

PRESS RELEASE

FILA: GROUP INTEGRATION ACCELERATES

- **1H2017 Core Business Revenue of Euro 260.5 million, up 29.3% on 1H2016 (Euro 59.0 million), mainly thanks to the acquisitions concluded in the previous period; and**
- **Organic revenue growth of 2%, net of acquisition and currency effects. Growth impacted in the first part of the year by the logistics integration with Daler and Canson products in North America; revenue recovery is expected in the second half of the year; and**
- **Adjusted EBITDA of Euro 43.8 million, +19.9% on Euro 36.6 million in 1H2016, of which -2.8% organic, primarily following temporary delay on North American revenue due to the above circumstances, increasing seasonality impacts compared to 1H2016;**
- **Adjusted Net Profit increases to Euro 17.6 million (Euro 17.1 million in 1H2016);**
- **Net Financial Position of Euro -285.6 million at June 30, 2017, in line with business seasonality impacts on net working capital - slightly better than forecasts;**
- **Stable European market in 2017 with sustained growth in India and Mexico and focus on boosting market share across all regions and segments.**
- **In the first half of 2017, the Group significantly invested in logistics and managerial structure, with the expectation of a return of such investments in terms of greater future synergies**

Milan, August 3, 2017 – The Board of Directors of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. (“F.I.L.A.”), ISIN code IT0004967292, today reviewed and approved the 2017 Half-Year Report.

F.I.L.A. – a Company listed on the STAR segment of the Milan Stock Exchange, which operates in the creativity tools market - producing design, colouring, writing and modelling objects - reports 1H2017 Core Business Revenue of Euro 260.5 million, up 29.3% on 1H2016. Adjusted EBITDA of Euro 43.8 million increased 19.9% on the first half of 2016. Adjusted Net Profit of Euro 17.6 million compared to Euro 17.1 million for 1H2016.

“The first half results confirm the acceleration of the current production and commercial integration process whose full potential in terms of cost and revenue synergies will be apparent as we forecasted from 2018.” stated Massimo Candela, Chief Executive Officer of F.I.L.A.” In the first half of 2017, growth continued in Asia and particularly in India, with both volumes and production capacity significantly rising. In the second half of the year, the cost efficiencies under the integration will emerge and the Net Financial Position will improve, although significant production investments. In the same period we started to realize significant investments in human resources and logistics by

strengthening the management structure of the Group and enlarging and modernizing some facilities in Europe and North America”.

Operating performance - F.I.L.A. GROUP

Core Business Revenue of Euro 260.5 million up 29.3% on the same period of the previous year (Euro 59 million).

Organic growth of Euro 4.1 million (+2.0%), excluding:

1. the positive currency effect of approx. Euro 1.4 million (mainly due to the strengthening of the US Dollar and the Indian Rupee, only partially offset by the weakening of the Mexican Peso and UK Sterling); and
2. the M&A effect of approx. Euro 53.5 million, of which:
 - Euro 4.7 million concerning the English Daler-Rowney Lukas Group, consolidated from February 2016; and
 - Euro 46.7 million concerning the French Group Canson, consolidated from October 2016; and
 - Euro 2.4 million concerning the English company St. Cuthberts Mill Limited, consolidated from October 2016.

Organic growth principally stemmed from Central-South America, in particular Mexico, and to a lesser extent, Chile and Argentina +22.3% (+Euro 5.2 million), and Asia +20.2% (in particular in India) for Euro 4.7 million. This growth was partially offset by a temporary revenue contraction of Euro 7 million in North America (-10.4%), due to the integration of Daler, and to a lesser extent Canson, which resulted in shipping delays in the first part of the year which have since been resolved. This revenue delay has been already absorbed and will be recovered in the second half of 2017.

This follows strong school and Arts & Craft product demand, increased penetration in South America and the continued consolidation of market share, thanks also to the acquisition of the Daler-Rowney Lukas Group and the Canson Group, which strengthened distribution capacity.

The contribution of other creativity instruments to total revenue increased approx. 10.9% to 53.9%, both due to the new Art & Craft sector acquisitions and organic growth of 4.1%.

Adjusted Operating Costs in 1H2017 of Euro 228.7 million increased Euro 59 million on the same period of 2016, almost exclusively as a result of the M&A effect and residually the increase in acquisition, commercial, marketing and transport costs in support of the higher revenue.

Adjusted EBITDA was Euro 43.8 million, up 19.9% (+Euro 7.3 million on 1H2016). The core business revenue margin was 16.8% (18.1% in 1H2016)

The adjustment of the 1H2017 EBITDA relates to non-recurring operating costs of approx. Euro 4.9 million, principally for Group reorganisation plans and the Stock Grant Plan for specific Group employees.

