with Article 5, paragraph 4 of Regulation (EC) 537/2014 the prior approval of the Internal Control and Audit Committee was required. In all these cases, the Board of Statutory Auditors, in its role as Internal Control and Audit Committee, reviewed in accordance with Articles 4, 5 and 6 of the above Regulation and considering the relative research and interpretation documents the requests to receive and adopt its decisions after assessing: i) the subject, method of execution of the appointment and fees; ii) the documents and relevant professional technical principles and iii) the declarations of the independent audit firm concerning the absence of risks regarding its independence.

In carrying out its investigatory activities, the Board of Statutory Auditors took into consideration the overall rationale of the rules stated, with a view to prudence and guaranteeing the independence of the auditor.

The fees for these appointments, according to that confirmed by the Independent Audit Firm, for 2018 totalled Euro 885 thousand, at consolidated level, of which Euro 577 thousand concerning the services provided by KPMG S.p.A. (of which Euro 490 thousand for services provided as part of the share capital increase) and Euro 308 thousand for services provided by parties belonging to the KPMG network in favour of the overseas Group subsidiaries (in particular Euro 118 thousand in favour of the subsidiaries in North America, also entirely concerning the share capital increase).

Incidentally, it should be noted that the company, on the request of the Board of Statutory Auditors, prepared and intends to adopt shortly, following approval by the Board of Directors, both the new procedure for the "Conferral to the independent audit firm of non-audit services" and with regards to the "Selection of the Audit Firm" to which the audit appointment is assigned. With regards to the independence of the audit firm, the Board of Statutory Auditors, as previously indicated, in its role also as

Internal Control and Audit Committee:

- a) fulfilled the duties required of Article 19, paragraph 1, letter e) of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, verifying and monitoring i) the independence of the Audit Firm, in accordance with Article 10, 10-bis, 10-ter and 10-quater and 17 of Legislative Decree 39/2010 and Article 6 of Regulation (EC) No. 537/2014; ii) the adequacy of the provision of non-audit services in accordance with Article 5 of the above Regulation;
- b) examined the Additional Report for the Internal Control and Audit Committee established by Article 11 of Regulation (EC) 537/2014 and noted that contained in the Transparency Report published by the Independent Audit Firm on its website in compliance with the criteria outlined in the Regulation;
- c) received as an annex to the above Additional Report, the "Annual confirmation of independence in accordance with Article 6, paragraph 2, letter a) of Regulation 537/2014 and in accordance with paragraph 17 of international audit principle (ISA Italy) 260" where the independent Audit Firm, among others, declares that, in the period between January 1, 2018 and the issue of the Confirmation, no situations which would compromise its independence with regards to FILA S.p.A. arose in accordance with Articles 10 and 17 of Legislative Decree 39/2010 and Articles 4 and 5 of Regulation (EC) 537/2014;
- d) discussed with the Independent Audit Firm, the risks regarding its independence and the measures taken to mitigate them, pursuant to Art. 6, para. 2(b) of EU Reg. No. 537/2014.

On the basis of the information acquired and the activities carried out, no critical aspects arose in relation to the independence of the Audit Firm and the Board of Statutory Auditors does not indicate any significant aspects to be reported to the Shareholders' Meeting.

7. Financial disclosure process and the internal control system

The Board of Statutory Auditors supervised the adequacy of the administrative and accounting system, in addition to its reliability to correctly represent the operating events, obtaining information from the administrative department managers and exchanging information with the Control and Risks and Related Parties Committee, the Internal Audit department and the Independent Audit Firm.

The Board of Statutory Auditors in addition supervised, also through periodic meetings with the Executive Officer responsible for financial reporting, the organisation and company procedures and the instruments adopted for the collation of the information and the data necessary for the drawing up of the statutory financial statements, the consolidated financial statements and the periodic financial reports, in addition to other financial communications, in order to: i) assess the adequacy and the effective adoption and ii) verify the adequacy and the suitability of the powers and the means assigned by the Board of Directors to the Executive Officer for the undertaking of his/her role.

