

QUARTERLY FINANCIAL REPORT AS OF MARCH 31ST, 2017



EL.EN. S.p.A.

Headquarters in Calenzano (Florence), Via Baldanzese, 17

Capital stock: Underwritten and paid : € 2.508.671,36

Registry of Companies in Florence – C.F. 03137680488

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 March 31st 2017)

Board of Directors

CHAIRMAN

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangoli

BOARD MEMBERS

Fabia Romagnoli

Michele Legnaioli

Alberto Pecci

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

Deloitte & Touche S.p.a

EL.EN. GROUP

**QUARTERLY MANAGEMENT
REPORT
AS OF MARCH 31st 2017**

Quarterly report

Introduction

This quarterly report as of March 31st 2017 for the El.En. Group was drawn up in compliance with the Regulations of the Italian Stock Market for the companies that are quoted in the STAR segment (art. 2.2.3, sub-section 3) which requires the publication of a quarterly report within 45 days after the end of each quarter, as per Notice 7587 of April 21st 2016 issued by the Borsa Italiana. Consequently, as stated in the above mentioned Notice, in relation to the contents of the Report for the quarter ending March 31st 2017, we have made reference to sub-section 5 of art. 154-ter of Legislative Decree February 24th 1998 no. 58. This document, moreover, contains the information previously inserted in the preceding quarterly reports.

The task of examining the data and the information provided in this report has not been assigned to Independent auditors, because, as of this writing, it is not compulsory.

The quarterly results as of March 31st 2017 are shown in comparative form with those for the same quarter last year. All amounts are expressed in thousands of Euros unless otherwise indicated.

Alternative Non-GAAP measures

In compliance with the CESR/05-178b recommendations on alternative performance indicators, the Group is presenting some figures derived from these latter although they are not strictly required by the IFRS (non – GAAP measures). These figures are presented for the purpose of allowing for a better evaluation of the performance of the Group and should not be considered as alternatives to those required by the IFRS.

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

- The **earnings before interests and income taxes** or EBIT represents an indicator of operating performance and is determined by adding to the Net income (loss) for the period: the income tax, the other net income and charges, the quota of the earnings of the associated companies, the financial income/charges;
- 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 **value added** 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 services and operating charges”.
- the **incidence** that the various entries in the income statement have on the sales volume.

In order to evaluate its capacity to meet its financial obligations the Group uses as alternative performance indicators:

- 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.

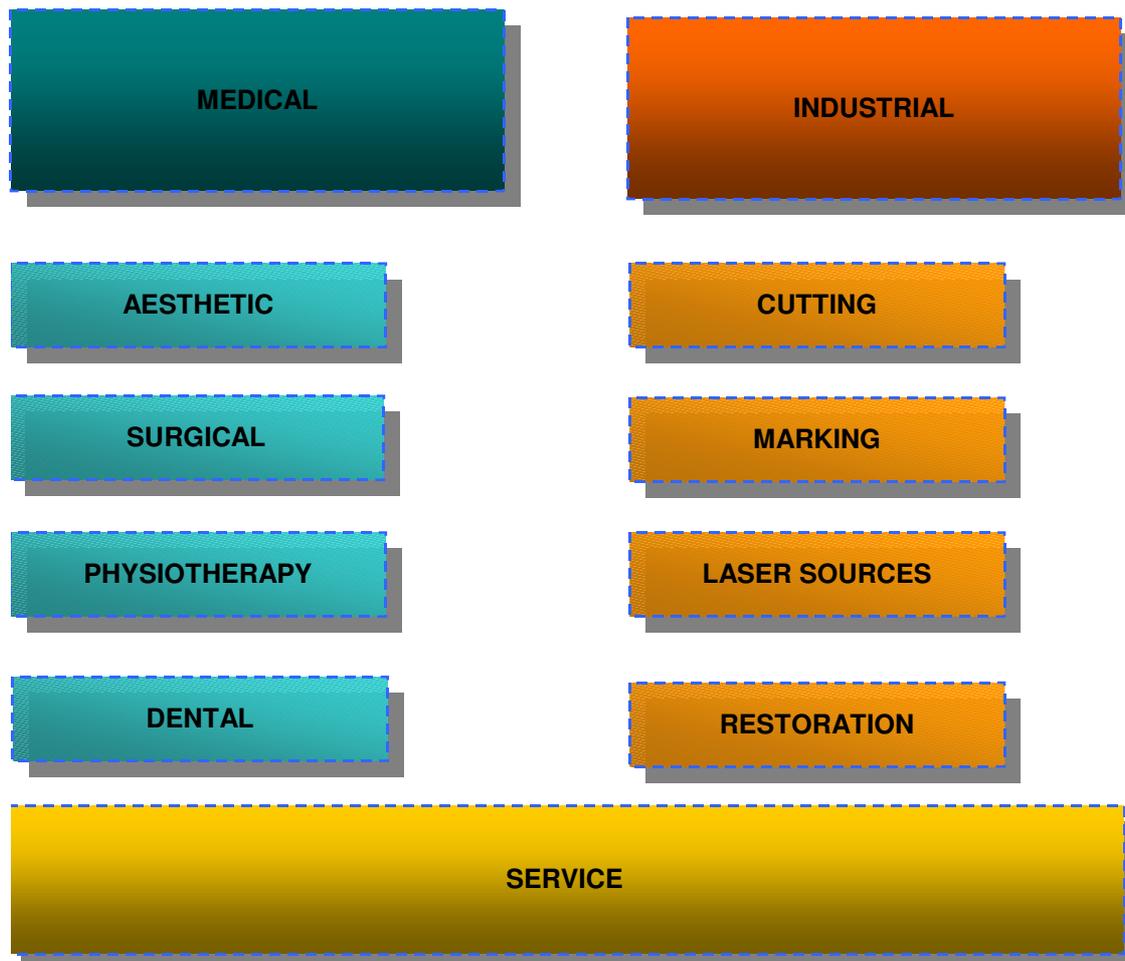
The alternative performance indicators are measures used by El.En SpA to monitor and evaluate the performance of the Group and are not defined as accounting measures either among the Italian Accounting Standards or in the IAS/IFRS. Therefore, the determining criteria applied by the Group may not be the same as that adopted by other operators and/or groups and for this reason may not be comparable.