Net of M&A operations and the currency effect, organic EBITDA decreased 2.8%, principally due to the above mentioned delays in the first part of the year for the logistical integration of Daler and Canson products in North America.

Adjusted EBIT was Euro 34.8 million, up 16.2% and includes higher amortisation, depreciation and write-downs than the previous year of Euro 2.4 million, exclusively due to the above-stated M&A effect.

Adjusted Net Financial Charges increased on 1H2016 Euro 6.3 million, largely due to higher interest charges incurred by F.I.L.A. S.p.A. on the loan contracted in 2016 for the acquisitions, in addition to currency differences on inter-company loans granted in Euro to companies in the United States, Brazil, Russia and South Africa.

Adjusted Group Income taxes were Euro 7.9 million, with the tax rate substantially in line with the previous year thanks to the use of the matured “ACE” tax base.

Excluding the non-controlling interest result, the F.I.L.A. **Group adjusted Net Profit in 1H2017 was Euro 17.6 million, compared to Euro 17.1 million in 1H2016.**

Statement of Financial Position review - F.I.L.A. Group

The Net Capital Employed of the F.I.L.A. Group at June 30, 2017 of Euro 530.4 million is principally comprised of Net Fixed Assets of Euro 298.3 million (decreasing on December 31, 2016 Euro 5.1 million) and Net Working Capital totalling Euro 272.6 million (increasing on December 31, 2016 Euro 71.9 million).

The decrease in Intangible Assets of Euro 6.5 million on 1H2016 substantially relates to negative translation differences of Euro 3.3 million and the amortisation of intangible assets (Euro 3.4 million), particularly with regards to “Brands” and “Development Technology” by the Group companies Daler-Rowney Lukas, St. Cuthberts Mill (United Kingdom), the Canson Group and DOMS Industries Pvt Ltd (India), valued during their respective acquisitions.

The increase in Property, plant and equipment of Euro 0.5 million compared to December 31, 2016 mainly relates to investments in Plant and Machinery and Buildings (in use or under construction) by Group companies in support of production volume growth and business development, in particular in the “Art & Craft” sector. Overall net investments of Euro 8.2 million principally concerned F.I.L.A.-Dixon, S.A. de C.V. (Mexico), DOMS Industries Pvt Ltd (India), F.I.L.A. S.p.A., Daler Rowney Ltd (United Kingdom) and Canson SAS (France). The overall movement also stems from positive currency differences for Euro 1.2 million and depreciation of Euro 5.5 million.

The increase in “Net Working Capital” of Euro 71.9 million compared to December 31, 2016 relates to the following:

- **Inventories** - increasing Euro 13.8 million, principally due to business seasonality relating to the schools campaign. The increase concerned in particular the US subsidiaries Dixon Ticonderoga Company and Canson Inc., Daler Rowney Ltd (United Kingdom), the Mexican Grupo F.I.L.A.-Dixon, S.A. de C.V. and DOMS Industries Pvt Ltd (India);
- **Trade and Other receivables** - increasing Euro 69.8 million, principally due to the seasonality of F.I.L.A. Group business, with receivables at their highest during the middle months of the year as revenue is principally generated during the schools campaign. The movements particularly concern F.I.L.A. S.p.A., Dixon Ticonderoga Company (U.S.A.) and Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico);
- **Trade and Other Payables** - increasing Euro 8.2 million, principally due to business seasonality with procurement concentrated in the initial months of the year in support of production and supplies for peak sales in the middle months of the year.

The increase in Provisions of Euro 5.0 million refers substantially to deferred tax liabilities against the gradual release of the amounts calculated on the amortisation and depreciation of tangible and intangible assets valued according to the “Purchase Price Allocation” during the acquisitions carried out by the Group in recent years.

The Equity of the F.I.L.A. Group of Euro 244.8 million at June 30, 2017 increased Euro 5.8 million on December 31, 2016. Net of the period profit of Euro 14.7 million (of which Euro 0.7 million concerning non-controlling interests), the residual movement substantially concerns negative currency effects of Euro 8.4 million, the payment of dividends for Euro 3.9 million, the “fair value” adjustment of derivative instruments held by F.I.L.A. S.p.A. designated as hedges (Euro 0.9 million), the “Share Based Premium” reserve of Euro 1.9 million and the increase in the IAS 19 reserve of Euro 0.7 million.

At June 30, 2017, the Group Net Financial Position was a net debt of Euro 285.6 million, increasing Euro 62.1 million on December 31, 2016.

