

# **EL.EN. S.P.A.**

El.En. S.p.A.

Headquarters in Calenzano (Florence) – Via Baldanzese n. 17

Capital stock: underwritten and paid € 2.592.380,18<sup>(\*)</sup>

Company registered with the Registro delle Imprese di Firenze n. 03137680488

<sup>(\*)</sup> At the date of the approval of this document

This document has been translated into English for the convenience of readers who do not understand Italian.  
The original Italian document should be considered the authoritative version.

# **CORPORATE BOARDS OF THE PARENT COMPANY**

(as of the date of approval of the financial statement on June 30<sup>th</sup> 2021)

## **Board of Directors**

CHAIRMAN

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangioli

BOARD MEMBERS

Fabia Romagnoli

Michele Legnaioli

Alberto Pecci

Daniela Toccafondi

## **Board of statutory auditors**

CHAIRMAN

Vincenzo Pilla

STATUTORY AUDITORS

Paolo Caselli

Rita Pelagotti

## **Executive officer responsible for the preparation of the Company's financial statements in compliance with Law 262/05**

Enrico Romagnoli

## **Independent auditors**

Ernst & Young S.p.A

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**EL.EN. GROUP**

**HALF-YEARLY MANAGEMENT  
REPORT**

## 1.1. Adoption of international accounting principles

This half-yearly financial statement for the half ending on June 30<sup>th</sup> 2021, approved by the Board of Directors on September 10<sup>th</sup> 2021, drawn up in consolidated form in compliance with to Art. 154-ter of February 24<sup>th</sup> 1998, Legislative Decree 58 (TUF) and later modifications and additions, has been drawn up in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and ratified by the European Union.

By IFRS we mean also the International Accounting Standards (IAS) which are still in force, as well as all of the interpreting documents issued by the International Financial Reporting Interpretations Committee (IFRIC).

In this report which is drawn up in conformity with IAS 34, Intermediate Reports, we have used the same accounting principles used for the consolidated financial of December 31<sup>st</sup> 2020 with the exception of the accounting standards that went into force starting on January 1<sup>st</sup> 2021 described in the Explanatory Notes – paragraph pertaining to the “Accounting Principles and Evaluation Criteria”.

All amounts are expressed in thousands of Euros unless otherwise indicated.

## 1.2. Description of the activities of the group

El.En was founded in 1981 and arose from the intuition of a university professor and one of his students. The Company developed over the years and became a multi-faceted, dynamic industrial group specialized in the manufacture, research and development, distribution and sale of laser systems.

The founders, Leonardo Masotti and his wife, Barbara Bazzocchi, and Ing. Gabriele Clementi, have always conducted the company as part of the top management.

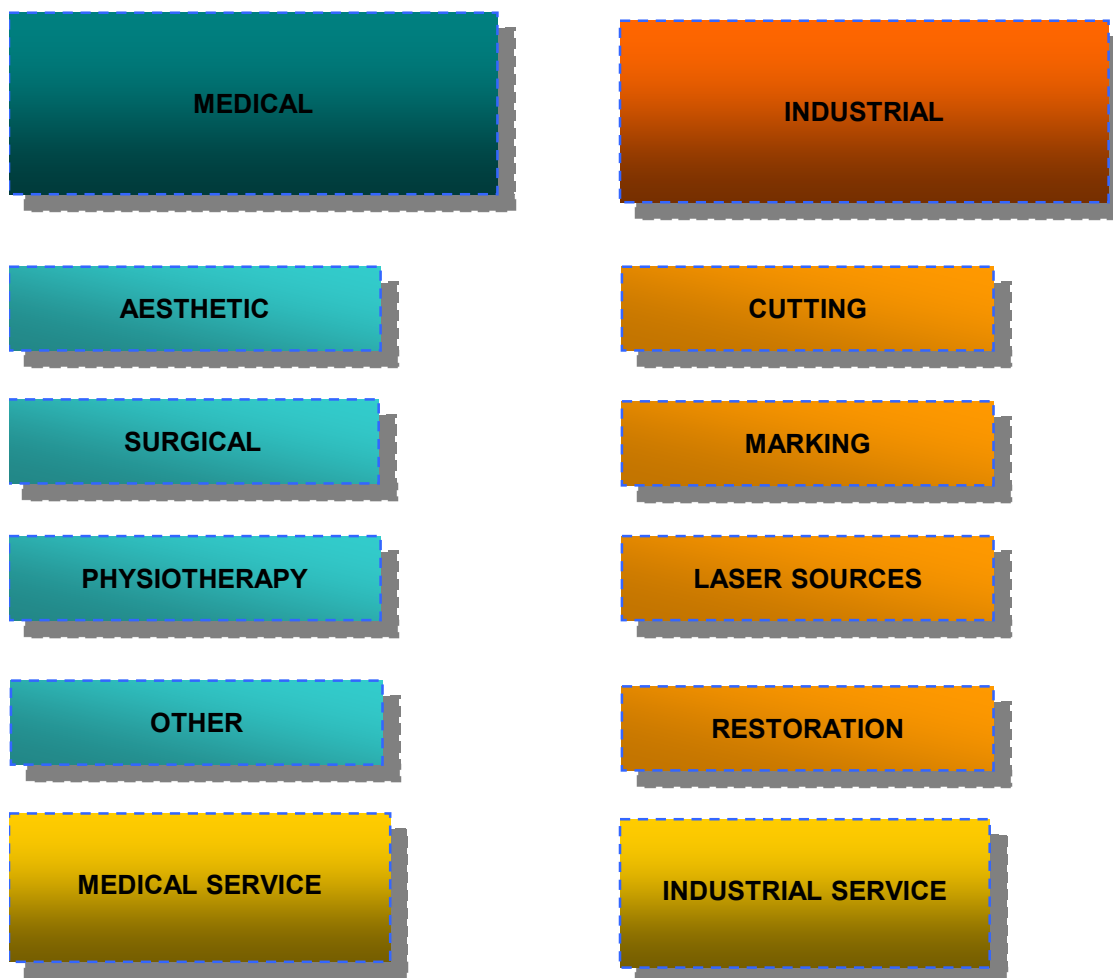
The laser, an acronym for “**Light Amplification by Stimulated Emission of Radiation**” is a fascinating technology invented in 1960 and represents the fulcrum of the technology of the Group. This luminous emission with its unique characteristics (monochromaticity, consistency, brilliance) found and is still finding a growing number of applications which have given rise to its own specific industrial sectors and in others has radically changed the way in which they operate. Telecommunications, sensoristics, printers, lithographs, numerous processes in industrial manufacturing, numerous medical and aesthetic applications have been able to benefit from the innovations made available by the versatility, precision and reliability of laser systems. As Prof. Gérard Mourou - Nobel prize for physics in 2018 for the invention of chirped pulse amplification or CPA, which was later used to create ultra-short high intensity laser impulses (terawatt) - pointed out during his visit in January 2019 to the headquarters of Quanta System Spa in Samarate (VA), “the best is yet to come”! Scientific research and applied industrial research will continue to find innovative applications for laser technology from which we can all benefit directly or indirectly.

Among the many types of laser sources and applications that have been developed, the Group has always been specialized in systems for two particular sectors: laser systems for medicine and aesthetics which we call the Medical sector and laser systems for manufacturing which we call the Industrial sector. Each of these sectors is divided into various segments which vary from each other because of the specific application of the laser system and, consequently, for the specific underlying technologies and the type of user. For this reason, the activity of the Group which is generically defined as the manufacture of laser sources and systems, actually has a wide variety of products which are used by many different kinds of clients, also due to the global presence of the Group which forces it to adapt to the particular methods which every region in the world has in the adoption of our technologies.

Over time, the Group has acquired the structure which it now has through the creation of new companies and the acquisition of the control in others. The activities are conducted by this diverse group of companies which operate in the fields of manufacture, research, development distribution and sale of laser systems. Each company has been assigned a specific task which sometimes is based on its geographical location, sometimes on a specific market niche, and other times on a more extended and transversal area of activity including different technologies, applications and geographical markets. The activities of all of the companies are coordinated by the Parent Company in such a way that the available resources can be put to the best use on the markets and take advantage of the dynamism and flexibility of each single business unit without losing the advantages of a coordinated management of some of the resources.

In our sectors of the market, the wide range of products, the capacity to segment some of the markets in order to maximize the overall quota held by the Group, together with the opportunity of involving managerial staff as minority shareholders are at the base of the company organization of the Group. The high number of different companies that

compose the Group is based on the linear subdivision of the activities which we have identified also for purposes of reporting but, above all for strategic purposes, as shown below:



An integral part of the main company activity of selling laser systems, is that of the post-sales customer assistance service which is not only indispensable for the installation and maintenance of our laser systems but also a source of revenue from the sales of spare parts, consumables and technical assistance.

The division of the Group into numerous different companies also reflects the strategy for the distribution of the products and for the organization of the activities for research and development and marketing. El.En. is one of the most successful groups on our market, thanks to a series of acquisitions concluded over the years, in particular, in the medical sector (DEKA, Asclepion, Quanta System and Asa).

Following an approach that is unique and original for our sector, each company that has entered the Group has maintained its own special characteristics for the type and segment of the product, with brands and distribution networks that are independent from the other companies of the Group and represent a real business unit. Each one has been able to take advantage of the cross-fertilization which the individual research units has had on the others and has made their own elective technologies available to the other companies of the Group. Although this strategy makes management more complex, it is chiefly responsible for the growth of the Group which has become one of the most important companies in the field.

While we recognize the importance that the multi-brand and multi-R&D has had on the growth of the Group, at the same time we realize the need to increase the coordination between the activities of the different business units of the medical sector and promote the joint activities like distribution in Italy which, under the new brand name of “Renaissance” will unite into a single organization the pre-existing networks of Deka and Quanta System.

In 2020 the integration of the networks of the Group will continue: the laser systems for aesthetic applications produced by Asclepion will be available for sale in Italy through the Renaissance network, thus re-enforcing their leadership in this geographical area while, analogously, the distribution network of Asclepion in Germany will offer the Deka systems.

An optimal integration of the medical business units is, in fact, one of the objectives of the General Director of El.En. Spa, who took on this role, a new one for the company, on January 1<sup>st</sup> of 2017.

Although they both use laser technologies and share numerous strategic components and some activities at the R&D and production level, the Medical and Industrial sectors are active on two completely different kinds of markets. Their internal operations are organized in such a way as to satisfy the radically different needs of the clients of the two different sectors. Moreover, specific dynamics in the demand and expectations for growth that are connected to different key factors correspond to each of the two markets.

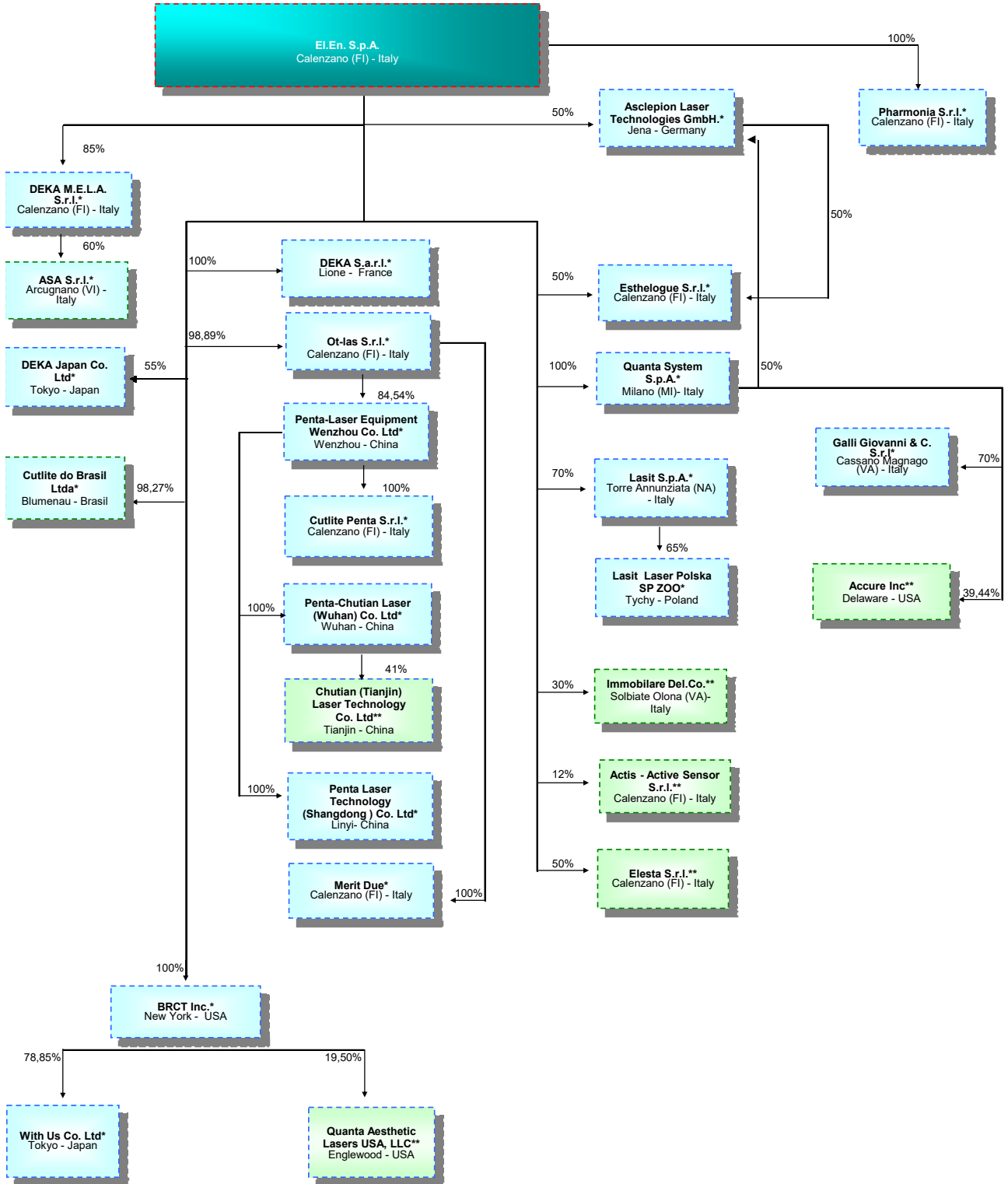
The outlook for mid-term growth is positive for both markets. In the medical sector, there is a constant increase in the demand for aesthetic and medical treatments by a population which, on the average, tends to age and wishes to limit as much as possible the effects of aging. There is also an increased demand for technologies that are able to minimize the duration of surgical operations and of post-operative recovery or to increase their effectiveness by reducing the impact on the patient (minimally invasive surgery) and the overall costs. For the industrial sector laser systems represent an increasingly indispensable tool for manufacturing since they offer flexible, innovative technologies to companies that are competing on the international market and wish to raise their qualitative standards and increase productivity. Although they continue to be used on the traditional market of manufacturing, laser systems represent a high-tech component of it which, thanks to the continued innovation of the laser product and processes that lasers allow, presents excellent prospects for growth.