Description of the activities of the Group

El.En. SpA controls a group of companies operating in the field of manufacture, research and development, distribution and sales of laser systems. The structure of the Group has been created over the years as a result of the founding of new companies and the acquisition of the control of others. Each company has a specific role in the general activities of the Group which may be determined by the geographical area it covers, or by its particular merchandise niche, or even by a broader range of activities including different technologies, applications and geographical markets. The activities of all of the companies are coordinated by the Parent Company with an aim to improve coverage of the selling markets by optimizing the dynamism and flexibility of the single business units without losing the advantages of a unified management of the technical, managerial commercial and financial resources.

The Group conducts its activities in two major sectors: that of laser systems for medicine and aesthetics, and that of laser systems for manufacturing uses. In each of these two sectors the activities can be subdivided into segments which differ according to the specific application required from the system and consequently for the underlying technology and the kinds of users. Within the activity sector of the Group, which is generally defined as the manufacture of laser sources and systems, the range of clients varies considerably, especially if one considers the global presence of the Group and therefore, the necessity of dealing with the special requirements which every region in the world has in the application of our technologies.

This vast variety, together with the strategic necessity of further breaking down some of the markets into additional segments in order to maximize the quota held by the Group and the benefits derived from the involvement of management personnel as minority shareholders, is the essence of the complex structure of the Group; however, this complexity is based on the linear subdivision of the activities which can be singled out, not just for reporting purposes but, above all, for strategic purposes, as follows:



A transversal and 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.

At the base of the constant growth that has been registered by the Group in the past few years and the promising outlook for development in which we have great faith, there are the forecasts and the expectations for a tendency toward growth in our two main markets. In the medical sector there is a growing demand for aesthetic and medical treatments by a population which on the average is growing older and increasingly desires to reduce the effects of aging; there is also a growing request for technologies capable of reducing the time required for some surgical operations or increase effectiveness by reducing the impact on the patient (minimal invasiveness) and reducing overall costs.

In the industrial sector laser systems represent an increasingly indispensable instrument in manufacturing by providing flexible and innovative technologies for manufacturers competing on the international market who wish to raise their qualitative standards. Although they remain within the traditional manufacturing market, laser systems represent a high-tech component which, thanks to the continuous innovation of the laser product and of the processes that lasers make possible, show a very significant outlook for growth.

The division of the Group into multiple companies also reflects the strategy for the distribution of their products and the coordinating of the various research and development and marketing activities. In fact, particularly in the medical sector, the various companies which through acquisitions have gradually become part of the Group (DEKA, Asclepion, Quanta System, Cynosure which left the Group at the end of 2012 and Asa) have always maintained their own special characteristics as far as the product typology and segment and their own distribution network which is independent from those of the other companies in the Group. At the same time, each one has been able to benefit from the cross-fertilization which the research teams have had on each other, thus creating centres of excellence for certain specific technologies which were made available also 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.

In conclusion, it should be pointed out that, in the presence of the excellent prospects for growth on our markets, the Group has been successful in acquiring new portions of the market and create new market niches thanks to their ability to innovate; in fact, the ability to continually innovate and place innovative products on the market which enable new applications, is the principal factor in the success achieved on our markets and has been our main competitive edge since the foundation of El.En. in 1981.

Group financial highlights

The first quarter of 2017 registered a consolidated sales volume of 65 million Euros, showing an increase of about 17,9% over the first quarter of 2016 and an EBIT of 5,5 million Euros, a decrease of 17,7% with respect to March 2016. The income before taxes for the first quarter of 2017 were 5,2 million Euros, a decrease of about 11% with respect to the 5,8 million registered for the first quarter of 2016.

The results for 2016 were the best ever registered in the history of the Group and represent a record that is a great challenge for this year. From the point of view of sales volume, during the first quarter of 2017 there was an increased acceleration in growth; the drop in the EBIT reflects, first of all, a change in the mix of the sales volume with the main growth in the industrial sector and a less favorable mix in the medical sector.