This increase principally concerns:

- net operating cash flow of Euro 36 million;
- absorption of Euro 84.5 million from “Working Capital Management” related to the seasonality of business and the increases both in inventory and of “Trade and Other Receivables”;
- net investments in tangible and intangible assets (Capex) for Euro 8.4 million; concerning new plant and machinery, principally by Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico), Daler Rowney Ltd (United Kingdom), DOMS Industries Pvt Ltd (India), Canson SAS (France) and F.I.L.A. S.p.A. for the refurbishment and extension of production facilities;

- the payment of interest on loans and credit lines issued to Group companies for Euro 4.4 million;
- the distribution of dividends to F.I.L.A. S.p.A. shareholders and Group non-controlling interests, net of those paid to non-controlling interests of the company FILA Art Products AG (Switzerland), currently in the incorporation phase, for Euro 3.8 million;
- the currency effect from the conversion of net financial positions in currencies other than the Euro, for a positive Euro 1.8 million;
- Euro 1 million generated from the disposal of the minority stake (30%) held in FILA Nordic AB (Sweden) by the German subsidiary Lyra KG.

Significant events in the period

- On January 20, 2017, 52% of the share capital of FILA Art Products AG (Switzerland) was acquired, a company involved in the sale of F.I.L.A. Group writing, art and design products in Switzerland;
- On February 8, 2017, Lyra KG (Germany), a F.I.L.A. Group company held directly by F.I.L.A. S.p.A., sold 30% of its investment in Fila Nordic AB to non-controlling interests. The holding of Lyra KG (Germany) was 50% and therefore is considered a F.I.L.A. Group subsidiary as per the definition of control in IFRS 10.
- On April 20, 2017, the Indian company DOMS Industries Pvt Ltd subscribed a portion of the share capital increase of Pioneer Stationery Pvt Ltd (India) for a total of INR 5.1 million (approx. Euro 65 thousand). The transaction resulted in changes in the ownership of Pioneer Stationery Pvt Ltd (India), now held 51% by DOMS Industries Pvt Ltd (India).

F.I.L.A. (Fabbrica Italiana Lapis ed Affini), founded in Florence in 1920 and managed since 1956 by the Candela family, is a highly consolidated, dynamic and innovative Italian industrial enterprise and continues to grow market share. In November 2015, F.I.L.A. listed on the STAR segment of the Milan Stock Exchange. The company, with revenue of over Euro 422 million in 2016, has grown significantly over the last twenty years and has achieved a series of strategic acquisitions, including the Italian Adica Pongo, the US Dixon Ticonderoga, the German LYRA, the Mexican Lapiceria Mexicana, the Brazilian Lycin, the English Daler-Rowney Lukas and the French Canson, founded by the Montgolfier family in 1557.

F.I.L.A. is an icon of Italian creativity globally through its colouring, drawing, modelling, writing and painting tools, thanks to brands such as Giotto, Tratto, Das, Didò, Pongo, Lyra, Doms, Maimeri, Daler-Rowney and Canson. Since its foundation, F.I.L.A. has chosen to focus on growth through continuous innovation, both in technological and product terms, in order to enable individuals to express their ideas and talent through tools of exceptional quality. In addition, F.I.L.A. and the Group companies work together with the Institutions to support educational and cultural projects which promote creativity and expression among individuals and make culture accessible to all.

F.I.L.A. operates through 21 production facilities (of which 2 in Italy) and 40 subsidiaries across the globe and employs approx. 7,000.

For further information

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Attachment 1 – F.I.L.A. Group Consolidated Income Statement

<i>Euro millions</i>	June 2017	% core business revenue	June 2016	% core business revenue	Change 2017 - 2016	
Core Business Revenue	260,5	100%	201,5	100%	59,0	29,3%
Other Revenue and Income	12,0		4,8		7,2	151,4%
Total Revenue	272,5		206,3		66,2	32,1%
Total operating costs	(233,5)	-89,6%	(175,1)	-86,9%	(58,4)	-33,4%
EBITDA	39,0	15,0%	31,2	15,5%	7,8	24,9%
Amortisation, depreciation and write-downs	(9,1)	-3,5%	(6,7)	-3,3%	(2,4)	-36,3%
EBIT	29,9	11,5%	24,5	12,2%	5,4	21,8%
Net financial charges	(7,6)	-2,9%	(2,0)	-1,0%	(5,6)	-282,5%
Pre-Tax Profit	22,3	8,6%	22,5	11,2%	(0,2)	-1,1%
Total income taxes	(7,6)	-2,9%	(8,7)	-4,3%	1,1	12,1%
Net profit - Continuing Operations	14,7	5,6%	13,9	6,9%	0,8	5,8%
Net Profit for the period	14,7	5,6%	13,9	6,9%	0,8	5,8%
Non-controlling interest profit	0,7	0,3%	0,7	0,3%	0,0	-3,8%
F.I.L.A. Group Net Profit	14,0	5,4%	13,2	6,6%	0,8	6,3%