Growth in the industrial sector is expected thanks to the increase in productivity and in the quality of the products along with the great flexibility that laser operations bring to numerous manufacturing processes. Although they still refer to traditional manufacturing systems, both our cutting technologies, which transform the product, and our marking systems, which identify it or decorate it, respond to specific requirements of the manufacturing sector which are increasingly requested. Another factor which contributes to the demand are the technological innovations which make the products increasingly easy to use, productive and versatile and in this way increase the range of potential customers.

It should also be noted that, in the presence of the excellent outlook for the growth of our markets, the Group has succeeded in acquiring new portions of the market and create new applicative niches thanks to their innovations. The adequacy of the range of products offered, the capacity to continually renew it in order to meet the demands of the market or, even better, create new ones, are the critical factors for our success. The El.En. Group has had and still has, the ability to excel in these activities. The lengthy section in this document dedicated to Research and Development is a demonstration of the importance of these activities for the Group and the particular focus that is directed to dedicating the necessary resources that are needed to guarantee the prosperity of the Group in the years to come.

### 1.3. Description of the Group

As of June 30<sup>th</sup> 2021 the Group was composed as follows:



\* Subsidiaries  
\*\* Associates

## 1.4. Performance indicators

The following performance indicators have been shown for the purpose of providing additional information on the economic and financial performance of the Group.

	30/06/21	30/06/20
<b>Profitability Ratios (*):</b>		
ROE (Net Income / Own Shareholders' Equity)	20,2%	6,3%
ROI (EBIT / Total Asset)	10,9%	4,4%
ROS (EBIT / Sales)	11,3%	5,7%
<b>Capital structural ratios:</b>		
Investments Flexibility ratio (Current Asset / Total Asset)	0,78	0,73
Debt Ratio (Total Liability / Total Asset)	0,54	0,47
Leverage ((Net Equity+ Loans) / Net Equity )	1,21	1,25
Current Ratio (Current Asset / Current Liability)	1,74	2,05
Current liability coverage ((Current receivables + Cash & cash equivalent + Investments) / Current liabilities)	1,17	1,31
Quick ratio ((Cash & cash equivalent + Investments) / Current liabilities)	0,55	0,56

(\* ) For interim periods, the income statement amounts are annualized

In order to facilitate comprehension of the chart above and, in consideration of the regulations concerning alternative performance indicators, below we are giving the definitions of some terms used in the charts of the financial statement:

- Own Capital = Shareholders' equity of the Group – Net income (loss)



## 1.5. Alternative non-GAAP measures

The El.En. Group uses some alternative performance measures which are not identified as accounting measures that are part of the IFRS in order to offer a better evaluation of the performance of the Group. Consequently, the criteria applied by the Group may not be homogeneous with that used by other companies and the results obtained may not be comparable with the results shown by these latter.

These alternative performance measures, determined in conformity with the guidelines for alternative measures issued by ESMA/2015/1415 and adopted by the CONSOB with notice nr. 92543 on December 3<sup>rd</sup> 2015, refer only to the economic performance of the period being considered and those with which it is being compared.

The Group uses the following alternative non-GAAP measures to evaluate the economic performance:

- the **earnings before interest and income taxes**, or “EBIT”, represents the difference between revenue and other operating income and production costs, operating service and charges, depreciations, amortizations, accruals and devaluations;
- the **earnings before income taxes, devaluations, depreciations and amortizations** or “EBITDA”, also represents an indicator of operating performance and is determined by adding to the EBIT the amount of “Depreciations, Amortizations, accruals and devaluations”;
- the **added value** is determined by adding to the EBITDA the “cost for personnel”;
- the **gross margin** represents the indicator of the sales margin determined by adding to the Value Added the “Costs for operating services and charges”.
- the **incidence** that the various entries in the income statement have on the sales volume.

As alternative performance indicators to evaluate its capacity to meet their financial obligations, the Group uses:

- the **net financial position** which means: cash available + securities entered among current assets + current financial receivables – debts and non-current financial liabilities - current financial debts.

## 1.6. Group financial highlights

During the first half of 2021 the El.En. Group registered a sales volume of 274 million Euros, with an EBIT of about 30,9 million Euros and a net income for the Group of 22,4 million.

These are extraordinarily positive results which represent a record for the Group and demonstrate the excellent performance in a favorable phase of the market.

In the past we have described the instruments which we have set up in order to follow our expansion strategy by making major investments in order to take advantage of the growth in demand which was expected on our markets which consisted of fixed investments in logistic and operative structures aimed at increasing our production capacity, and investments in the organization, particularly in the personnel with the skills necessary to maintain the high level of product innovation which is characteristic of the leadership of our operating units. In recent months the developments which we planned and hoped for have come to fruition. The conclusion of the most critical phase of the pandemic now presents market conditions which, thanks to our fundamental preparatory work, make it possible for us to register extraordinary results. These results, in fact, exceed those which were predicted in the multi-year program which was set out before the start of the pandemic, with a gradual acceleration which we have confirmed in the new revision of the guidance for the year (see paragraph 1.18).

This has been achieved notwithstanding the fact that the pandemic is still influencing our everyday life, with all kinds of limitations and inconveniences, not to mention the numerous illnesses and deaths which we are still dealing with. Since the beginning of the pandemic we have applied and continue even now to apply, all of the safety procedures and the strict observance of distancing in compliance with the regulations in order to protect the health and safety of our employees and collaborators. In this way it has been possible to conduct our normal production activities as well as the activities sustaining them. Most of these activities are conducted with the employees physically present, although a limited group is still using smart working. We should also like to recall at this time the spirit of collaboration which prevailed among the personnel of the Group during the pandemic and the manner in which they worked with effectiveness and dedication even in the most difficult periods.

The demand for our products remained steady in all the applicative segments and on all the geographical markets. The list of businesses which achieved positive results is quite long. In the medical sector, the hair removal systems met with particular success in the United States; the body contouring systems with its innovative and accessory technologies for the improved performance of the treatments; the systems for removing tattoos and pigmented lesions, popular in the Far East for the anti-aging treatments; the professional aesthetics market in Italy and Japan. In the industrial sector the rising business was again that related to laser cutting of sheet metal where the positive trend continues to grow which, thanks to the increase in technical and economic performances of our systems associated with an increase in the number of applications which can be used and, consequently, also the amplification of the potential market. The Chinese market is fundamental for us in this segment, but also on the European markets and, in particular the Italian one, we have achieved a significant role and a prestigious competitive position which, up to a few years ago, seemed unobtainable. Also in the field of our applications for the manufacturing sector, the mid-powered laser sources and the marking systems manufactured by Lasit and Ot-las have achieved remarkable results.

In any case, it should be noted that we are still experiencing difficulties in obtaining supplies of several types of materials. Delivery times for some electronic, plastic and metal components have become longer in the last few months and have created problems in our manufacturing processes. Up to now we have not had to stop the production lines for lack of materials but the effects of this problem have had and continue to have a significant impact which comports a decreased efficiency in the production processes due to the need to continually reschedule the manufacturing programs on the basis of the materials available which do not always coincide with those which are needed at the time; the increase in the cost of components caused by the lack of supply has had as a natural consequence an increase in prices and the need to increase the stock of raw materials in order to avoid the lengthy delivery times imposed by the suppliers and prevent problems in the punctual delivery of products to our clients. The difficulties in obtaining supplies are accompanied by the increase in the costs of some raw materials and semi-finished products, metals like copper and aluminum for example, which up to now have not diminished the profitability of our sales.

It should also be noted that one of the great limitations imposed by the pandemic, that of travel restrictions, particularly international travel, has comported a profound transformation in the marketing activities. Trade fairs and symposiums have been reduced practically to zero along with international travel, all of which have been replaced by an intense activity of contact via web, webmarketing and videocall. The costs of this web activity are increasing but are still limited with respect to the same activities conducted in the traditional way. In a phase in which demand is so favorable and sales volume is increasing rapidly, even without the costly stimulus (especially in the medical sector) procured by the traditional sales and marketing methods with a physical presence, we have registered, a significant benefit for our operating results.

Despite the great uncertainties related to the evolution of the pandemic and its conclusive phase, which has lasted much longer than we had hoped, our markets appear favorable in this period and have benefitted not only from the natural post-crises recovery, but also from a climate of trust and optimism which is derived from the outlook for a significant support of the economy thanks to the expansive industrial policies implemented all over the world. By the end of this half, our portfolio of orders, in both sectors was at the highest level ever registered by the Group.

We therefore wish to express our satisfaction for the results which we are presenting here and, above all, for all the factors which have allowed us to obtain these results. The position which the Group has achieved on the markets is the result of an organizational endeavor and preparation which has been going on for years and which has developed in the heart of its companies a high level of organizational, managerial and technical knowledge and capacity, thanks to which we are now able to fully benefit in this favorable phase of demand and growth by identifying the needs and having available the technical and organizational means required to satisfy them and further stimulate them to our advantage.

During this half we celebrated the fortieth anniversary of the foundation of El.En. Spa, a celebration which occurred in a particularly flourishing period for the activities of the Group, which demonstrates the extraordinary initial intuition of the founders and the quality and intensity of work that they and their collaborators in the Group have conducted over the years.

Just a few days before this anniversary Prof. Leonardo Masotti died; he was one of the founders of the company, the scientific soul of El.En., who inspired the most significant products and most innovative processes, a university professor who generously shared his knowledge with his students and associates at El.En. He will be remembered with affection and gratitude.

During this half the activities related to sustainability were intensified by the Group. As part of the activities which are included in the Sustainability Plan of the Group and all of the subsidiaries, besides monitoring the projects now in progress and reaching the objectives which have been set, they have identified other areas and projects for improvement. The commitment of the Group is also reflected in the improvement of the ESG rating obtained from the main sustainability rating companies.

The chart below shows the division of the sales volume in the first six months of 2021 according to the sector of activity in the Group compared with the same division for the same period last year.

Before explaining the data in detail, it should be noted that the period with which it is compared, the first half of 2020 corresponds to the most acute phase of the pandemic, which started in Wuhan and spread to the rest of the world. The results from that half saw our activities in the industrial sector completely blocked in China for two and a half months and, in Italy for more than a month starting in March. In the medical sector the sales in Italy stopped in the month of March, while the international sales began to show a strong drop in demand starting in the month of April.

	30/06/2021	Inc %	30/06/2020	Inc %	Var. %
Medical	146.688	53,55%	100.309	61,72%	46,24%
Industrial	127.223	46,45%	62.212	38,28%	104,50%
<b>Total revenue</b>	<b>273.911</b>	<b>100,00%</b>	<b>162.521</b>	<b>100,00%</b>	<b>68,54%</b>

The overall growth was close to 69%, and was strongest in the industrial sector which had been slowed down by the pandemic in the first half of 2020 more than the medical sector.

The chart below shows the geographical distribution of the sales volume.

	30/06/2021	Inc %	30/06/2020	Inc %	Var. %
Italy	50.276	18,35%	27.432	16,88%	83,28%
Europe	53.888	19,67%	30.150	18,55%	78,74%
ROW	169.747	61,97%	104.940	64,57%	61,76%
<b>Total revenue</b>	<b>273.911</b>	<b>100,00%</b>	<b>162.521</b>	<b>100,00%</b>	<b>68,54%</b>

As mentioned above, the comparison with 2020 is not significant; on the other hand, the recovery of sales in Italy of around 18% of the total is interesting.