The sales volume maintained the high volume of growth that had been registered in 2016 thanks to the brilliant development of activity in the industrial sector which is now going through a positive phase in the market and showed a growth of over 50% for this quarter. Growth in the medical sector was slower and was strongest in the medical sector while the surgical sector is now in a stagnant phase.

Although the overall amount and the incidence on the sales volume decreased, the EBIT stayed at a good level, of course, below the record amounts shown for 2016, but still interesting.

In the medical sector there was a slight increase in the revenue and a less favorable mix in the sales with a consequent drop in the gross margin which, however was not met with a decrease in the personnel and operating expenses. On the contrary, these expenses showed a scheduled increase which had been planned with the intention of re-enforcing the marketing and research and development structures for the purpose of maintaining the high growth rate thanks to the innovation of the product and the distribution and marketing structures that were best able to promote our systems.

In the industrial sector, the vertiginous growth caused a significant increase in the gross margin, notwithstanding a slight drop in the percentage of its incidence on the sales volume. Personnel and operating costs increased but to a much lesser degree than the gross margin and the advantageous operating leverage which resulted made it possible to achieve an excellent recovery in the profitability in this sector. In the past, we have often remarked that the reduced profitability in the industrial sector were derived from the failure to reach a critical mass which, however, we are now approaching, and this will benefit the income statement for the sector and, in the future, the consolidated income statement.

In the month of February it was announced that Cynosure Inc. had been purchased by Hologic, Inc. (Nasdaq HOLX), company specialized in diagnostic systems, especially for breast cancer. This event is very significant because, besides the fact that it involves a company which, up until four years ago, was part of the Group, Cynosure is now one of our main clients and distributes in the USA one of our best selling products, the Mona Lisa Touch for the treatment of vaginal atrophy on the basis of a multi-year distribution contract. We may expect that the new owners of Cynosure, for the development of its activities, will make available to the company (for which they spent 1,6 billion dollars at the moment of closing on March 22nd), the financial, managerial and cooperative resources of its very extensive distribution network which is specialized in “women’s wellness”, the area in which the Mona Lisa Touch is marketed.

It is still too early to evaluate the mid-term effects of this purchase; beyond the resounding declarations made in public by the management of Hologic (“with the support of our marketing network we will put a turbo on the sales of the Mona Lisa Touch”) and which coincided with the disappointing volume of purchase in the first quarter of 2017, the outlook for this product is still good and we count on being able to work with Hologic in order to continue the success obtained by Cynosure in the last few years.

The chart below shows the income statement for the first quarter of 2017 shown in comparative form with the results for the same period last year.

Income Statement	31/03/2017	Inc %	31/03/2016	Inc %	Var. %
Revenues	65.107	100,0%	55.231	100,0%	17,88%
Change in inventory of finished goods and WIP	4.379	6,7%	784	1,4%	458,35%
Other revenues and income	544	0,8%	744	1,3%	-26,87%
Value of production	70.030	107,6%	56.758	102,8%	23,38%
Purchase of raw materials	38.625	59,3%	27.356	49,5%	41,19%
Change in inventory of raw material	(703)	-1,1%	(434)	-0,8%	61,93%
Other direct services	5.185	8,0%	4.436	8,0%	16,90%
Gross margin	26.923	41,4%	25.400	46,0%	5,99%
Other operating services and charges	8.122	12,5%	7.296	13,2%	11,32%
Added value	18.801	28,9%	18.104	32,8%	3,85%
Staff cost	12.261	18,8%	10.434	18,9%	17,51%
EBITDA	6.539	10,0%	7.669	13,9%	-14,73%
Depreciation, amortization and other accruals	1.008	1,5%	949	1,7%	6,25%
EBIT	5.532	8,5%	6.721	12,2%	-17,70%
Net financial income (charges)	(345)	-0,5%	(811)	-1,5%	-57,51%
Share of profit of associated companies	(17)	0,0%	(96)	-0,2%	-82,18%
Income (loss) before taxes	5.170	7,9%	5.813	10,5%	-11,07%

The chart below shows the net financial position of the Group.

Net financial position	31/03/2017	31/12/2016
Cash and bank	96.506	97.589
Cash and cash equivalents	96.506	97.589
Current financial receivables	177	150
Bank short term loan	(7.750)	(7.991)
Part of financial long term liabilities due within 12 months	(2.731)	(2.621)
Financial short term liabilities	(10.481)	(10.613)
Net current financial position	86.202	87.127
Bank long term loan	(4.052)	(1.231)
Other long term financial liabilities	(2.978)	(3.111)
Financial long term liabilities	(7.030)	(4.342)
Net financial position	79.172	82.784

Operational performance

The chart below, already commented in the introduction of this report, shows the subdivision of the sales volume for the first three months of 2017 according to the sectors of activity of the Group, compared with the same subdivision for the same period last year. The chart shows a good overall growth which has been generated mainly by the extremely rapid growth in the industrial sector.