In this regard, the Board of Statutory Auditors notes that in relation to the statements issued by the Executive Bodies (specifically the Chief Executive Officer) and the Executive officer for financial reporting in accordance with Article 154-*bis*, paragraph 5 of the CFA and Article 36, paragraph 1, letter c) point ii) of the Markets Regulation, on the statutory financial statements and on the consolidated financial statements of the Group at December 31, 2018, in addition to the Half-Year Financial Report at June 30, 2018 and on the quarterly reports, no citable matters or annotations emerged.

The Board of Statutory Auditors considers the administration and accounting system overall to be substantially adequate and reliable in view of the size and complexity of the company and of the Group.

In this regard, in 2018 activities regarding the development and adoption of a single Group ERP system involving also the recently acquired entities in North America (Pacon Group) continued.

Considering that responsibility for the audit of the accounts is assigned to the Independent Audit Firm, the Board of Statutory Auditors supervised the general layout of the statutory financial statements and the consolidated financial statements and their compliance with the rules governing their formation and structure. The Board of Statutory Auditors also verified their consistency with the events and information noted during the execution of their duties. In this regard, the Board of Statutory Auditors does not highlight any particular observations.

The Board of Statutory Auditors supervised, within the extent of its remit, the adequacy of the internal control and risk management system: a) obtaining information from the managers of the various company departments, so as to verify the existence, adequacy and proper implementation of the procedures; b) attended

the meetings of the Control and Risks and Related Parties Committee; c) met periodically with the internal audit manager and acquired information regarding the results of work carried out, actions recommended and subsequent initiatives undertaken; ii) consistently exchanged information with the Independent Audit Firm.

In this regard, the Board of Statutory Auditors periodically noted the information provided by the Executive Director as the Director in charge of setting up and maintaining an effective internal control system and the periodic reports prepared by the Control and Risks and Related Parties Committee in accordance with Application Criterion 7.C.2, letter f) of the Self-Governance Code on the activities undertaken, whereby, among others, a favourable opinion was expressed with regards to the adequacy of the internal control and risk management system.

The Board of Statutory Auditors, on the basis of that reported above and considering the control activities put in place and the improvement actions being implemented, considers that the internal control system should be considered in overall terms adequate to the size, complexity and operations undertaken by the Company and by the Group.

In this regard and considering the major acquisitions of overseas companies in 2018 and in the recent past, and the consequent expansion of the FILA Group internationally, also in non-EU countries, the Board of Statutory Auditors in various circumstances expressed its opinion, underlining the need i) to complete in a short timeframe the current integration, also through the adoption of a single Group ERP system and ii) for a constant commitment, by company senior management, to further strengthen the control functions and the governance system of the main subsidiaries.

8. Oversight of the non-financial disclosure process

As previously indicated, the Board of Statutory Auditors oversaw compliance with Legislative Decree 254/2016 and the enactment regulation adopted by Consob with Motion No. 20267 of 18/01/2018, with regards to the Non-financial statement ("NFS") and regarding the existence of an adequate organisational, administrative, reporting and control system of the company to permit the correct and complete presentation of non-financial disclosure.

In this regard, the Board of Statutory Auditors met with the Executive Director, in addition to the various company structures and outsourcers which were part of the

work group under its responsibility involved in the preparation of the NFS, acquiring information regarding the materiality analysis carried out by the company to establish the relevant non-financial reporting scopes for the FILA Group, the involvement of the subsidiaries and the operating procedures and instruments adopted for the collation of data/information and their subsequent analysis, control and consolidation. The Board of Statutory Auditors in addition discussed with the independent audit firm the content of the Non-financial statement, also in view of the recent new developments introduced by Article 1, paragraph 1073 of Law No. 145 of December 30, 2018 ("2018 Budget Law"), in addition to the operating means for the planning and execution of works.

On the basis of the information and the evidence acquired and according to the terms reported above, the Board of Statutory Auditors considers the procedures, processes, and structures for the production, reporting, measuring and presentation of this information to be adequate and does not highlight any particular matters for the Shareholders' Meeting.