Results of sales in the sector of medical an aesthetic systems, which represents about 54% of the total sales volume of the Group, is shown in the chart below:

	30/06/2021	Inc %	30/06/2020	Inc %	Var. %
Aesthetic	94.136	64,17%	55.920	55,75%	68,34%
Surgical	21.038	14,34%	19.908	19,85%	5,67%
Physiotherapy	6.339	4,32%	3.273	3,26%	93,68%
Others	475	0,32%	273	0,27%	74,06%
<b>Total medical systems</b>	<b>121.988</b>	<b>83,16%</b>	<b>79.374</b>	<b>79,13%</b>	<b>53,69%</b>
Medical service	24.700	16,84%	20.935	20,87%	17,99%
<b>Total medical revenue</b>	<b>146.688</b>	<b>100,00%</b>	<b>100.309</b>	<b>100,00%</b>	<b>46,24%</b>

Recovery has been significant in all segments. The results of sales in every segment are described below.

Results in the aesthetic segment were particularly noteworthy and consolidate its prevalence in the medical sector. In this segment it should be recalled, the Group supplies systems for hair removal, tattoo removal, body contouring, rejuvenation. Hair removal is the most significant sector in terms of sales volume and is also the one which most contributed to the extraordinary results shown here. The demand for laser hair removal treatments continues to expand thanks to the capacity of the market leader, that is, our company, to develop systems that are increasingly effective, compact and rapid making the laser application less expensive and easier to use and amplifying the number of clients that make use of laser technology. The launching of Again, a very high-powered platform intended for a clientele with heavy duty operations, has enriched our range of depilatory systems which includes the Alexandrite Motus and Mediostar with semi-conductors which are the best sellers in terms of quantity and are able to make hair removal rapid and inexpensive even for smaller volumes of business. The other aesthetic segments also registered excellent results, in particular the applications for body contouring in which Onda Coolwaves, our main system with the original microwave technology has now been joined by systems with complimentary technology which have added to its already significant commercial success.

As occurred in the first quarter, the lower growth of the surgical segment should be interpreted considering the excellent results registered in the first half of 2020, before the pandemic lockdown and the greater difficulties which we encountered in the return to normality in the surgical sector, in particular in urology, due to the focus of all the hospital activities on the Covid patients.

In the physical therapy sector the recovery has been excellent and Asa has again returned to the growth which has characterized it in recent years.

The volume of business for after-sales service, which includes technical assistance and sales of spare parts and consumables has also been very good. The recovery could have been even better if the production difficulties had not prevented us from satisfying the demand for optical fibers in urology in the early months of the year. The most critical problems have now been solved and already in the second quarter the volume of production and sales was more than satisfactory.

For the industrial applications, the chart below shows the data for the sales volume according to the market segments in which the Group operates.

	30/06/2021	Inc %	30/06/2020	Inc %	Var. %
Cutting	106.211	83,48%	48.984	78,74%	116,83%
Marking	9.327	7,33%	7.589	12,20%	22,90%
Laser sources	3.503	2,75%	734	1,18%	377,12%
Conservation	119	0,09%	263	0,42%	-54,53%
<b>Total industrial systems</b>	<b>119.160</b>	<b>93,66%</b>	<b>57.569</b>	<b>92,54%</b>	<b>106,99%</b>
Industrial service	8.064	6,34%	4.644	7,46%	73,65%
<b>Total industrial revenue</b>	<b>127.223</b>	<b>100,00%</b>	<b>62.212</b>	<b>100,00%</b>	<b>104,50%</b>

The comparisons shown in this chart are based on a benchmark that is not very significant, in particular for the cutting segment in which two-thirds of the activities are conducted in China and where, in early 2020, we underwent a long total lockdown. This, however, does not detract from the exceptional performance registered in the cutting sector which

is now operating at a very fast pace. These are production and sales volumes for which we have made major investments in the manufacturing capacity which are now being increasingly used with a beneficial effect also on the income statement thanks to the operating leverage. The trend has been very positive also in the other main segments like that for marking and for laser sources which are now recovering rapidly after the period of crisis and showing respectable amounts also in absolute terms.

The sales volume in the small segment of restoration is not indicative for this half. It is, however, a source of great prestige for the Group to be able to participate in the restoration of great masterpieces. The recent ceremony which celebrated the restoration work on the Ponte di Rialto in Venice offers us the opportunity to point out that our laser systems were widely used in this work of exceptional significance and contributed to the return of the bas-reliefs, plaques and mascaroons on the famous bridge to their original splendor.

## 1.7. Consolidated income statement as of June 30<sup>th</sup> 2021

The chart below shows the consolidated income statement for the period ending on June 30<sup>th</sup> 2021, compared with that for the same period last year.

Income Statement	30/06/2021	Inc %	30/06/2020	Inc %	Var. %
Revenues	273.911	100,0%	162.521	100,0%	68,54%
Change in inventory of finished goods and WIP	12.745	4,7%	11.417	7,0%	11,64%
Other revenues and income	2.162	0,8%	1.971	1,2%	9,73%
<b>Value of production</b>	<b>288.819</b>	<b>105,4%</b>	<b>175.909</b>	<b>108,2%</b>	<b>64,19%</b>
Purchase of raw materials	184.890	67,5%	107.324	66,0%	72,27%
Change in inventory of raw material	(16.934)	-6,2%	(4.579)	-2,8%	269,82%
Other direct services	20.948	7,6%	13.287	8,2%	57,65%
<b>Gross margin</b>	<b>99.915</b>	<b>36,5%</b>	<b>59.877</b>	<b>36,8%</b>	<b>66,87%</b>
Other operating services and charges	20.763	7,6%	16.058	9,9%	29,30%
<b>Added value</b>	<b>79.153</b>	<b>28,9%</b>	<b>43.820</b>	<b>27,0%</b>	<b>80,63%</b>
Staff cost	40.015	14,6%	29.334	18,0%	36,41%
<b>EBITDA</b>	<b>39.138</b>	<b>14,3%</b>	<b>14.485</b>	<b>8,9%</b>	<b>170,19%</b>
Depreciation, amortization and other accruals	8.280	3,0%	5.197	3,2%	59,33%
<b>EBIT</b>	<b>30.857</b>	<b>11,3%</b>	<b>9.288</b>	<b>5,7%</b>	<b>232,22%</b>
Net financial income (charges)	1.088	0,4%	(219)	-0,1%	
Share of profit of associated companies	(111)	0,0%	(126)	-0,1%	-12,13%
<b>Income (loss) before taxes</b>	<b>31.835</b>	<b>11,6%</b>	<b>8.943</b>	<b>5,5%</b>	<b>256,00%</b>
Income taxes	6.928	2,5%	2.139	1,3%	223,93%
<b>Income (loss) for the financial period</b>	<b>24.907</b>	<b>9,1%</b>	<b>6.804</b>	<b>4,2%</b>	<b>266,07%</b>
Net profit (loss) of minority interest	2.457	0,9%	403	0,2%	509,75%
<b>Net income (loss)</b>	<b>22.451</b>	<b>8,2%</b>	<b>6.401</b>	<b>3,9%</b>	<b>250,74%</b>

The gross margin was 99.915 thousand Euros, an increase of 67% with respect to the 59.877 thousand Euros shown on June 30<sup>th</sup> 2020, mainly due to the exceptional increase in the sales volume. The percentage of gross margin on the sales volume decreased slightly but showed improvement both in the medical and industrial sectors and the overall decrease was caused by the impact of the industrial sales which structurally registered a lower margin (see the relative paragraph in the information sheet in compliance with IFRS8 in the Notes). The increase of its incidence is due to the comparison with the first half of 2020 which reflected the greater impact of the pandemic on the activities in the industrial sector, especially in China.

The operating services and charges amounted to 20.763 thousand Euros, showing an increase with respect to the 16.058 on June 30<sup>th</sup> 2020 but with a sharp decrease in its incidence on the sales volume which dropped from 9,9% on June 30<sup>th</sup> 2020 to 7,6% on June 30<sup>th</sup> 2021. In this cost aggregate we benefitted from the decrease in marketing expenses due to the almost total elimination of international travel, and participation in trade fairs and symposiums which, particularly in the medical sector, represent a significant cost. We have not been able to attend to many trade fairs or symposiums in

this period: in China for the sector of sheet metal cutting, in Japan for the sector of equipment for aesthetic treatments in Italy and in Europe, and in Dubai for specialist symposiums in various medical disciplines. In the coming months, however, we are planning on attending an increasingly numerous series of events but it will take a longtime before we return to pre-Covid levels. Less costly but highly effective instead is the amount we are spending and the personnel we are dedicating to contact and promotion on the web which has increased since the beginning of the pandemic when it was the only marketing activity possible.

The costs for personnel was 40.015 thousand Euros, showing an increase with respect to the 29.334 thousand Euros on June 30<sup>th</sup> 2020, with an incidence on the sales volume which, however, decreased from 18% in the first half of 2020 to 14,6% on June 30<sup>th</sup> 2021.

On June 30<sup>th</sup> 2021 there were 1.810 employees in the Group, an increase with respect to the 1.626 on December 31<sup>st</sup> 2020. Most of the new employees were hired by the Chinese companies whose volume of business has been growing rapidly and are now in a phase of preparation of the production structures in the new factories.

A large part of the personnel expenses is directed towards research and development costs for which the Group receives grants and reimbursements on the basis of specific contracts underwritten by the institutions created for this purpose.

As a result of the trends described above, thanks to the increase in sales volume and the improvement in the structural costs, the EBITDA amounted to 39.138 thousand Euros, an increase of about 170% with respect to the 14.485 thousand Euros on June 30<sup>th</sup> 2020. The EBITDA also increased in its incidence on the sales volume which was 14,3% with respect to the 8,9% shown on June 30<sup>th</sup> 2020.

The costs for amortizations, depreciations and accruals showed a sharp increase and rose from 5.197 thousand Euros on June 30<sup>th</sup> 2020 to 8.280 thousand Euros on June 30<sup>th</sup> 2021, while the incidence on the sales volume remains substantially unchanged 3%.

The EBIT therefore amounted to 30.857 thousand Euros, showing a sharp increase with respect to the 9.288 thousand Euros of the first half of 2020, with an incidence on the sales volume which increased to 11,3% from 5,7% for the same period for the preceding year.

The net financial amounted to 1.088 thousand Euros with respect to the net financial charges of 219 thousand Euros registered for the same period last year, and benefitted from a more favorable exchange rate with the US dollar which was re-evaluated with respect to the Euro.

The pre-tax income amounted to 31.835 thousand Euros, as opposed to the 8.943 thousand Euros shown on June 30<sup>th</sup> 2020.

The income tax for the period amounted to 6,9 million Euros. The income tax incurred during this period were calculated on the basis of the best estimate of the fiscal aliquots expected for the year 2021.

The tax rate for the period amounted to about 21,8%, showing a decrease with respect to the 24% registered for the same period last year.

The first half ends with a net income for the Group of 22.451 thousand Euros which, as occurred in the first quarter, abundantly exceeds the result for the first half of 2020 which amounted to 6.401 thousand Euros.

## 1.8. Consolidated statement of financial position and net financial position as of June 30<sup>th</sup> 2021

The statement of financial position shown on the chart below makes it possible to compare the financial position for this half with that of last year.