	31/03/2017	Inc %	31/03/2016	Inc %	Var. %
Medical	39.053	59,98%	38.139	69,05%	2,40%
Industrial	26.055	40,02%	17.092	30,95%	52,44%
Total revenue	65.107	100,00%	55.231	100,00%	17,88%

The chart below shows the sales volume for this quarter according to geographic distribution:

	31/03/2017	Inc %	31/03/2016	Inc %	Var. %
Italy	13.403	20,59%	10.508	19,03%	27,55%
Europe	10.659	16,37%	9.044	16,37%	17,86%
ROW	41.045	63,04%	35.679	64,60%	15,04%
Total revenue	65.107	100,00%	55.231	100,00%	17,88%

The strongest growth, almost 28% for this quarter, was registered in Italy. Also in Italy, the companies operating in the industrial sector were those that showed the most rapid growth in sales volume, particularly Cutlite Penta S.r.l. It should be mentioned that for 2017 and the first six months of 2018, the purchase of our systems for manufacturing purposes will allow the client to be eligible for the facilitations which are included among the incentives offered under the name of "Industria 4.0". This represents an opportunity which many clients will take advantage of in order to update their machinery and production processes and therefore, for our company, will facilitate the demand. Sales in the medical sector also showed a good growth rate in Italy. The collaboration in Italy between the networks of Deka and that of Quanta System was launched successfully under the new brand name of Renaissance. This new brand was put on the market at the beginning of the year and clearly identifies the leader on the market and has generated concrete results in the increase in the volume of business. The rapid phase of expansion of Esthelogue, our distribution network specialized in the distribution of technologies in the field of professional aesthetics, has also continued.

Growth on the European markets was about 18% and about 15% on the non-European markets. Foreign markets represent overall more than 79% of the sales volume of the Group, a fact which highlights the global standing of the company.

For the sector of medical and aesthetic systems, which represents more than 60% of the sales of the Group, the sales in the various segments are shown on the chart below.

	31/03/2017	Inc %	31/03/2016	Inc %	Var. %
Aesthetic	22.914	58,67%	16.928	44,39%	35,36%
Surgical	6.480	16,59%	9.830	25,77%	-34,08%
Physiotherapy	2.441	6,25%	2.138	5,60%	14,19%
Dental	188	0,48%	105	0,27%	79,86%
Others	32	0,08%	69	0,18%	-54,04%
Total medical systems	32.054	82,08%	29.069	76,22%	10,27%
Medical service	6.999	17,92%	9.070	23,78%	-22,84%
Total medical revenue	39.053	100,00%	38.139	100,00%	2,40%

The medical sector grew 2,4% this quarter, a small step forward which is the result of the algebraic sum of an increase in the aesthetic sector which grew 35% and a decrease in the sector for surgical applications, which dropped by 34%.

In the area of surgical applications, the drop was mainly due to the decrease in sales of the Mona Lisa Touch (MLT) application which went through a phase of decline in the first quarter, especially in relation to sales on the American market. We can interpret this decrease in sales volume in the general picture of the start of a new phase of maturity and

stability of the market for laser treatments for vaginal atrophy created by Deka about four years ago, although this phase alone would not have generated a decline of this entity. The major influence in this period would seem to be the management of the stock by our most important client, Cynosure Inc. which distributes MLT in the United States, and which limited our sales volume independently of the sales actually made to the end users. As previously mentioned, several weeks ago Cynosure was sold to Hologic (Nasdaq HOLX) of which it is now a division. This represents a change which is potentially very positive for the development of the market, even in light of the considerations just expressed concerning the phase of maturity this market is approaching. A partner who is more important and has better standing in this specific sector should make it possible to be more competitive on the market, both for the commercial distribution of the product as well as the process of clinical experimentation which has already been started in several areas and which can be concluded more effectively in order to confirm the leadership of the product and amplify the elective applications and, consequently, the market. We therefore expect a recovery of the revenue in this applicative segment later in the year.

Sales for other applications in which the Group is involved in the surgical sector like the urological applications of lithotripsy and BPH (benign hypertrophy of the prostate) and otolaryngology remained at a good level.

Sales of systems for aesthetic applications were excellent thanks to sales policies which made it possible to return to significant growth rates on all the application markets: hair removal, removal of tattoos and pigmented lesions and skin rejuvenation.

Hair removal represents the most important market for its general size and for the Group. This market has gradually grown thanks to the ability of the producers of the systems to develop technologies which have improved the effectiveness and the economy of the treatments and, in this way, amplified the range of potential clients. The vast range of systems offered by the Group includes Motus AX which has features that make hair removal with alexandrite lasers more accessible and less painful; Mediostar (manufactured by Asclepion in three versions: Next, Pro and Light), which is a standard of reference in Italy in the sector of professional aesthetics; Repla:y by Deka and Duetto Evo by Quanta complete the range by adding to the alexandrite systems the functionality of the Nd:YAG lasers, which are highly effective also for vascular treatments.