Attachment 2 – F.I.L.A. Group Adjusted Consolidated Income Statement

<i>NORMALIZED - Euro millions</i>	June 2017	% core business revenue	December 2016	% core business revenue	Change 2017 - 2016	
Core Business Revenue	260,5	100%	201,5	100%	59,0	29,3%
Other Revenue and Income	12,0		4,8		7,2	151,4%
Total Revenue	272,5		206,3		66,2	32,1%
Total operating costs	(228,7)	-87,8%	(169,7)	-84,2%	(59,0)	-34,7%
EBITDA	43,8	16,8%	36,6	18,1%	7,3	19,9%
Amortisation, depreciation and write-downs	(9,1)	-3,5%	(6,7)	-3,3%	(2,4)	-36,3%
EBIT	34,8	13,4%	29,9	14,8%	4,9	16,2%
Net financial charges	(8,6)	-3,3%	(2,3)	-1,1%	(6,3)	-278,5%
Pre-Tax Profit	26,2	10,1%	27,6	13,7%	(1,4)	-5,2%
Total income taxes	(7,9)	-3,0%	(9,8)	-4,9%	1,9	19,3%
Net profit - Continuing Operations	18,3	7,0%	17,9	8,9%	0,4	2,4%
Net Profit for the period	18,3	7,0%	17,9	8,9%	0,4	2,4%
Non-controlling interest profit	0,7	0,3%	0,7	0,3%	0,0	-4,5%
F.I.L.A. Group Net Profit	17,6	6,8%	17,1	8,5%	0,5	2,7%

Attachment 3 – F.I.L.A. Group Consolidated Statement of Financial Position

<i>Euro millions</i>	June 2017	December 2016	Change 2017 - 2016
Intangible Assets	211,9	218,4	(6,5)
Property, plant & equipment	81,8	81,3	0,5
Financial assets	4,6	3,7	0,9
Net Fixed Assets	298,3	303,4	(5,1)
Other non Current Asset/Liabilities	16,9	20,7	(3,9)
Inventories	191,2	177,4	13,8
Trade and Other Receivables	183,4	113,6	69,8
Trade and Other Payables	(98,6)	(90,4)	(8,2)
Other Current Assets and Liabilities	(3,4)	0,2	(3,6)
Net Working Capital	272,6	200,7	71,9
Provisions	(57,4)	(62,4)	5,0
Net Capital Employed	530,4	462,4	68,0
Equity	(244,8)	(239,0)	(5,8)
Net Financial Position	(285,6)	(223,4)	(62,1)
Net Funding Sources	(530,4)	(462,4)	(68,0)

Attachment 4 – F.I.L.A. Group Consolidated Statement of Cash Flow

<i>Euro millions</i>	June 2017	June 2016	Change 2017 - 2016
EBIT	29,9	24,6	5,3
Adjustments for non-cash items	10,9	6,6	4,3
Integrations for income taxes	(4,9)	(3,3)	(1,6)
Cash Flow from Operating Activities Before Changes in NWC	36,0	27,9	8,1
Change NWC	(84,5)	(66,4)	(18,1)
Change in Inventories	(19,0)	(19,2)	0,2
Change in Trade and Other Receivables	(71,8)	(62,0)	(9,8)
Change in Trade and Other Payables	6,6	15,3	(8,7)
Change in Other Current Assets/Liabilities	(0,3)	(0,5)	0,2
Cash Flow from Operating Activities	(48,6)	(38,4)	(10,2)
Investments in tangible and intangible assets	(8,4)	(4,3)	(4,1)
Other Investments	0,0	0,1	(0,1)
Equity Investments	0,9	(16,9)	17,8
Cash Flow from Investing Activities	(7,5)	(21,0)	13,5
Change in Equity	(3,8)	(4,3)	0,5
Interest Expense	(4,4)	(2,4)	(2,0)
Cash Flow from Financing Activities	(8,3)	(6,6)	(1,7)
Other changes	(0,4)	0,1	(0,5)
Total Net Cash Flow	(64,7)	(66,0)	1,3
Effect from exchange rate changes	1,8	2,6	(0,8)
NFP from Variation in Consolidation Scope	0,7	(86,8)	87,5
Change in Net Financial Position	(62,1)	(150,2)	88,1