Statement of financial position	30/06/2021	31/12/2020	Variation
Intangible assets	4.867	4.488	380
Tangible assets	92.377	85.576	6.800
Equity investments	1.876	1.991	-115
Deferred tax assets	11.044	9.297	1.747
Other non-current assets	15.495	15.486	9
<b>Total non current assets</b>	<b>125.659</b>	<b>116.838</b>	<b>8.821</b>
Inventories	143.030	111.594	31.437
Accounts receivable	132.557	94.009	38.549
Tax receivables	10.433	11.032	-599
Other receivables	13.530	13.157	374
Financial instruments	2.015	0	2.015
Cash and cash equivalents	137.224	123.744	13.480
<b>Total current assets</b>	<b>438.790</b>	<b>353.535</b>	<b>85.255</b>
<b>Total Assets</b>	<b>564.449</b>	<b>470.373</b>	<b>94.076</b>
Share capital	2.591	2.550	41
Additional paid in capital	46.552	42.556	3.996
Other reserves	86.431	93.668	-7.236
Retained earnings / (accumulated deficit)	86.511	66.391	20.120
Net income / (loss)	22.451	20.255	2.196
<b>Group shareholders' equity</b>	<b>244.536</b>	<b>225.420</b>	<b>19.116</b>
Minority interest	16.479	15.245	1.234
<b>Total shareholders' equity</b>	<b>261.014</b>	<b>240.665</b>	<b>20.350</b>
Severance indemnity	4.831	5.147	-316
Deferred tax liabilities	2.218	2.210	8
Reserve for risks and charges	8.142	5.717	2.425
Financial debts and liabilities	30.632	30.763	-132
Other non current liabilities	5.775	5.000	775
<b>Total non current liabilities</b>	<b>51.598</b>	<b>48.838</b>	<b>2.760</b>
Financial liabilities	23.977	23.827	150
Accounts payable	140.489	94.923	45.566
Income tax payables	7.185	2.945	4.241
Other current payables	80.185	59.175	21.010
<b>Total current liabilities</b>	<b>251.836</b>	<b>180.871</b>	<b>70.966</b>
<b>Total Liabilities and Shareholders' equity</b>	<b>564.449</b>	<b>470.373</b>	<b>94.076</b>

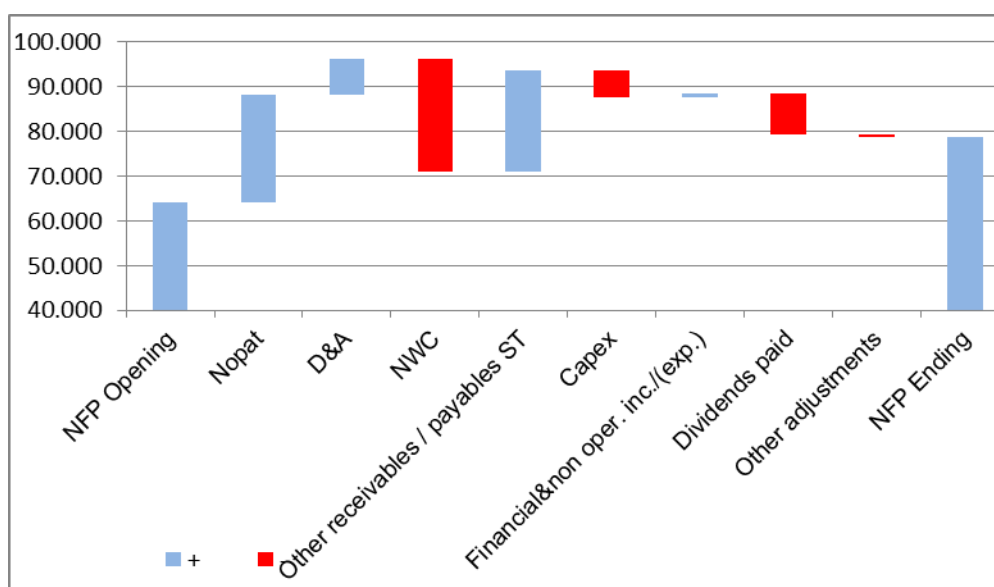
Net financial position	30/06/2021	31/12/2020
Cash and bank	137.224	123.744
Financial instruments	2.015	0
<b>Cash and cash equivalents</b>	<b>139.239</b>	<b>123.744</b>
<b>Current financial receivables</b>	<b>2</b>	<b>14</b>
Bank short term loan	(20.784)	(20.659)
Part of financial long term liabilities due within 12 months	(3.193)	(3.168)
<b>Financial short term liabilities</b>	<b>(23.977)</b>	<b>(23.827)</b>
<b>Net current financial position</b>	<b>115.264</b>	<b>99.931</b>
Bank long term loan	(20.087)	(23.366)
Other long term financial liabilities - non current part	(10.545)	(7.398)
Other non current liabilities	(5.775)	(5.000)
<b>Financial long term liabilities</b>	<b>(36.407)</b>	<b>(35.763)</b>
<b>Net financial position</b>	<b>78.857</b>	<b>64.168</b>

On July 15<sup>th</sup> 2020, the European Securities and Markets Authority (ESMA) published their final report for public consultation related to their guidelines regarding the requirements for information in compliance with the regulations contained in the document 1 (ESMA/ 31-62-1426). The guidelines must be applied starting on May 5<sup>th</sup> 2021 and they update the contents of the preceding communications of the CONSOB, including the references present in Communication n. DEM/6064293 dated July 28<sup>th</sup> 2006 regarding the net financial position. In compliance with these updates the Group has modified the charts showing the net financial position, including the comparative ones.

During this period the net financial position showed an increase of about 15 million, rising from 64,2 million on December 31<sup>st</sup> 2020 to 78,9 million on June 30<sup>th</sup> 2021.

The cash flow generated by the operative activities covered all of the requirements derived from the increase in working capital which is normal in this phase of rapid growth, those derived from the fixed investments and from the payment of dividends which El.En. and the subsidiaries resumed after a year of suspension. The chart below shows a positive cash flow for the headings under “Other current receivables/liabilities”, determined by the increase in the down payments received from clients, a practice which, in China, represents a significant volume, and from the tax liabilities which is an effect of the increase in revenue and the increased costs for income taxes set for this period. The increase in capital cashed in by the company due to the effects of the exercising of the stock options assigned to employees, amounting to 4,0 million Euros this half, also contributed to the improvement of the net financial position, The solid financial position allows the Group the maximum freedom in defining the support of its growth strategy.

The chart below shows the components of the changes in the net financial position during this half.



It should be noted that the amounts of postal and bank deposits of the Chinese companies includes about 9 million Euros in term deposits which are frozen until the due date of some of the payments to suppliers which will be made by issuing bank bills.

It should also be recalled that 11,5 million Euros in cash in preceding years has been invested by the Parent Company in financial instruments of an insurance type which, due to their characteristics, must be entered into accounts among the non-current financial assets. In the past few years the subsidiary Quanta System has invested 2,5 million Euros in similar financial instruments; although they represent a normal use of cash, these amounts cannot be considered part of the net financial position. At the end of this period the total fair value of these investments amounted to 15,3 million Euros.



## 1.9. Subsidiary results

El.En. SpA controls a Group of companies which operate in the same overall area of lasers and to each of which a special application niche and particular function on the market has been assigned

The chart below contains a summary of the results of the companies belonging to the Group that are included in the area of consolidation. Following the chart there is a series of brief explanatory notes describing the activities of each company and commenting on the results for the first half of 2021.

	Revenues	Revenues	Variation	EBIT	EBIT	Income (loss) for the financial period	Income (loss) for the financial period
	30/06/2021	30/06/2020		30/06/2021	30/06/2020	30/06/2021	30/06/2020
El.En. S.p.A.	52.529	27.163	93,38%	6.405	(380)	15.033	(455)
Ot-Las S.r.l.	2.448	1.048	133,59%	196	(248)	116	(20)
Deka Mela S.r.l.	28.870	16.874	71,09%	2.220	578	2.209	462
Esthologue S.r.l.	7.462	3.473	114,86%	316	(532)	260	(337)
Deka Sarl	2.697	1.310	105,88%	16	(240)	15	(241)
Lasit S.p.A.	8.459	6.682	26,59%	1.290	1.011	920	748
Quanta System S.p.A.	41.586	34.806	19,48%	8.938	7.355	6.776	5.807
Asclepion GmbH	27.410	19.718	39,01%	3.140	2.406	2.014	1.580
ASA S.r.l.	6.535	3.538	84,71%	1.661	62	1.231	97
BRCT Inc.	-	-	0,00%	1	(9)	4	20
With Us Co., Ltd	18.890	16.085	17,44%	1.319	1.343	835	844
Penta-Chutian Laser (Wuhan) Co., Ltd	19.452	13.396	45,21%	247	(54)	521	(160)
Cutlite do Brasil Ltda	3.028	461	556,83%	38	(333)	104	(702)
Pharmonia S.r.l.	-	-	0,00%	(3)	(2)	(3)	(2)
Deka Japan Co., Ltd	961	612	57,03%	116	121	56	66
Penta-Laser Equipment Wenzhou Co., Ltd	65.564	33.722	94,43%	2.087	(1.799)	2.166	(1.409)
Merit Due S.r.l.	37	37	0,00%	9	16	5	11
Cutlite Penta S.r.l	36.988	17.718	108,76%	2.980	533	2.896	319
Galli Giovanni & C. S.r.l.	462	345	33,91%	133	25	92	12
Penta Laser Technology (Shangdong) Co., Ltd.	21.825	7.420	194,14%	638	70	609	37
Lasit Laser Polska	-	-	0,00%	(97)	-	(98)	-

### El.En. S.p.A.

The parent company, El.En. SpA, is active in the development, planning, manufacture and sale of laser systems for use on two main markets, the medical-aesthetic market and the industrial market; it also includes a series of after-sales services, like supplying of spare parts and consulting and technical assistance.

In following a policy of continued expansion over the years, El.En. SpA has founded or acquired numerous companies which operate in specific sectors or geographic areas, the activities of which are coordinated through the definition of the supply channels, the selection and control of the management, the partnerships in research and development activities and financing both on capital account and financing with interest or through the granting of credit on sales.

The importance of this coordinating activity continues to be very evident, since most of the sales volume of the company is absorbed by the subsidiaries and determines the allocation of important managerial and financial resources, as a large part of the resources of the company are allocated to sustain the activities of the Group.

As in earlier years, the activities of El.En. SpA, take place at the headquarters in Calenzano (Florence) and in the local branch in Castellammare di Stabia (Naples).

The first half of 2021 saw a remarkable development in sales volume (+ 93,4% with respect to 2020, +69,2% with respect to 2019), with excellent trends in the industrial sector and, above all, in the medical sector which more than doubled its volume of business with respect to both the first half of 2020 and also 2019. Sales on the American market were particularly significant, thanks mainly to the latest generation of hair removal systems. The growth in sales volume facilitated a return to the levers of profitability which El.En. had not achieved for years, with an EBIT of 12,2% on the sales volume. The net result, amounting to about 15 million Euros, thanks to the contribution of the dividends from the subsidiaries which had been suspended in 2020, was even more significant. The outlook for the second half of the year is positive and is based on the numerous orders received which are occupying to their full extent all of the production departments who are attempting to respect a dense delivery schedule.

#### **Deka M.E.L.A. S.r.l.**

Deka M.E.L.A. was the first company in the Group to attend to the marketing of medical systems in Italy and abroad, the natural market for the systems developed and manufactured by El.En. in Calenzano, for which Deka is still the main channel of distribution. DEKA is now the most prestigious and famous brand name on the Italian market for laser applications for medicine and aesthetics and this leadership has been re-enforced by the introduction of the Renaissance brand in which the Group has united the distribution in Italy of the medical systems manufactured by Quanta System and Asclepion. At the international level, the Deka brand has a very prestigious role and is one of the main players on the market.

Deka operates in the sectors of dermatology, aesthetics and surgery and makes use of a consolidated network of agents for the direct distribution in Italy and a network of highly qualified distributors who have been selected over time for international export.

The Deka organization, both in Italy and in the international network, is a highly visible and recognized presence and a synonym for product innovation, professionalism in supplying and excellent performance of the laser systems they offer. These features represent the conditions in which the Group is investing in order to augment its further growth, thanks to their ability to move new products through their consolidated and effective distribution network.

During the first half of 2021 the company registered a return to market conditions which were almost normal, with a significant recovery in the sales volume. In particular, on the International markets, the demand was high, also thanks to the wide range of products offered by Deka which is always focused on the needs of the client and ready to apply the best technological innovations to the systems they offer to the market. Deka was able to take advantage of the excellent receptivity of our markets in part thanks to the work they conducted even during the most difficult phase of the pandemic in the Spring of 2020, by creating, in particular, new systems for hair removal and body contouring which are at the foundation of the excellent results they obtained. The sales volume of Deka for this half showed an increase of 71% with respect to the first half of 2020, an average increase over two years of 13,5% with respect to the first half of 2019; these are remarkable results which are accompanied by a significant increase in profitability. In this regard, it should be noted that the marketing expenses for this period are considerably less than they were in 2019 due to the impossibility of participating in trade fairs and symposiums and, more in general, unrestricted travel. The increase in the sales volume consequently was achieved without an increase in the marketing expenses which our products had required previously; the costs for marketing on-line and for contact on the social networks, although they have greatly increased, are still much less than those spent for the traditional marketing methods, all of which benefitted the economic results of our business. At this time market condition continue to be favorable and for the end of the year we expect to achieve the same excellent results as those for the first half.

#### **Ot-Las S.r.l.**

Ot-Las Srl deals in the business of laser marking systems for large surfaces with galvanometric type movement of the beam, and makes use mostly of the scanning systems and the mid-power CO<sub>2</sub> laser sources supplied by El.En..

Ot-las conducts its activity in a section of the factory in Prato also occupied by Cutlite Penta.

The company's operating activity registered excellent results in the first six months of the year and came close to 2,5 million Euros in sales volume, a result which allows it to once again get a positive EBIT.

The equity in the companies of the Group that operate in the sector of sheet metal cutting for which Ot-las is the holding company, is very significant. After the re-organization of the companies conducted over the last two years, Ot-las now controls Penta Laser Wenzhou with an equity of 84,54%, and the latter detains 100% control over the Chinese companies, Penta Chutian Wuhan, Penta Laser Shandong and the Italian company, Cutlite Penta.

#### **Cutlite Penta S.r.l.**

This company was created from a branch of Ot-las in order to separate the business in which it operates, systems for laser cutting, from that for marking in which Ot-las operates. Cutlite is dedicated exclusively to the segment of laser cutting for which it conducts the activities of production planning and sales. Cutlite installs on "X-Y" movements controlled by CNC the powerful laser sources produced by the Parent Company, El.En. S.p.A. for applications of plastic

cutting and sources produced by other suppliers for the cutting of metal and dies. Besides flat cutting, Cutlite has developed and produces 5-axis systems and rotary axis systems for dies and metal pipes.