The growth in sales of systems for the removal of tattoos and pigmented lesions was even greater; this is a segment in which the market position of the Group has shown continually improvement: the traditional nano-second systems offered by Quanta System, Q-Plus C and Asset, by Deka, QS4 and by Asclepion, Tattoo-Star, in 2016 were joined by the Discovery Pico developed by Quanta System with pico-second technology, and recently, by Discovery Pico Plus, both systems with pico-second impulses which are more effective and more recently introduced on the market and consequently with a high sales margin which is guaranteed by their innovative features.

Sales of the CO₂ systems for skin rejuvenation showed an excellent recovery, along with the erbium systems for ablation.

Sales of the Group in the body-shaping segment are still of limited entity and are awaiting an innovative technology which will allow them to compete significantly in this segment which at a world level is registering a high growth rate.

The trend in the physical therapy sector remains positive and shows a growth of over 14%. Asa of Vicenza conducts this activity for the Group in this segment. Thanks to their capacity to develop highly effective systems and to supply in addition, the clinical support and marketing which makes them both very attractive and, at the same time, scientifically proven, Asa has built a solid position on the market and registered a gradual growth.

After-sales service and sales of consumables showed a decrease this quarter. The drop is due mainly to the decline in sales of upgrading of the aesthetic systems. Sales of optical fibers, consumable devices supplied as part of the urological systems also showed a decrease in this quarter.

The chart below shows the breakdown of the sales volume for the industrial applications sector according to the segments in which the Group operates.

	31/03/2017	Inc %	31/03/2016	Inc %	Var. %
Cutting	19.406	74,48%	11.996	70,19%	61,77%
Marking	3.930	15,08%	2.890	16,91%	35,98%
Laser sources	799	3,07%	133	0,78%	501,05%
Conservation	86	0,33%	57	0,33%	51,58%
Total industrial systems	24.222	92,97%	15.076	88,21%	60,66%
Industrial service	1.833	7,03%	2.016	11,79%	-9,08%
Total industrial revenue	26.055	100,00%	17.092	100,00%	52,44%

The growth rate remained quite high and allows us, once again, to comment with satisfaction on the rapid development of the volume of business in this sector.

The cutting segment grew about 62% thanks to the excellent performance of the Chinese companies that are part of the joint venture at Wuhan and Wenzhou, which are specialized in systems for the flat cutting of sheet metal. The new factory of Wenzhou, inaugurated in the Summer of 2016, makes it possible to obtain a much more efficient production and gives the clientele an image of solidity and efficiency. The opening of the factory coincides with a very favorable phase in the market in which the technological innovation, thanks to which it is now possible to install high-powered systems without burdening the complexity of the cutting system is amplifying the available market, as has been demonstrated by the high increase in demand. This is a phenomenon which, in China, the most important manufacturing market in the world, moves our company up to a new and much broader dimension. The phenomenon also involves the other world markets and our Group is creating its own space in it thanks to the rapid growth of Cutlite Penta.

Aside from the fact that a judgment expressed after such a short period of time risks having little meaning, the growth in the sector of laser sources is continuing a tendency which is being consolidated, and which involves medium powered CO₂ sources excited in radiofrequency, of which the Group is one of the few producers in the world and the demand for which is derived from a few specific applicative sectors, in particular, packaging, which is, in turn, also growing at this time.

The restoration sector must be interpreted from the point of view of the participation of the Group in the conservation of the artistic heritage on a global level and a homage to our location in one of the cradles of artistic production, to which we dedicate our technologies and procure high visibility which is sometimes also obtained by collaboration or donations with prestigious institutions, most recently the Getty Museum of Los Angeles.

Let us now comment on the Income statement. The gross margin was 26.923 thousand Euros, an increase of 5,99% with respect to the 25.400 thousand Euros registered on March 31st 2016, thanks to the increase in the sales volume. The drop in the profitability to 41,4% from 46,0% during the first quarter of 2016 was in part due to the decrease in revenue from research grants, but mainly to the change in the sales mix. From this point of view, there were two significant factors during this quarter. The first and most macroscopic is the increase in sales volume in the industrial sector, in particular on the Chinese market, a sector in which the average sales margins are lower than in the medical sector. The second, on the other hand, is within the medical sector and is derived from the different mix of sales, in which the systems with lower margins registered overall a greater sales volume than the preceding quarters; with the objective of maintaining and enlarging the market quotas, the sales policy used during this period produced positive results on the overall volume and comported a slight reduction in the margins.

Costs for operating services and charges were 8.122 thousand Euros showing an increase of 11,32% with respect to the 7.296 thousand Euros shown on March 31st 2016. The incidence on the sales volume decreased from 13,2% to 12,5% for last year.

Costs for personnel was 12.261 thousand Euros, showing an increase of 17,51% with respect to the 10.434 thousand Euros for the same period last year and with an incidence on the sales volume which is practically unchanged, decreasing from 18,9% on March 31st 2016 to 18,8% on March 31st 2017.

On March 31st 2017 the number of employees in the Group was 1.179, an increase with respect to the 1.093 on December 31st 2016. New personnel were mainly hired by the Chinese subsidiary Penta Laser Equipment (Wenzhou) which is now rapidly expanding.