9. Additional information requested by Consob Communication No. DEM/1025564 of April 6, 2001 and subsequent supplements

In accordance with that required by Consob, the Board of Statutory Auditors also reports the following:

- a) the Board of Statutory Auditors did not receive any petitions as per Article 2408 of the Civil Code, nor notices from third parties;
- b) the Board of Statutory Auditors, during 2018, did not receive any disclosure requests from Consob, neither as per Article 115 of the CFA, nor as per Article 114 of the CFA;
- c) in 2018, the Board of Statutory Auditors issued opinions regarding i) Article 2389, paragraph 3 of the Civil Code, concerning the remuneration of the executive directors, ii) Article 2386 of the Civil Code concerning the co-option of a director and iii) Article 154-bis, paragraph 1 of the CFA concerning the appointment of the Executive Officer for financial reporting;
- d) expressed its opinion in view of the motions considered by the Board of Directors, as required by the Self-Governance Code (Article 7, application criterion 7.C.1. and 7.C.2.) in relation to i) the annual work plan prepared by the Internal Audit function; ii) the correct use of the accounting standards and

their appropriateness for the preparation of the Separate and consolidated annual and half-year financial statements.

10. Significant events indicated in the Directors' Report, in the separate financial statements and in the consolidated financial statements

The significant events indicated by the company in the Directors' Report and statutory financial statements, as well as in the Consolidated Financial Statements for the financial year 2018, include in summary the following significant economic, financial and equity transactions (outlined in greater detail in the financial statements) made by the company and its subsidiaries during the year.

- On March 7, 2018, 51% of the share capital of FILA Art and Craft Ltd (Israel), a company involved in the sale of F.I.L.A. Group writing, art and design products in Israel, was acquired.
- On June 7, 2018, the subsidiary Dixon Ticonderoga Company (U.S.A.) acquired 100% of the share capital of Pacon Holding Company ("Pacon") for an enterprise value of USD 325 million and tax benefits of USD 15 million. For this purpose, on May 1, 2018 the vehicle FILA Acquisition Company was incorporated, with registered office in Delaware (U.S.A.), wholly owned by Dixon Ticonderoga Company (U.S.A.). Completion of the transaction required antitrust clearance as per the Hart-Scott-Rodino Antitrust Improvements Act in the United States of America, which was obtained on May 29, 2018. The transaction was funded by a medium to long-term Euro 520 million credit facility granted by a bank syndicate comprising UniCredit S.p.A. as global coordinator, Banca IMI S.P.A., Mediobanca Banca di Credito Finanziario S.p.A., Banca Nazionale del Lavoro and Banco BPM S.p.A. as "Mandated Lead Arrangers" and UniCredit Bank AG and security agent, including the refinancing of the parent's existing debt, and a revolving credit facility of Euro 50 million to meet any working capital requirements of the Group. The Board of Directors, in order to strengthen the capital structure, also submitted for the approval of the Shareholders' Meeting of F.I.L.A. S.p.A. a share capital increase for a maximum Euro 100 million (including any share premium), by way of a rights offering with pre-emption rights and earmarked for the early repayment of Group debt.

- On October 11, 2018, the Extraordinary Shareholders' Meeting of F.I.L.A. S.p.A. approved:
 - ✓ a divisible paid-in share capital increase for a maximum amount of Euro 100,000,000, including any share premium, to be executed by and not beyond March 31, 2019, through the issue of ordinary and B shares with full rights, in the form of a rights offering to all shareholders, in accordance with Article 2441, paragraphs 1, 2 and 3 of the Civil Code;
 - ✓ a divisible paid-in share capital increase for a maximum USD 2,050,000, to be converted into Euro at the exchange rate on the calculation date by the Board of Directors of the unitary subscription price of the share capital increase and, however, of not greater than Euro 2,500,000, including any share premium and at a unitary subscription price equal to that to be determined by the Board of Directors for the divisible share capital increase, to be executed by and not beyond December 31, 2025, to facilitate exercise of the warrants assigned free of charge to managers employed by the subsidiary Pacon Holding Company, and therefore with exclusion of the pre-emption right as per Article 2441, paragraph 8 of the Civil Code, to be executed through the issue of a number of ordinary shares to be established by the Board of Directors once the subscription price for the share capital increase has been established.
- On December 17, 2018, a total of 9,336,273 F.I.L.A. shares were subscribed and issued – of which (i) 7,820,925 ordinary F.I.L.A. shares and (ii) 1,515,348 special class B shares - and on December 27, 2018, a total of 201,990 ordinary Fila shares were subscribed and issued, in full execution of the paid-in share capital increase approved by the Shareholders' Meeting of F.I.L.A. S.p.A..
- In the fourth quarter of 2018, various non-operative or dormant subsidiaries were wound up.
- At December 31, 2018, the merger between the two subsidiaries F.I.L.A. Hispania S.L. and Fila Iberia S.L. became effective.