Since it was founded in 1992 Cutlite Penta has operated in the sector of systems for cutting dies and plexiglass, a niche in which it is considered one of the market leaders. In the last few years it has benefitted from the transformation of the market for sheet metal cutting.

This transformation, with the advent of laser sources in optical fiber which are increasingly powerful, economical and reliable with respect to the CO<sub>2</sub> traditionally used in this sector has amplified the productivity of the laser systems and their applicative potential and caused a rapid amplification of the market making it possible for new players to acquire an important role on the market, something that would not have been possible if the technology had remained the same.

Cutlite was able to take advantage of the new technology and, thanks also to the contribution of the associated Chinese companies which had already adopted the new technology previously they were able to enter the market with a range of systems that was ideal from the point of view of the ratio between price and performance. The results in terms of growth were highly satisfactory. In order to sustain the rapid growth, Cutlite made major investments in its operative and logistic structures and in 2019 transferred their operations together with those of Ot-las, and at the end of 2020 acquired another industrial building adjacent to the first one. Despite the interruption of activities imposed by the Covid pandemic in the Spring of 2020, the volume of business and production actually increased even in 2020 and continues to increase now in 2021; in fact, the company is registering record volumes with a sales record for the half of about 37 million and operating profits of over 8%. The portfolio of orders is solid and the operating structures are able to sustain this rapid growth for the second half of the year.

#### **Penta Chutian Laser (Wuhan), Penta Laser Equipment (Wenzhou) e Penta Laser Technology (Shandong) Co., Ltd.**

The presence of manufacturing structures of the Group in China has increased over time, beginning with the first factory in Wuhan which was started as a joint venture in 2007 and reaching the five factories which we now have located in the cities of Wuhan, Wenzhou and Lin Yi which have made it possible to effectively dominate the local market for laser cutting of sheet metal in the area of greatest demand for manufacturing plants. More than 800 workers are employed also in the dense marketing network and in the efficient after-sales technical assistance to our clients. The growth in recent years has made Penta one of the most significant players on the Chinese market for laser cutting and they have been able to distance their products from the intense local competition thanks to the quality of their key components which are designed and, for the most part, manufactured in Europe without losing the competitive edge necessary to deal on the local market. These characteristics have made it possible for them to become one of the leading companies in China in the field of sheet metal cutting. The ability to effectively manage increasingly powerful laser sources has become a singular trait that distinguishes our products on a highly competitive market. With the systems equipped with 30kW sources now part of the standard range, in 2021 we will also start to install powers of up to 40kW. The increase in the amount of power available at decreasing costs has made it possible for laser cutting applications to become economically more attractive in terms of productivity and technically utilizable in applicative fields which were previously confined to traditional technologies with respect to which the laser systems can offer advantages like quality, flexibility, environmental impact and, ultimately, also cost.

During 2021 the companies continued in the recovery from the stage of total lockdown imposed in the Winter of 2020, in particular in the factories in Wuhan, epicenter of the pandemic, and Wenzhou, the second most severely affected city in China. The drastic measures taken after the first wave of the epidemic and the rigorous limitations on arrivals from abroad allowed China to return to almost normal conditions of everyday life starting in the Summer of 2020, with great benefits for the markets which recovered rapidly.

The sales volume for this half confirmed the expectations for a rapid growth and a significant recovery in profitability, and offer an outlook for a year which promises to be filled with great satisfaction. In the meantime, we have concluded the re-organization of the laser cutting sector with Penta Laser Wenzhou becoming the leader of the division and having 100% control of the business units in Lin Yi and Wuhan and even Cutlite Penta in Prato whose activities are closely coordinated.

#### **Quanta System S.p.A.**

This company was created as a spin-off of the laboratories of scientific research on photonics and became part of the Group in the early 1990s and a subsidiary in 2004 thanks to its particular skills it developed in the sector of applications for lasers in medicine. The company now produces sophisticated laser systems for aesthetic medicine and for surgery, in particular in the segment of urology, in which it detains an important part of the international market.

After the records it set in 2019 with an annual sales volume of 83,6 million and net income of 13,9 milioni, Quanta suffered the impact of the pandemic in 2020 and registered a drop in sales volume which mostly involved the aesthetic sector. At the beginning of 2021, while the markets are going through a phase of recovery after the conclusion of the most severe phase of the pandemic Quanta System has been able to achieve an excellent level of sales volume,

especially in the aesthetic segment. The development of sales for applications in urology and the sale of the consumables related to this field has not been so rapid also due to problems, now solved, which obstructed the production of optical fibers in the early months of the year.

The market position of Quanta System, thanks to the characteristics of its range of systems for medical, aesthetic and surgical applications is such that we can predict a phase of further growth and recovery in all the applicative segments for the second half of this year.

#### **Lasit S.p.A.**

This company is specialized in the design, manufacture and sales of systems for marking small surfaces and conducts its manufacturing operations and product development in their headquarters in Torre Annunziata (Naples).

Its systems are used for the identification of products, parts and sub-assemblies, a requirement that has become very frequent in the manufacturing world where the need for traceability of products and components has become increasingly stringent. Laser marking systems with their flexibility and low environmental impact are able to satisfy this requirement with the greatest efficiency.

Lasit has achieved a respectable position on its market by offering its clients a high quality product along with a personalization service which is supplied punctually thanks to the great flexibility of the company's production structure which is organized in order to perform all of the main production phases inside the factory. The company is therefore able to control the costs and improve their response to even the most complex requests for personalization.

The mechanical workshop is equipped with state-of-the-art numerical control systems and even laser systems for cutting sheet metal and represents a qualified internal supplier also for the rest of the Group..

After the setback suffered in 2020 due to the pandemic and the direct limitations it imposed like the lockdown and the indirect ones like the weakness of the market, Lasit resumed their steady growth rate and showed a rapid increase in their sales volume and earnings which were greater than those registered for the first half of 2019. In 2019 Lasit acquired the factory adjacent to their Headquarters and now has an adequate logistic infrastructure to sustain their development over the next few years. In 2021 in Poland Lasit founded the subsidiary **Lasit Laser Polska** in order to take advantage of the opportunities offered by the rapid development of manufacturing in some parts of the country. This company has just started their operations.

#### **Asclepion Laser Technologies GmbH**

This company was founded as Asclepion-Meditec and then became the aesthetic division of Carl Zeiss Meditec, which was purchased from Zeiss in 2003. At the time the company had about forty employees who worked inside the Zeiss factory. It grew rapidly and acquired a significant position on the market of laser systems for medical and aesthetic applications, for which it constitutes one of the three business units of the Group. As of this date, Asclepion has almost 150 employees and their own factory which was recently doubled in size with ample spaces dedicated to the training of its clientele and employees.

The location in Jena, international cradle of photonics and a lively cluster of start-ups active in the world of electro-optics, represents a significant advantage for Asclepion, both for its high-tech image as well as the facility of access to environments that are very proactive in the basic and complementary technologies necessary for the production of our systems.

Asclepion is considered an authoritative point of reference on the market for the two laser technologies in which it excels: that for diode laser (semi-conductor) hair removal and that for erbium systems for dermatology. For the Mediostar system, the first design had already been developed before we acquired the company and later developments radically modified its structure and improved its performance, making it an international point of reference. The erbium technology for ablation applications in dermatology has thousands of installations, especially in Germany.

More recently, Asclepion has been involved in the surgical sector, with technologies for applications in otolaryngology and, above all, urology. For this latter segment Asclepion has developed system with holmium and thulium technology and has achieved excellent results also in terms of the technical performance of the equipment. The laser systems are marketed under the brand name of Jenasurgical.

The beginning of 2021 was very positive and during this half the revenue registered a significant recovery, with over 27 million in sales volume which made it possible to achieve an excellent level of operating earnings.

**With Us Co Ltd**

With Us Co. with headquarters in Tokyo is the distributor of El.En./Deka products for the aesthetic sector in Japan, where it has been able to acquire an important position in particular in the applicative sector of hair removal. Besides the Deka/ El.En. systems, With Us distributes creams and accessories and small equipment for the aesthetics business or intended for home use, in significant volumes considering the high number of stores they serve.

The all-inclusive maintenance services they provide for the systems previously installed contribute significantly to the sales volume and revenue. The excellent results obtained in 2020 during which the effects of the pandemic had only marginally influenced their activity, are still continuing in 2021 with a further expansion of their sales volume and the confirmation of the results for the first half.

**ASA S.r.l.**

From its Headquarters in Vicenza which were recently moved to a new building they own, ASA operates in the sector of physical therapy for which it develops and manufactures a line of low and mid-powered semi-conductor lasers. Thanks to the range of products which it offers and their capacity to supply training services to their clients which make it possible for the clients to take best advantage of the benefits of the technologies in their elective applications, ASA has grown rapidly and consistently in size over the years and has always maintained a good level of profits.

ASA is equipped with its own Research and Development office which is dedicated to the creation of diode lasers and the company has taken advantage of the Nd.YAG technology systems manufactured by the Parent Company El.En S.p.A, which distributes them all over the world, beside contributing concretely to the definition of specific products and of new applicative protocols.

Asa has taken advantage of the return to normal market conditions after the most acute phase of the pandemic and has registered excellent results for the first half of 2021, improving their sales volume for 2019 and registering an excellent net income for the period. Moreover, during this half, Asa again began paying dividends to its shareholders, including those which had been suspended last year. The outlook for the end of 2021 is positive.

**Other companies, medical sector**

**Deka Sarl** distributes Deka brand medical systems in France. Its presence represents an important outpost which is valuable for maintaining the position of the brand on the French market and those of the French speaking countries of North Africa. The company represents an important marketing point but the high cost of distribution has made it impossible to achieve the break even in the last few years. In order to interrupt the string of negative results, in 2020 the company has to profoundly modify its selling organization and give up some key figures in the company. The results of the new, leaner structure, thanks to the strong recovery of the market after the most critical phase of the pandemic, were encouraging, with an excellent recovery in sales volume, which was close to 2,7 million Euros, and the company was able to break even this half.

**Deka Japan**, is active in Japan and distributes Deka brand medical systems on the Japanese market. Since 2018 they have been collaborating with DKSH which acts as the sole distributor on the market, while Deka Japan concentrates on obtaining the authorizations necessary for the sale of new products and the logistical support of DKSH. Results for this half have been good as we expect a good closure for the year.

**Deka Medical Inc.**, has been inactive for several year and was liquidated during the first half of the year.

**Esthelogue S.r.l.** distributes the laser systems of the Group in the professional aesthetic sector in Italy. This is a varied and lively market in which the company has acquired an increasingly important role for various hair removal applications and for non-invasive body contouring. For hair removal, the Mediostar systems represent the most typical product featured by Esthelogue and are able to satisfy every requirement of the clientele with a vast range of devices including the very powerful Monolith handpieces. For non-invasive body contouring Esthelogue offers a complete range which includes the Icoone in its latest version, the B-Star system and the B-strong Plus system which use innovative technologies and methods. The systems that they offer feature a level of quality and safety that is unequaled in the aesthetics sector, guaranteed by the manufacturers, European companies which operate with the standards of their prevalent sector, which is the medical sector. Their position at the highest level of product quality is also completed by another decisive factor in the success which characterizes the activities of Esthelogue: the services of training, assistance and support of their clients transfer value and knowledge to the end-users of our technologies. The spread of the pandemic had a very severe impact on the Esthelogue market in 2020 and again in 2021 because the aesthetic centers were forced to close for long periods during the lockdown and then again in the red zones during the second wave of the pandemic. In 2021 there was a strong recovery of the market and our products and services were widely used so that Esthelogue was able to register the excellent results which they had expected previously but which the effects of the pandemic had prevented them from achieving in 2020. The sales volume for the half rose to 7,5 million

(+115% over 2020 and above all, +26% over 2019) so that they were able to register a significant EBIT. The outlook for the coming year is positive.

**Pharmonia S.r.l.** conducts sporadic activity for the marketing of products on some specific international markets.

**Galli Giovanni & C. Srl** is a machine shop specialized in high precision mechanical work. The company became part of the Group in 2019 when Quanta acquired a controlling equity of 70%; previously they had been a qualified supplier of Quanta System. Thanks to the characteristics of the CNC machinery and the expert professionalism and specialization of their staff, they contribute to maintaining the high standards of quality and flexibility in the manufacture of mechanical parts. These latter represent a category of purchases that are very significant also from the point of view of the amount of production costs.

The economic trend of the company remained positive and increased. In order to allow the operations to keep up with the growth of its main client, Quanta System, they are now about to acquire a new building to which they will move and enlarge the operations, with an investment of about 300 thousand Euros which will be financed by the controlling company, Quanta System, and they plan to move the operations to the new building in the early months of 2022.