A large portion of the personnel expenses is directed towards research and development costs, for which the Group receives grants and reimbursements in relation to specific contracts underwritten by the institutions created for this purpose.

The grants registered into accounts as of March 31st 2017 amounted to 92 thousand Euros, a decrease with respect to the 307 thousand Euros entered for the same period in 2016.

Consequently, the EBITDA was 6.539 thousand Euros, a decrease of 14,73% with respect to the 7.669 thousand Euros registered on March 31st 2016.

The decrease in the EBITDA, which had an incidence on the sales volume which fell from 13,9% to 10%, is derived mainly from the reduction in the sales margins: the costs for personnel and overhead, particularly the former, showed a growth which, however, was kept within the percentage limits of the growth of the sales volume.

The costs for amortizations, depreciations and accruals showed a slight increase, from 949 thousand Euros on March 31st 2016 to 1.008 thousand Euros on March 31st 2017, again in this case an increase that was of a percentage amount that was below the increase in revenue.

The EBIT therefore amounted to 5.532 thousand Euros, which was a decrease with respect to the 6.721 thousand Euros on March 31st 2016. The incidence on the sales volume was 8,5%, a decrease with respect to the 12,2% for last year.

The financial charges amounted to 345 thousand Euros with respect to 811 thousand Euros registered for the same period last year. The negative exchange rate differences, especially with the US dollar, were responsible for the negative result for this period.

The pre-tax income amounted to 5.170 thousand Euros, a decrease with respect to the 5.813 thousand Euros on March 31st 2016.

Financial position and investments

Comments on the net financial position

The net financial position of the Group decreased by 3,6 million with respect to the closing of the financial year 2016. The use of cash during this period was determined mainly by the increase in the net working capital which grew in order to support the rapid growth of the Group. In fact, the increase in net working capital must be attributed to the activities in the industrial sector in China which grew more than 50%, and this investment is necessary to sustain the development of their activities.

Internal growth constitutes the strategic option which the Group has chosen at this time for its development: along with the current expenses for research and development and marketing promotions which are entered in the income statement and therefore temporarily reduce the EBIT, and the technical investments for manufacturing facilities, the increase in the net working capital is the other significant item among the investments sustaining growth.

Gross investments made this quarter

The chart below show the gross investments made during this quarter.

	31/03/2017	31/03/2016
Intangible assets	115	75
Tangible assets	583	2.779
Total	698	2.854

No particular investments were made during this quarter. The overall amount, therefore, shows a net decrease with respect to the first quarter of 2016, when substantial sums were being spent for the construction of the new plants at Wenzhou in China and at Samarate.

Research and Development activities

During the first quarter of 2017 the Group conducted an intense research and development activity for the purpose of discovering new laser applications and different light sources for both the medical and the industrial sectors and to place innovative products on the market. 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- to long-term schedules.

In our laboratories we conduct research on new or unsolved problems in medicine and industry and we try to find solutions on the basis of the experience and know-how that we have developed on the interaction between laser light and biological and inert materials. As far as laser lights are concerned, we develop the sources on one hand by making a selection of its 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 is concerned.

The research which is aimed at obtaining mid-long-term results is generally oriented towards subjects which represent major entrepreneurial risks, 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.

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. This mechanism concerns the sector of laser light applications to medicine but also to industry and to the conservation of our cultural and artistic heritage.

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.

The El.En. Group is currently the only corporation in the world that produces such a vast range of laser sources, in terms of the different types of active means (liquid, solid, with semiconductor, gas) each one with different wave lengths, various power versions in some cases, and using various manufacturing technologies. Consequently, research and development activity has been directed to many different systems and subsystems 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.

Laser systems and applications in medicine

At El.En. in collaboration with the subsidiary DEKA we are conducting research on biological samples on cell cultures in the laboratory and El.En. has been active in research and clinical for surgical applications of the devices and sub-systems for the SMARTXIDE² family of products (the product name is pronounced “Smartxide quadro” to highlight the Italian origin of the devices belonging to this family, considering the characteristics and performance that are particularly appreciated by the clientele) which has recently been developed and placed on the market for different applications in surgery, cutaneous ulcers and aesthetic medicine. New technological innovations are now being developed which will make it possible to perform surgical operations on various parts of the body with extreme precision.

An extremely important application, already characterized by a remarkable commercial success, concerns urogynecology and urology. Clinical trials are continuing on the extension of Monna Lisa (or Mona Lisa's) country-specific treatment applications, the treatment to reduce the effects of vaginal mucous atrophy. At some of these centers which operate inside university structures or prestigious private clinics in Italy and abroad (particularly in the USA), they are now conducting important research in order to gain a better understanding of the mechanisms and new applications that can be obtained from scientific advancements. Clinical studies related to the laser treatment of atrophy of the vaginal mucous have demonstrated that it is safe, effective and without negative collateral effects; it can be said that this is an extremely important innovation for medicine that will always remain among the options for specific therapy. For this reason, it is our specific intention to remain among the leaders in this new therapeutic sector and to guide and encourage the scientific and technological developments in order to maintain our position.