On the basis of information provided by the company and data acquired on the aforesaid transactions, the Board of Statutory Auditors ascertained its compliance with the law, the by-laws and the principles of correct administration, ensuring that

these were not manifestly imprudent or risky, in possible conflict of interest, inconsistent with the resolutions taken by the Shareholders' Meeting or such as to compromise the integrity of corporate assets.

11. Subsequent events

With regards to significant events after year-end, as stated in the 2018 Directors' Report, the Board of Statutory Auditors noted the following.

- On January 11, 2019, a partial repayment of Euro 100 million was made on one of the various medium/long-term credit lines granted for the acquisition of the Pacon Group (line of Euro 125 million with bullet repayment at 5 years).
- In January 2019, a number of corporate reorganisation operations were undertaken in the US. Specifically: i) merger between Dixon Ticonderoga (U.S.A.) and Eurholdham (U.S.A.) and ii) Pacon Corporation (U.S.A.) and Canson Inc. (U.S.A.).

12. Independent Auditors' Report and Board of Statutory Auditors' Report

The Independent Audit Firm issued on March 28, 2019 the Reports as per Article 14 of Legislative Decree No. 39/2010 and Article 10 of Regulation (EC) 537/2014, on the separate financial statements and on the consolidated financial statements where, in particular, it certified that:

- the company's statutory financial statements and the Group consolidated financial statements at December 31, 2018 provide a true and fair view of the statement of financial position at December 31, 2018 and of the economic result and cash flow for the year ended at that date in compliance with International Financial Reporting Standards adopted by the European Union and the provisions issued in implementation of Art. 9 of Legislative Decree 38/05;
- the Directors' Report and certain specific information contained in the Corporate Governance and Ownership Structure Report indicated in Article 123-bis, paragraph 4 of Legislative Decree 58/1998, are consistent with the company's statutory financial statements and Group consolidated financial statements and are drawn up in accordance with law;
- the opinion on the statutory financial statements and the consolidated financial statements is in line with that indicated in the Additional Report drawn up

pursuant to Article 11 of Regulation (EC) 537/2014 and in accordance with Article 19 of Legislative Decree 39/2010.

It is recalled for informational purposes alone that in the above-stated Reports the Independent Audit Firm considered it beneficial to identify as key aspects of the audit, for the statutory financial statements of FILA S.p.A., the measurement of the investments valued at cost while, with regards to the consolidated financial statements of the Group, a) the measurement of the recoverability of goodwill and of b) inventory.

In the Auditors' Report on the consolidated financial statements, the Independent Audit Firm also stated that it had verified the approval of FILA S.p.A.'s directors of the Consolidated Non-Financial Statement for the year 2018 for the FILA Group.

In the above Reports of the Independent Audit Firm, no issues or requests for disclosure were raised, nor were declarations issued in accordance with Article 14, paragraph 2, letters d) and e) of Legislative Decree 39/2010.

In addition, also on March 28, 2019, the Independent Audit Firm:

- sent to the Board of Statutory Auditors, as the Internal Control and Audit Committee, the additional report as per Article 11 of Regulation (EC) No. 537/2014, which does not contradict that outlined in the Reports on the financial statements indicated above and reports on other significant aspects, and that the Board of Statutory Auditors sends to the Board of Directors;
- issued, in accordance with Article 3, paragraph 10 of Legislative Decree 254/2016 and Article 5 of Consob Regulation 20267/2018, the Consolidated non-financial statement, regarding which the Independent Audit Firm declares that no matters came to its attention to suggest that the FILA Group's Non-Financial Statement for the year ended December 31, 2018 was not drawn up, in all significant aspects, in compliance with the requirements of Articles 3 and 4 of the Decree and selected GRI Standards.

The regular meetings held by the Board of Statutory Auditors with the Independent Audit Firm, pursuant to Article 150, paragraph 3 of Legislative Decree 58/1998, did not reveal aspects that should be highlighted in this Report.