**BRCT Inc.** acts as a financial sub-holding company.

### **Other companies, industrial**

**Cutlite do Brasil Ltda** has a factory in Blumenau in the state of Santa Catarina. They produce laser systems for industrial applications and, attend to the distribution of laser systems produced by their Italian associates and operate in a factory that is able to supply an effective technical support for the hundreds of installations in the territory. The company was very hard hit by the Brazilian economic crisis but in recent years Cutlite has been able to benefit from the opportunities which, also in Brazil, have been opened by the sheet metal cutting technologies using increasingly powerful laser sources in fiber. Cutlite do Brasil has gradually increased their sales volume and acquired a growing role on the market of sheet metal cutting in Brazil by benefitting from the same competitive advantages that are at the foundation of the success of Cutlite Penta, to which they add the advantage of location. The pause that was imposed by the Covid pandemic in 2020 in the progression of sales seems to have been overcome and the first half of 2021 registered an excellent sales volume, close to that for the whole year 2020 and an excellent acquisition of orders is promising for a year end closure which is, finally, positive for the year.

## 1.10. Comments on Research and Development

During the first half of 2021, despite all of the difficulties caused by the Covid pandemic emergency, we continued conducting research and development activities according to the strategy which, in times of crisis, is even more valid, pursuing continual innovation intended to open new applications for laser and other energy sources both in the medical and industrial sectors (which includes the applications for the conservation of our cultural heritage) and to release on to the market products that are innovative because of the performance of the devices and/or the technologies that are used.

In general, for highly technological products in particular, the global market requires that the competition be met by rapidly and continually placing on the market completely new products and innovative versions of old products with new applications or improved performance which use the most recent technologies and components. For this reason extensive and intense research and development programs must be conducted and organized according to brief and mid-long-term schedules.

In our laboratories we conduct research in order to identify and understand real problems in some sectors of medicine and, on the basis of the experience and know-how that we have acquired, we look for solutions concerning the interaction of the electro-magnetic waves, mainly of the laser light, with biological materials, by conducting experiments and preliminary tests in the laboratories that have been specifically created for this purpose at El.En. For industrial applications and for the conservation of works of art we also study the interaction between the electro-magnetic waves and inert materials.

Moreover, for the laser systems that are dedicated both to new and consolidated applications we continue to develop technologies to improve the performance, efficiency and sustainability by applying a process of continual improvement of the laser sources on one hand, and acting on the innovation of their spectral content, the methods for generating it and the optimal level of power and, on the other hand, we program its management over time in relation to the laws governing its disbursement and in space as far as the shape and movement of the light beam to be applied to the target is concerned.

The research which is aimed at obtaining mid-long-term results is generally oriented towards highly innovative subjects which represent major entrepreneurial risks, which are, however typical of our international dimension and inspired by intuitions which have arisen within our companies or by prospects indicated by the scientific work conducted by advanced research centers throughout the world, some of which we collaborate with.

The applied research which is dedicated to achieving results according to a short-term schedule is concentrated on subjects for which all the preliminary feasibility studies have been completed. For these subjects a choice has already been made regarding the main functional characteristics and performance specifications. The elements for this activity are determined on the basis of information obtained from the work of specialists employed by the company and also as a result of activities of the public and private structures which acted as consultants in the phase of preliminary study and some in the phase of field verification.

The research which is conducted is mainly applied and is basic for some specific subjects generally related to long and mid-term activities. Both the applied research and the development of the pre-prototypes and prototypes are sustained by our own financial resources and, in part, by grants which derive from research contracts stipulated with the managing institutions set up for this purpose by the Ministry of University and Research (MUR) and the European Union, as well as directly with Regional structures in Tuscany or the Research Institutions in Italy and other countries. In China the expenses for research and development have fiscal advantages due to the increased deductibility.

The El.En. Group is currently one of the few companies in the world that develops, produces, and markets products based on such a wide range of technologies which include: solid state lasers, semi-conductor lasers, active fiber lasers, lasers with colouring agents, CO<sub>2</sub> lasers, as well as conversion systems in frequency including OPO and Tama, which are able to supply solutions from infrared to ultraviolet with various levels of power and duration of emission in order to satisfy a vast range of applications.

Besides laser technology, El.En. is also active in other technologies related to electro-magnetic Energy, including in particular, radio-frequency, microwave and high-intensity electro-magnetic fields. For this reason Research and Development is conducted on many different systems, sub-systems and accessories.

Without going into excessive detail, a description of the numerous sectors in which the research activities of the Parent Company and some of the subsidiary companies have been involved is given below. We conduct an intense activity in order to obtain patents and protect the intellectual property of our inventions; this process becomes increasingly difficult over the years because of the policies of protectionism promoted by the most technologically advanced nations.

## Systems and applications for lasers in medicine

The Parent Company, **El.En.**, in collaboration with **DEKA** and more recently with **Quanta System** and **Elesta**, have been active conducting research on biological samples and cell cultures in the laboratory and clinical experiments for applications in the surgical field of devices and sub-systems based on the use of electro-magnetic energy. There are numerous applications in the fields of general surgery, otolaryngology, aesthetic medicine, gynecology, dermatology, urology and vulnology.

Since November of 2020 DEKA has had its own Medical Advisory Board for women's genital health, which operates mainly in the applicative segment of CO<sub>2</sub> laser systems. They have recently expanded their range of products with the introduction of the new "**Monnalisa Glide**" system, an evolution of the historic "Monna Lisa Touch", one of the main products of the Group for which there is a vast amount of scientific and experimental literature, and which is improved with the combination of a non-ablative spectral component with a wave length of 1540nm united with the traditional CO<sub>2</sub> laser radiation for the purpose of improving the effects of the treatment of vaginal atrophy.

In the sector of dermatological applications, we have continued research on the new product "**RED TOUCH**", based on a laser source with emissions in red, which represents a unique and innovative solution for photo-rejuvenation of the skin which is based on the direct interaction of the radiation with the collagen present in the tissue; during the studies conducted at the El.En. PhotoBio this solution was found to be very effective in the stimulation of the neocollagenogenesis of elastic fibers which were able to greatly improve the appearance of the skin.

Also in the field of dermatology, we have continued to collect clinical data to confirm the methods used in the "**Luxea**" equipment, whose performance comports a number of uses for various applications in aesthetic medicine; in this equipment the main laser sources for various applications have been added. The level of integration and management met with the approval of the first experimenters and clients who bought it. In particular, we are now conducting clinical experiments on a new range of treatments for vascular lesions, including angiomas and port wine stains based on proprietary technology which we expect to release on the market in the second half of 2021.

In the first half of 2021 we obtained FDA clearance for an important new accessory in the SmartXide family, the **Scar3**, scanner, which offers a specific new solution for the treatment for dermatology (skin resurfacing) for the treatment and reduction of acne and surgical scars.

As part of the Body Shaping we have continued to gather objective data for the clinical evaluation of the results to enrich the specific scientific literature related to our innovative system for body shaping, **Onda Coolwaves** which, in the first quarter of the year, was improved with a new handpiece for massaging of the parts being treated and further improve the effectiveness of the Coolwaves treatment.

We have concluded the development of systems with superluminescent LED matrices combined with electro-stimulation for the reduction of the adipose layers and systems for muscular stimulation for the reduction of localized adipose based on electrical ("**PhysiQ**") and magnetic ("**Schwarzzy**") stimulation. This latter equipment using electromagnetic fields for the stimulation of specific muscle masses in the body, may also be used for applications in the rehabilitation field and have already obtained satisfactory results in sales in the first half of 2021. We are also conducting further activities aimed at improving the performance of the devices and the quality of the treatment thanks to the development of specific applicators.

In the hair removal sector we have continued research and development activity aimed at optimizing the clinical aspects of new high-end products ("**Elite-IQ**" and "**Again**"); in particular, we are studying the temporal structure of the impulses produced for the purpose of improving the effectiveness of the treatment by reducing the discomfort, also in association with specific procedures for cooling the skin during the treatment.

We are about to release on the market "**Motus AZ**", a new product which is intended for the American market and is characterized by a complete range of treatments applied with a series of handpieces with cooling on contact: **Moveo HR** (Hair removal); **Moveo PL** (Pigmented Lesions); **Moveo VL** (Vascular lesions); **Moveo SR** (Skin rejuvenation). "**Motus AZ**" has already obtained FDA Clearance.

In the field of gynecology we have been working on the development of systems for the treatment of incontinence caused by stress and, in particular we have completed a medical system called "**Dr Arnold**" for the stimulation of the pelvic floor by means of high intensity magnetic impulses.

For surgical applications we have continued the research and development activities related to CO<sub>2</sub> laser technology. We have created new accessories and systems including **Multipulse Pro Duo** which is marketed by the subsidiary



Asclepion, and is a system which makes it possible to perform a vast range of surgical operations thanks to the double function of the arm-fiber.

In the first half of 2021 we released a new CO<sub>2</sub> system for surgical applications dedicated exclusively to applications using fibers for delivery and we are completing the medical certification for the sterile single-use (re-processable) wave guides produced by Quanta System SpA.

During the first half of 2021 DEKA obtained the medical certification of their new product, “**SmartPico**”, a laser system dedicated mainly to applications for the removal of tattoos and benign pigmented lesions which operates on a pico-second regime.

At **Quanta System** they have also conducted intense research and development activity on laser sources and systems destined for the aesthetic medicine market and that for medical therapies in urology even using new technologies for producing sources with emission characteristics able to further improve the performance of systems already on the market.

In the urology sector they are now enlarging the family of laser sources in fiber with TFL Thulium wave lengths. In particular besides the compact 60W source with high power peaks, a version with 80W power will soon be available. They are continuing the comparative study between TFL sources and existing technologies in order to evaluate the particulate obtained in the urological lithotripsy. After the completion of the development, they are proceeding with the design and prototyping of a new laser system for urology, all solid state on continuous regime, impulse and with ultra-short impulses. Combining all of these options in urological lithotripsy will make it possible to treat concretely with different densities and in different conditions, thus allowing applications that are now possible only using multiple systems.

Among the other products whose development has been conducted by Quanta System this year, we should note the continuation of the activity for the development and innovation in dermatology in the segment dedicated to the removal of tattoos, skin lesions and dermatological lesions in general.

On Pico and Q-switch systems, the new solid state laser handpiece (OPO) for generating wave lengths in red (694 nm), using a patented delivery system of the pump energy, is now available.

They have also concluded the prototyping of the zoom handpiece with focal variability for the Pico and Q-switch systems which is available on the new systems and compatible with the equipment already installed in the field.

They are continuing with the design and prototyping of a new platform which is the evolution of the EVO system and which will include all the long impulse sources available with fiber exits. New laser source technologies and new materials will be used to increase the specifications of optical power. This system will make it possible to combine the different sources into a single or simultaneous function with new specifications.

They are continuing in the development of a new generation of handpieces and accessories for applications in dermatology. In particular, on the new platforms there will be new interchangeable zoom handpieces which will make it possible to amplify the range of laser spot and energy density.

They are proceeding with the development of new accessories for cutaneous cooling with a new family of accessories with contact cooling and air cooling with improved efficiency and ergonomics which can be perfectly integrated on platforms with multiple sources. This development will make it possible to guarantee an improved uniformity in the distribution of the gradient of the contact temperature, with greater comfort for the patient in the dermatological and aesthetic applications like hair removal, vascular lesions, skin rejuvenation. Moreover, the new design will allow the greater efficiency, comfort and simplicity of use.

At **Asclepion** they are now completing the development activity which is part of an updating strategy of all the systems in their range which includes a new philosophy of interface with the client, new electronics and new design. They have developed an automatic recognition system of vessels for vascular treatments using a camera and they are now conducting the clinical and technical experimentation. They have continued with the development of a surgical system for urological applications which features the presence of a morcellator integrated into the system.

In the first half of 2021 at **Elesta** they concluded the development of sterile accessories for the minimally invasive laser treatments guided by images. They developed a new hardware platform for the ESI (Echolaser Smart Interface) device and extended the application to the programming of the treatments of malign pathologies mainly in endocrinology and urology. They have developed an infrastructure for remote control of the device which is useful as a support and tutor for laser sessions. They have requested a patent for this device.

The associated company **Accure Acne Inc.** obtained the CE brand for their Accure Laser™ system for the treatment of patients with moderate acne vulgaris and began marketing the new product with the first units sold in 2021.

Accure Laser is the first laser platform in the world developed to selectively target the sebaceous glands which are the source of the production of sebum and the key or an effective and long lasting treatment of acne.

Accure Laser <sup>TM</sup> is the result of a major research and development project conducted by Accure Acne Inc. in collaboration with El.En. and Quanta System, and represents a product of great innovative value in the field of dermatology treatments. It is, in fact, the first laser system in the world which combines sophisticated automatic control elements aimed at guaranteeing the effectiveness and the safety of the treatment which is automatically adapted to the specific area to be treated in the individual patient. Among the automatic elements of Artificial Intelligence (AI) there is an "auto trigger system" which automatically activates the laser emission only when the target cooling temperature has been reached, the ADD system of Automatic Determination of Dose and the DEM system which automatically controls the interruption of the emissions by applying a direct measurement of the limit when the end point has been reached. This product is protected by a massive portfolio which includes more than 14 patents.