This particular pathology is common and quite disabling with interactions with other pathologies; it afflicts a high percentage of women in menopause and younger women with tumors for which hormone-acting therapies are indicated

and cause a sort of early menopause. We are conducting research on a new class of applications in gynecology based on the exceptional characteristics of the *restitutio ad integrum* that the use of CO₂ lasers supplies to soft tissues in the various anatomic areas being treated.

For surgical applications we are now developing a treatment for diabetic feet. In this sector we have obtained interesting results concerning the possibility of cleaning (debridement) and removal of the necrotic tissue the lesions with a laser which leaves the treated portion practically sterile and with the additional advantage of reducing the pain suffered by the patient during the treatment; in fact, the laser light works without mechanical contact with the various parts of the ulcer and vaporizes or cuts the parts to be eliminated with extreme precision. The cure of chronic ulcers with laser treatments is based on unique characteristics of the laser beam during the cleaning phase and also on the bio-stimulation capacity operated by the laser light, our cultural heritage, which activates the multipotent mesenchymal cells which are facilitated in their arrival to the area to be repaired by the surgical action of the laser and are stimulated by this light to divide and multiply in order to regenerate the tissues. We have applied for a patent for this method and for the devices for the treatment of cutaneous ulcers along with our patents on the regeneration of tissues stimulated by high-powered lasers.

For this purpose we had previously coined the acronym HILT, *High Intensity Laser Therapy*, which characterized the range of laser products. The specific distribution on the market was entrusted to our subsidiary ASA; in this regard we should also mention the completion of the development of the new Hiro TT system, the first example of this new approach of “multi-level” control which makes use of advanced graphics, with last generation LCD capacitors; the device received the CE approval mark in January 2017.

For the applications on cutaneous ulcers we have concluded development of a mono-mirror scanner accessory for CO₂ laser equipped with feedback position, miniaturized with speed and precision performance comparable to those of the Hi Scan with double galvanometer which was more costly and cumbersome.

We participated successfully in the recent world symposium (World Union Wound Healing Societies – 27/30 September 2016) and presented the clinical results we had obtained including the extraordinary method developed with our laser which made it possible, already in first twenty cases treated, to cure a very high percentage of patients afflicted by ulcers with the bone exposed, and destined for amputation. This activity has continued and clinical experimentation in several different centers in Italy and abroad is planned.

Among the applied research activities, we also continued to work on the BI-TRE project “*Biophotonic technologies for Tissue REpair*” (BiophotonicsPlus Transnational Call 2012-2013, co-financed by the Region of Tuscany), on methods of anastomosis of the blood vessels using semi-conductor lasers and special patches and, in the field of neurosurgery in particular, the technique would allow the surgeon to save hours in the duration of operations on the brain.

We have continued research on a new laser surgery assisted by 3-dimensional high resolution X-ray with robot arm which part of the operating table to which the X-ray system is attached.

As part of the FOMEMI project, with El.En. as project leader, which has recently been approved for financing with European funds, we are conducting research on the characterization of the parts present in diabetic feet using visible light and near infrared; we have also planned a research program on the tissue/air interface using the analysis of the radio frequency version of the ultrasound echo signal. Moreover, we are conducting research on a static illuminator for laser bio-stimulation in collaboration with other research units of the FOMEMI project.

We are now developing dedicated software and refining the hardware components to cover all of the areas where there is still room for improvement: one interesting possibility is that of a study of the distribution of blood vessels in the ankle for the study and treatment of the diabetic foot.

In collaboration with Elesta, we are concluding the development of a device for the percutaneous laser ablation of breast tumors, with delivery of energy from a diffusing tip which is cooled by closed forced circulation of sterile liquid; combined with this project we are developing a method of characterization of tissue damage through ultrasound during and after the ablative operation.

We have completed the development for the measurement in real time of the skin temperature for the optimization of the effectiveness and safety of radio frequency aesthetic treatments. The system regulates the emission of radio frequency energy and keeps the skin temperature below a certain amount that can be set as an endpoint regardless of the speed of motion, homogeneity of coverage, and manual dexterity of the doctor who is holding the hand-piece.

We have completed the study and planning phase of an innovative system for “Body Shaping”(reduction of the adipose layer in various parts of the body) based on the use of a new form of energy that is able to provoke a reduction of the adipocytes by necrosis or apoptosis. We are now running laboratory experiments to improve the control of the superficial and in depth temperature. The study for the interpretation of the action mechanisms intended to optimize the usage protocols has continued.

We continued operations to extend the intellectual property of the Group by formulating international patents and assistance in granting them on an international basis; at the same time, we have been taking the necessary measures for the protection of our brand names and applications in the most important countries.

In the PHOTOBIO LAB created at El.En. for research on the interaction between light and biological tissue, we have conducted experiments on new medical applications in the fields of ophthalmology, proctology and neurology, results of which are used mainly for the development of DEKA products.