Moreover, the Board of Statutory Auditors did not receive any disclosures from the Independent Audit Firm on citable events detected during the audit of the annual and consolidated financial statements.

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



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

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

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

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of F.I.L.A. S.p.A. (the "company"), which comprise the statement of financial position as at 31 December 2018, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of F.I.L.A. S.p.A. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

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

Key audit matters

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

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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Bologna Bolzano Brescia
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F.I.L.A. S.p.A.
Independent auditors' report
31 December 2018

Measurement of equity investments

Notes to the separate financial statements: section "Accounting policies of the Separate Financial Statements" and note 4 "Equity investments"

Key audit matter	Audit procedures addressing the key audit matter
<p>The carrying amount of equity investments at 31 December 2018 is €337.1 million.</p> <p>Specifically:</p> <ul style="list-style-type: none"> — as a result the wholly-owned subsidiary Dixon Ticonderoga Company's capital increase carried out in 2018, the company's investment therein rose from €30.9 million to €90.0 million. The capital increase is preliminary to the subsidiary's acquisition of the US company Pacon Holding Company; — as a result of the 2016 acquisitions of 100% of the British company Renoir TopCo, holding company of the Daler-Rowney Lukas Group, and 100% of the French Canson Group, the company recognised equity investments with a carrying amount of €97.3 million (Renoir TopCo) and €68.5 million (Canson group companies, namely Canson S.A.S., Lodi 12 S.A.S. and Eurholdham USA Inc.) at 31 December 2018; — as a result of the 2015 acquisition of 51% of the Indian company DOMS Industries Pvt Ltd., the company recognised an equity investment with a carrying amount of €57.3 million at 31 December 2018; <p>When they identify indicators of impairment, the directors test these equity investments for impairment, checking their recoverability by comparing their carrying amounts with their value in use calculated using the discounted cash flow model.</p> <p>Calculating the recoverable amount of these equity investments is complex and requires significant estimates by directors.</p> <p>Specifically, in addition to the uncertainty inherent in any forecast, this process has the following characteristics:</p> <ul style="list-style-type: none"> — valuation assumptions affected by the reference market trends, especially with reference to the US, UK and Indian markets, due to the specific economic and political conditions that are difficult to predict and unstable; 	<p>Our audit procedures, which also involved our own specialists, included:</p> <ul style="list-style-type: none"> — understanding the process adopted for impairment testing approved by the company's board of directors; — understanding the process adopted to prepare the forecasts from which the expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the assumptions used by the company to prepare the forecasts; — checking any discrepancies between the previous year forecast and actual figures, in order to check the accuracy of the estimation process; — checking the consistency of the expected cash flows used for impairment testing with those used for the forecasts and analysing the reasonableness of any discrepancies; — analysing the expected cash flows and main assumptions used to calculate value in use, especially the key assumptions, which include: the revenue increase in India, France, the United States and the United Kingdom, expected synergies and the calculation of the discount and long-term growth rates; — assessing the appropriateness of the disclosures provided in the notes about the measurement of equity investments and the related impairment tests.



F.I.L.A. S.p.A.
 Independent auditors' report
 31 December 2018

Key audit matter	Audit procedures addressing the key audit matter
<ul style="list-style-type: none"> — assumptions about the synergies expected, as set out by the directors in the business plan; — a high level of directors' judgement about the estimated long-term growth rate and the discount rate applied to the projected cash flows. <p>For the above reasons, we believe that the measurement of the above equity investments is a key audit matter.</p>	

Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

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

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

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

Auditors' responsibilities for the audit of the separate financial statements

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

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

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material



F.I.L.A. S.p.A.
Independent auditors' report
31 December 2018

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

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

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

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

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

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

On 20 February 2015, the company's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2015 to 31 December 2023.

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

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



F.I.L.A. S.p.A.
Independent auditors' report
31 December 2018

Report on other legal and regulatory requirements

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

The company's directors are responsible for the preparation of the a directors' report and a report on corporate governance and ownership structure at 31 December 2018 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the company's separate financial statements at 31 December 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the company's separate financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.

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

Milan, 28 March 2019

KPMG S.p.A.

(signed on the original)

Domenico Bellini
Director of Audit