Asa has continued in their project of clinical experimentation and validation of the therapeutic effectiveness of their equipment for physical therapy by making use of their own research structures at ASA campus which characterizes the high level of scientific content of the body of documents for the clinical reference of the Asa instruments.

All of the companies of the Group working in the medical sector in recent months have had to deal with the complex and onerous task of adapting the technical and clinical documentation required in order to obtain the quality certification for laser systems used in medicine (EU brand). In fact, as part of the series of modifications in the regulations imposed by the new "MDR" directive the documentary requirements and the experimental evidence necessary to prove the safety and effectiveness of medical devices which is already very extensive are now even more stringent.

### **Laser systems and applications for industry and for restoration**

At **El.En.** we have launched a campaign of product re-engineering in light of the increasingly demanding applications to which its products are aimed. We have continued to work on the improvement of the range of mid-powered sealed CO<sub>2</sub> sources also with applicative experiments on the first examples of the series of Blade RF1222 sources which, with 1.200 Watt is now the most powerful in the range.

We continued to improve the source for the purpose of increasing the average power up to 1,5 kW, a threshold which would make it possible to use RF in some specific applicative fields which otherwise would be precluded, like that for dies developed by Cutlite Penta. The first operative models are already installed in pilot sites in the field.

These sectors require performances in terms of the lengthening of the intervals for ordinary maintenance, and direct the efforts for development towards materials and status monitoring systems of the opening of the cavity as well as a greater autonomy of the refill cartridge of the laser gas mix.

We have perfected the development of the RF188 model for the Chinese market which requires middle to low-power sources at very competitive prices for high volumes and forces the designers to engineer solutions that are increasingly efficient along with improved performance.

In the sector of systems for galvanometric scissions, we have begun a program for the renewal of the control electronics and related software and have concluded the initial phase for creating the equipment for the control and testing of the galvanometric assemblies and the relative testing procedure. These components are being increasingly installed also in the medical systems manufactured by the Group with requests for greater performances and production efficiency. The controlling software was the subject of an important development project aimed at stabilizing the performance and implementing the control algorithms that were capable of guaranteeing them at every level of operation.

Another important activity has been directed to the study of FEM dynamics of deflection mirrors that have a large optical aperture with materials that are innovative with respect to the traditional ones.

The system which is dedicated to restoration, the Blaster 100W, is now being drastically renovated in terms of software and hardware in relation to the control unit and interface with the operator. We have also started work on the development of a 300 W transportable system for applications to a broader type of conservation which could be extended also to the sectors of paint stripping and industrial cleaning.

**Cutlite Penta** has developed a new system for controlling the power of lasers used in the production of backlit acrylic panels in order to increase the consistency and modularity of the final effect. They continued with the development of new lines of machinery and accessories like the cutting heads for lasers in fiber by improving their performance and their capacity to manage very high powers and they have introduced innovative control methods and continued in their close collaboration with Penta Chutian Wuhan and Penta Laser Wenzhou.

In the sector of machines for cutting metals, the new optical, mechanical, fluid-dynamic and sensor developments in the EVO2 cutting heads has allowed the introduction of the range of laser powers of over 15kW aiming at 40kW.

Machines equipped with 30kW sources are now a reality of great commercial appeal and represent a product in continual evolution thanks to the development of cutting processes that are increasingly state-of-the-art. They also conducted activity aimed at the development of innovative systems for cutting pipes and combined machines for cutting both pipes and flat sheets which is a segment that offers great sales potential.

The development of the software and the characterization of the cutting parameters, also with the relative support gases, made it possible to fully exploit the potential derived from the high-powers used with significant increases in the performance in terms of productivity and quality and the creation of innovative machinery for bevel cutting 2D and 3D which will be used to create a new line of application for cutting with fiber lasers.

They have also continued the development and amplification of a range of machines for making American dies, a field in which Cutlite Penta has always been a world leader by presenting a new line based on the El.En. RF1222 laser with a power increased to 1.5kW to be installed at some selected clients' with the function of beta tester.

On the machines of **Ot-las** they have continued the experiments on the use of a new CO<sub>2</sub> RF1222 laser source by El.En. and on the new scanning optics which have been specifically developed for it and arable to manage the high average power and peak along with the growing request for dynamic performance. In consideration of the growth of the machines produced in terms of automation, they have designed new systems for specific functions, including, for example. The use of positioning devices for forming the insoles of shoes, systems for moving large blocks of natural stone and others.

They have also continued to conduct research for the optimization of processes in the field of leather, textiles and shoes with the consequent improvements in performance and production flexibility. They continue to work on solutions for personalization to be integrated into the complete production processes which require surface treatments of various materials besides those to add to the production lines with the use of universal robotic systems.

At **Lasit** the development was related to 3 axis marking systems in applications of mass production of high-quality components in the field of cycling, automotive and machine tools with personalized solutions, as well as in the field of accessories for high fashion.

The chart below shows the expenses for Research and Development in this period.

<i>Thousands of Euros</i>	<b>30/06/2021</b>	<b>30/06/2020</b>
Staff costs and general expenses	5.762	5.107
Equipment	171	176
Costs for testing and prototypes	2.400	1.596
Consultancy fees	240	424
Other services	74	65
<b>Total</b>	<b>8.648</b>	<b>7.368</b>

Following the usual company policy, the expenses shown in the chart have mostly been entered in the operating costs because it is not possible to make a reasonable estimate of the return on the investment.

The amount of expenses sustained corresponds to about 3% of the consolidated sales volume of the Group. The expenses sustained by El.En. S.p.A amounted to 4% of its sales volume.

## 1.11 Risk factors and procedures for the management of financial risks

### *Operating risks*

Since the company is fully aware of the potential risks derived from the particular type of product made by the Group, already in the earliest phases of planning and research, they operate so as to guarantee the safety and quality of the product put on the market. There are marginal residual risks for leaks caused by improper use of the product by the end-user or by negative events which are not covered by the types of insurance policies held by the companies of the Group.

### **Procedures for the management of financial risks**

The main financial instruments of the Group include checking accounts and short-term deposits, short and long-term financial liabilities, leasing, financial instruments and hedging derivatives contracts.

Besides these, the Group also has payables and receivables derived from its activity.

The main financial risks to which the Group is exposed are those related to currency exchange, credit, cash and interest rates.

### *Currency risk*

The Group is exposed to the risk caused by fluctuations in the exchange rates of the currencies used for some of the commercial and financial transactions. These risks are monitored by the management which takes all the necessary measures to reduce them.

Since the Parent Company prepares its consolidated financial statements in Euros, the fluctuations in the exchange rates used to convert the data in the statements of the subsidiaries originally expressed in foreign currency may negatively influence the results of the Group, the consolidated financial position and the consolidated shareholders' equity as expressed in Euros in the consolidated financial statements of the Group.

This year the Parent Company El.En. SpA stipulated a currency forward contract to partially cover the risks in the exchange rate with the US dollar.

<i>Operation</i>	Notional value	<i>Fair value</i>
Currency forward contract	\$6.000.000	-€ 25.153
<b>Total</b>	<b>\$6.000.000</b>	<b>-€ 25.153</b>

### *Credit risks*

As far as the commercial transactions are concerned, the Group operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance. There are no significant concentrations of credit risks within the Group. The devaluation provision which is accrued at the end of the year represents about 5% of the total accounts receivable from third parties. For an analysis of the overdue receivables from third parties, please consult the relative paragraph in the consolidated financial statement.

As far as guarantees granted to third parties are concerned:

With the conclusion of the acquisition of the minority share of Penta Laser Wenzhou by Ot-las S.r.l., El.En. S.p.A. granted a guarantee in favor of the selling partner for the payment described in the earn-out clause for 40 million Renminbi (about 5 million Euros) in the case that they proceeded with an IPO of Penta Wenzhou within 5 years from the acquisition.

In the month of July 2020 Esthelogue Srl obtained a guarantee from Mediocredito Centrale on the financing of 1,5 million Euros issued by Intesa San Paolo. The amount of the guarantee was 1,35 million Euros.

In the month of July 2020 Cutlite Penta Srl obtained a guarantee from Mediocredito Centrale on the financing of 5 million Euros issued by Intesa San Paolo. The amount guaranteed was 4,5 million Euros.

The Chinese subsidiary Penta-Laser Equipment (Wenzhou) in previous years obtained financing for the construction of a new factory and the necessary equipment by taking out a mortgage for a total value of 41 million RMB. For the same reason, in 2020 mortgages for 100 million RMB were added.

Also the new Chinese subsidiary Penta Laser Technology (Shangdong) in 2019 obtained financing for the construction and equipping of a new factory by taking out mortgages for an overall amount of about 6,8 million RMB. During 2020 they took out other mortgages reaching a total amount of 20 million RMB.

The subsidiary ASA S.r.l. underwrote a loan contract to be used for the construction of the new factory by taking out a mortgage for a total amount of 4,8 million Euros. Also in 2018 ASA underwrote a bank guarantee issued by CREDEM to the supplier ENI Spa for 8.000 Euros with expiration date on December 31<sup>st</sup> 2021, a guarantee for the issuing of thirteen "MULTICARD ENI" cards after underwriting a contract for the supplying of fuel.

In the month of June 2020 ASA obtained a guarantee from Mediocredito Centrale on the financing of 3 million Euros obtained from Intesa San Paolo. The amount guaranteed was 2,7 million Euros.

The German subsidiary Asclepion in 2018 underwrote a contract for a loan to be used for the construction of a new factory by taking out a mortgage for an overall amount of 4 million Euros which is added to the residual mortgage taken out for the construction of the old building for the amount of about 427 thousand Euros.

#### *Cash and interest rate risks*

As far as the exposure of the Group to risks related to cash and interest rates is concerned, it should be pointed out that cash held by the Group has been maintained at a high level also during this half in such a way as to cover existing debts and obtain a net financial position which is extremely positive at the end of this half. For this reason we believe that these risks are fully covered.

#### *Management of the capital*

The objective of the management of the capital of the Group is to guarantee that a low level of indebtedness and a correct financial structure sustaining the business are maintained so as to guarantee an adequate ratio between capital and reserves and debts.

## 1.12 Governance

In compliance with art. 19 of the Company by-laws, the Company is administered by a Board of Directors composed of a number of members which varies from a minimum of three to a maximum of fifteen. The number of members was set at seven by the Shareholders' meeting on April 27<sup>th</sup> 2021 which was called to vote on the renewal of the Board of Directors (which will remain in office until the approval of the financial statement on December 31<sup>st</sup> 2023).

As of June 30<sup>th</sup> 2021, the Board of Directors was composed as follows:

NAME	POSITION	PLACE AND DATE OF BIRTH
Gabriele Clementi	President and managing director	Incisa Valdarno (FI), 8 July 1951
Barbara Bazzocchi	Managing director	Forlì, 17 June 1940
Andrea Cangioli	Managing director	Firenze, 30 December 1965
Fabia Romagnoli (*)	Board Member	Prato, 14 July 1963
Daniela Toccafondi (*)	Board Member	Prato, 18 July 1962
Michele Legnaioli (*)	Board Member	Firenze, 19 December 1964
Alberto Pecci	Board Member	Pistoia, 18 September 1943

(\*) Independent administrators, in compliance with art. 148, sub-section 3, D. Lgs. 58/1998 and art. 2 of the Code of Corporate Governance 2020 (*ex art. 3 of the Aurodisciplining Code of Quoted companies 2018*)

The members of the Board of Directors have the headquarters of El.En. S.p.A. in Calenzano (FI), Via Baldanzese n. 17 as their domicile while they are in office.

On April 27<sup>th</sup> 2021 the Board of Directors nominated as executive board members the president Ing. Gabriele Clementi and board members Barbara Bazzocchi and Ing. Andrea Cangioli and attributed to them separately and with free signature, all of the ordinary and extraordinary powers of administration needed to carry out all the activities that are part of the company mission, with the exception of the those that are specifically prohibited from proxy by law or by the company by-laws.

In conformity with the Corporate Governance Code 2020 now in force (and the preceding Self-discipline Codes for Quoted Companies 2018)

- a) On August 31<sup>st</sup> 2000, the Board of Directors presents among its components at least two independent administrators in compliance with art. 2 of the Corporate Governance Code (*ex art. 3 of the Self-disciplining Code*). At this time there are three of them: Dott.ssa Fabia Romagnoli, Prof.ssa Daniela Toccafondi and Michele Legnaioli;
- b) On September 5<sup>th</sup> 2000, the Board of Directors created the following committees composed mainly of non-executive administrators:
  1. The "Nominations Committee" which is charged with the duties described in art. 4, Racc. 19, of the Corporate Governance Code 2020 (*ex art. 5 of the Self-disciplining Code 2018 cit.*);
  2. The "Remuneration Committee", which is charged with the duties described art. 5, Racc. 25, of the Corporate Governance Code 2020 (*ex art. 6 of the Self-disciplining Code 2018 cit.*);
  3. The "Controls and Risks Committee" (*ex "Commission for internal controls"*), which is charged with the duties described in art. 6, Racc. 32, of the Corporate Governance Code 2020 (*ex art. 7 of the Self-disciplining Code 2018 cit.*) as well as those derived from the CONSOB Regulations on Related Parties regarding operations with related parties; and with those in assisting the Board of Directors in their preparatory functions which are of a proactive and consulting nature, in the evaluation and decisions related to questions of sustainability connected to the activities of the Company, and to the dynamics of its interaction with all of the stakeholders, to the social responsibility of the Company, to the examination of the situation for the preparation of the strategic plan and to the corporate governance of the Company and the Group.
- c) Since 2000 the Board of Directors has also designated persons who have the responsibility of verifying that the system of internal controls and risk management is adequate and functioning.

The Board of Directors meets at least once every quarter in order to guarantee adequate information for the Board of Auditors on the activities and the most important operations conducted by the Company and its subsidiaries.

Since they are relevant for the entire Group, the internal controls of the Group are conducted by the Parent Company in collaboration with the personnel of the subsidiary companies. From the point of view of organization the administrators of the Parent Company participate in many of the board meetings of the subsidiary companies as members of their boards. In the others, the administrative bodies supply all the information considered necessary for defining the organization of the activities of the Group.

As far as the financial information is concerned, by the end of the month after the end of each quarter, the subsidiaries must supply, all of the information necessary for the Parent Company to be able to draw up the consolidated economic and financial reports.

## 1.13 Inter-Group relations and with related parties

In compliance with *Regolamento Consob* dated March 12<sup>th</sup> 2010, n. 17221 and subsequent modifications, the Parent Company, El.En. SpA approved the rules disciplining relations with related parties (“*Regolamento per la disciplina delle operazioni con parti correlate*”) (“Regolamento OPC El.En.”) which can be consulted on the internet site of the company [www.elengroup.com](http://www.elengroup.com) section. “Investor Relations/governance/corporate documents”.

These regulations represent an up-date of those approved in 2007 by the company as implementation of art. 2391-bis of the civil code, of the recommendations contained in art. 9 force in the past (and in particular the applicative criteria 9.C.1) of the Self Disciplining Code for Companies Listed on the Stock market (*Codice di Autodisciplina delle Società Quotate*), edition of March 2006, in consideration of the above mentioned Regulations for Operations with Related Parties (“*Regolamento Operazioni con Parti Correlate*”) n. 17221 and later modifications as well as the Consob Communication DEM/110078683 of September 24<sup>th</sup> 2010 and those approved on March 14<sup>th</sup> 2019.

The El.En OPC regulations which came into force on July 1<sup>st</sup> 2021 recently update and modified by The Board of Directors during the meeting held on June 30<sup>th</sup> 2021 after the adoption by the Consob on December 10<sup>th</sup> 2020 of resolution 21624 issued in implementation of the regulatory proxy contained in 2391-bis of the Civil Code, as amplified by Legislative Decree 49/2019 for the purposes of implementing the EU directive 2017/828 – the so-called Shareholder Rights Directive 2 (“SHRD 2”) – which modifies the directive 2007/36/CE which regards the encouragement of long-term commitment by the shareholders. The Board proceeded with the approval of some of the additions to the El.En. OPC Regulations in order to align it with the regulatory set-up, considering that the Italian regulatory set-up was already mature with reference to the adoption of the European regulations and consequently it was a simply a fine-tuning of the internal procedures which El.En. had already adopted at the end of 2010.

The modifications made were related to:

- a) Definition of the related parties: the Directive and, consequently Consob refer to the definitions of related parties contained in the International Accounting Standards pro tempore now in force. We propose the insertion of a different definition which, in particular, amplifies the scope of the related parties: all of the subsidiary companies become related parties with each other as well as with the Parent Company.
- b) The requirement for the administrator involved in the operation abstain from voting: this regulation had already been adopted by El.En., and was later modified in 2019. This provision was then re-inserted to make it consistent with the new discipline with reference to all of the operations, even those of little significance in which an administrator has an interest, either for himself or for a third party, which is in conflict with those of the Company. In line with the jurisprudence and the doctrine that was formed in the meantime, Consob clarified that the administrator who is obliged to abstain contributes to reaching the quorum constituting the administrative body but is excluded from the decision making one.
- c) Approval procedure: the reserve for the powers of the administrative body to pass resolutions for the most important operations. This intervention is also in line with the main principles of the corporate governance code, that is, the central role of the Board of Directors in the strategic decisions and in the approval of the operations which have the most economic, and financial significance. Moreover, in relation to the procedures we proceeded with the definition of the following obligations, which, in any case, are consistent with the applicative practice already followed by El.En.: (i) the express provision requiring the commission of independent administrators to verify in advance the independence of the expert that is going to be selected and qualified as independent; (ii) the speed with which the commission of independent administrators are involved in the transaction phase and the preparatory phase of an operation of major importance; (iii) the specific obligation to attach the opinion of the commission of independent administrators to the minutes of the meetings of that commission.
- d) Cases of exemption: a few minor modifications were made in relation also to the ordinary operations of major importance and at market or standard conditions in relation to which there is an explicit obligation of the *Commission for controls and risks, OPC and Sustainability* to verify annually operations even of major importance which are exempted and the discipline of the relative flow of information.

During 2019, in relation to the operation described in the annual financial report on December 31<sup>st</sup> 2019, of the acquisition by the subsidiary Ot-las s.r.l. of the minority quota of the Chinese companies Penta-Laser Equipment Wenzhou Co., Ltd and Penta-Chutian Laser Wuhan Co., Ltd, on a voluntary basis they published an information document in compliance with article 5 of the *Regolamento Consob Parti Correlate* 17221/2010 and art. 1.2. of the regulations for the disciplining of related parties adopted by the Company. The document is available on the site of the Company, [www.elengroup.com](http://www.elengroup.com) section Investor Relations.

The other operations made with related parties, including the inter-group operations, cannot be qualified as either atypical or unusual. These kinds of operations are regulated at ordinary market conditions.

In relation to the related parties, see the explanatory notes in the Consolidated Financial Statement of the El.En. Group.

## 1.14 Atypical and unusual operations

In compliance with Consob Communication DEM/6064293 of July 28<sup>th</sup> 2006, we wish to state that during the first half of 2021 the Group did not make any unusual or atypical operations, as defined in the aforementioned communication.

## 1.15 Opt-out regime

It should be recalled that on October 3<sup>rd</sup> 2012 the Board of Directors of El.En. S.p.A. voted to adhere to the possibility of *opt-out* in compliance with art. 70, sub-sections 8 and 71, sub-section 1-bis of the Consob Regulations 11971/99, exercising their right to waive the requirement to publish the information documents concerning any significant extraordinary operations related to mergers, divisions, increases in capital in kind, acquisitions and sales.

## 1.16 Significant events occurring during the first half of 2021

In the month of January Cutlite Penta concluded the purchase of the industrial building adjacent to its headquarters, with an investment of about 5 million Euros sustained by real estate leasing and in this way, in a form that was ideal from a logistics point of view, enlarged the space available for their operations which are now in rapid expansion.

On April 27<sup>th</sup> the shareholders' meeting of the Parent Company approved the financial statement for 2020 and resolved as follows:

- to allocate all of the net income for 2020 to an extraordinary reserve;
- to distribute to the shares in circulation on the date that coupon no. 4 came due on May 24<sup>th</sup> 2021 in compliance with art. 2357-*ter*, second sub-section of the Civil Code – a dividend, of Euros 0,40 (zero point forty) gross for each share in circulation.
- to use, for the distribution of the dividend, the profits which have not been distributed for the years preceding December 31<sup>st</sup> 2017 and to accrue in the voluntary reserve called “extraordinary reserve” the overall amount of 7.947.517,60 Euros on the date of the resolution; it is understood that they also resolved that this amount could be increased by other amounts which might turn out to be necessary for the distribution of the dividend to the shares in circulation on the date that the stock options fall due in the period occurring between the date of the resolution of the shareholders' meeting and the record date (May 25<sup>th</sup> 2021).
- to accrue where necessary, in a special reserve, for retained earnings, the residual dividend destined for treasury stock which may be held at that time by the company on the date that the coupon comes due.

Also on April 27<sup>th</sup> 2021, the shareholders' meeting of El.En. S.p.A. which met in an ordinary meeting, proceeded to authorize the purchase of treasury stock at the conditions proposed by the Board of Directors and in compliance with articles 2357 and 2357-*ter* cc. The purchase of treasury stock may be made for the purpose of proceeding with the assignment or distribution to employees and/or collaborators and/or members of the administrative bodies of the company or its subsidiaries on the basis of plans for incentive remuneration approved by the stockholders of the Company as well as, for the residual, for the purpose of possessing a trading or exchange instrument for use in operations of a strategic nature. These objectives should be pursued with plans and operations of purchase and sale and/or instructions carried out in compliance with the terms and regulations stipulated in the laws in force at the time and, in particular, by the Regulations in UE 596/2014 (“MAR”) and relative delegated regulations as well as the market practice approved by CONSOB. The authorization was granted for the purchase within 18 months of the resolution, of one or more sets of a maximum number of ordinary shares of the Company, the only category they now issue, which, in any case cannot exceed more than one fifth of the capital stock. On the date of the resolution, 20% of the underwritten capital of El.En. amounted to 3.973.758 shares for a nominal value of 516.588,54 Euros. The purchase of treasury stock must take place respecting the criteria of equality in the treatment of shareholders in compliance with art. 132 T.U.F. and art. 144-*bis* Regolamento Emittenti. Therefore, the administrators may proceed with the purchase with the following concurrent and/or alternative methods where applicable and which will be determined at the time of the individual operations: or by means of public offer for purchase or exchange on the regulated markets. The purchase may take place at a price which is, at the least not less than the nominal value of 0,13 Euros per share and, at the most, not more than 10% over the official trading price registered the day preceding the purchase. Moreover, the shares can be sold within 10 years of the resolution at a price or equivalent value in the case of company operations, not less than 95% below the average trading price registered during the five days preceding the sale. Both the purchases and the sales of the treasury stock must take place in the full respect of the European, delegated and domestic laws in force at the time.

The Assembly also voted to approve the report on remuneration and incentive bonuses as per ex art. 123-*ter* T.U.F. The Assembly also proceeded with the appointment of the Board of Directors for the triennial 2021-2023 and, consequently, until the approval of the financial statement for 2023 and set the number of board members at seven. They appointed Gabriele Clementi as president and Barbara Bazzocchi, Andrea Cangiolli, Alberto Pecci, Fabia



Romagnoli, Michele Legnaioli e Daniela Toccafondi as board members. The composition of the board respects the gender balance in compliance with Art. 147-ter, sub-section 1-ter of D.Lgs. 58/1998.

On the same day, the Board of Directors of the Parent Company El.En. S.p.A. appointed as executive members the president Ing. Gabriele Clementi and board members Barbara Bazzocchi and Andrea Cangioli and attributed to them, separately and with independent signature, all of the powers of ordinary and extraordinary administration for carrying out the duties which are described in the company by-laws, with the exception of those which are specifically prohibited by law or by the company by-laws.

In the month of May 2021 they founded the Lasit Laser Polska company with headquarters in Poland and capital stock of 9.500 PLN (about 2.000 Euros) 65% of which is detained by the subsidiary Lasit SpA.

## **1.17 Subsequent events**

On July 20<sup>th</sup> 2021, the Shareholders' meeting of El.En. S.p.A., in an extraordinary meeting approved the proposal of the Board of Directors of EL.EN. S.p.A. related to the elimination of the nominal value expressed for the stock and the increase in the total number of shares by means of splitting of the ordinary shares in circulation in a ratio of one to four with the objective of facilitating the liquidation and negotiability of the stock in consideration of the present market value.

The elimination of the indication of the nominal value of the shares expressed in the by-laws was decided for the purpose of obtaining greater flexibility in the conducting of operations on the capital and simplification of operations like the increase or reduction of capital, the combining or splitting of shares, and the cancellation of treasury stock and comports a reduction in the costs related to some bureaucratic procedures.

The stock split with a ratio of 1:4 of the 19.929.586 ordinary shares created an increase in the number of shares in circulation which now amount to 79.718.344 after the withdrawal and cancellation of the shares issued and now in existence and the and the distribution of four newly issued ordinary shares for each share that was withdrawn and cancelled. The capital stock did not undergo any variations as a result of the stock split.

Consequently the Assembly approved the following modifications to article 6 of the by-laws (sub-sections 1-3-4) related to the capital stock, in compliance with articles 2328, 2346 and 2443 c.c. and the rectification of the Stock Option Plan for 2016-2025. The operations related to the withdrawal and issuing of the split stock without the expression of nominal value began on August 2<sup>nd</sup> 2021 with the attribution of the new ISIN code IT0005453250.

## **1.18 Current outlook**

The overall situation on the markets in which the Group operates at this time manifests favorable conditions, even though critical factors may emerge at any time in consideration of the prolonged transition from the pandemic crisis.

With the current market conditions, and if there are no other relapses or new restrictions, on the basis of the sales trends of the Group and the current number of orders received, it looks like we may be able to exceed 550 million Euros in sales volume this year and achieve an EBIT that is continually improving.

*For the Board of Directors*

Managing Director

Ing. Andrea Cangioli