DEKA M.E.L.A. in collaboration with El.En. carried on an intense research activity with the objective of identifying new applications and the experimentation of new methods to be used by laser equipment in various medical sectors. This activity is conducted by involving highly specialized personnel working for the company and the Group to which the company belongs, as well as for Italian and foreign academic and professional medical centers. They are also conducting clinical experiments for the interpretation and documentation of the biological processes that are at the base of treatments for curing chronic ulcers and diabetic feet after laser treatment.

They have begun research on the use of lasers for stimulating nano-particles, in collaboration with various partners including Colorobbia which is active in the development and manufacture of nano-particles; this activity is part of the INSIDE project (*“sviluppo di targeting diagNostici e teranoStici basati su nanosIstemi e/o linfociti ingegnerizzati per l’indiviDuazione precoce e il trattamento del mElanoma e della sclerosi multipla”*) (Regione Toscana – POR FESR 2014-2020, Bando 1: Strategic Research and Development Projects).

At Quanta System they are conducting intense research on the development of laser instruments intended for aesthetic medicine and medical therapies in urology. As part of this project they have developed a prototype for a new single-use morcellator which is now being experimented.

We have concluded the development of the Thunder system for hair removal with high powered Alexandrite and Nd:Yag sources that can also be activated with simultaneous emission and with a highly original delivery mechanism.

They have completed laboratory and clinical experiments on incremental innovations of the Q-switched systems with fractional hand-pieces, universal adaptors with different spot shapes for automatic recognition; development of special beam delivery accessories for laser applications for the treatment of benign hypertrophy of the prostate (BHP); development of incremental innovations on Holmium systems for lithotripsy, improving the performance of the cavity, of the launch of the fiber and of the fibers themselves.

We are conducting research on new systems for the treatment of skin blemishes.

We have developed the armored Thunder Compact for the restoration of art works; this system is compact and easy to move and is particularly suitable for use on site.

For the aesthetic sector, we implemented an important improvement to Icoone, transformed into an energy based device which, in the Icoone laser version includes the addition of laser and LED in the Robosolo hand-piece.

We have continued work on an updating strategy of all the Asclepion systems: a new philosophy of user interface, new electronics and new design.

We have developed automatic vessel recognition for vascular treatments by camera.

We have continued the activity for the evaluation of new concepts of optical fibers and ferrules; they also have conducted studies for uses of applications in the medical field and technologies for the recognition and cataloguing of images.

Laser systems and applications for industry

At El.En., in collaboration with the subsidiary Cutlite Penta we continued research for the development of innovative pre-cutting processes and machine micro-perforation of labels and systems for applications in the field of cutting and welding plastic materials and for the beverage sector in order to prolong the shelf-life of food products.

We continued the study that had been begun on software and algorithms for high-speed advanced coding in the sector of transactional paper-digital converting.

We are conducting intense activity aimed at increasing the maximum power of sources in the RF range by improving and increasing the power of the emissions and laser sources while maintaining a high quality and modulability of the beam in order to make innovative applications possible like the micro-piercing of panels and special applications in the field of digital converting and the cutting of rigid modular wooden packing materials in MDF (Medium Density Fibreboard).

At El.En. for the development of laser sources, we have concluded the project for 850W sources and we have begun the experimentation with a sealed 300W source based on a new concept.

For carbon dioxide (CO₂) sources with planar discharge, we have designed, developed and tested a new system for the treatment of the beam with a stronger spatial filter, in preparation for use with more powerful sources; we have designed and tested optical filtering techniques inside the resonator for the selection of the wave length and of the fundamental

mode of the stable branch. The purpose is to improve the stability of the focal spot and to increase the speed of the start up and testing. Verification trials are now being conducted.

As part of the activity for the development of new laser source with planar symmetry equipped with a power greater than 1kW, we have studied the optical resonator and the system for conditioning the beam. For the development of the new source, in comparison with those already in production, we have focused on the mechanical and thermo-mechanical stability of the supporting structure and the electrodes by using simulations of the finished elements of the critical parts of the system. For the new source we have begun and continued to work on the development of a radio frequency delivery system with enough power for the discharging surface by combining the exits of several amplifiers on a single delivery point. We are about to start to work on the development of a new control with an ARM-CORTEX M4 processor that will be able to satisfy the requirements of the innovative interface.

We have conducted research activity on the remote welding of sheet metal with surface treatments and applications with optical retroaction systems.

We have dedicated significant resources to the improvement of the repeatability/mid-long term drift performance of the galvanometers used in the scansion heads for high speed applications in the so-called digital converting sector. Besides the activities described above, we have also conducted studies of a minor entity on the focalization systems of laser sources both with carbon dioxide which we manufacture as well as solid state in optical fiber.

At Cutlite Penta they have developed and experimented with new process sensors installed in machines for metal cutting. We have also continued testing and experimentation of scanning and focalizing heads for lasers in fibre developed in our factory, for remote welding plants for metal materials, and the manufacture of large series of furniture accessories. As part of this project we have also initiated the development of a new dynamic focalization system with high-speed response.

We have developed and started production of laser systems for metal cutting equipped with high-powered laser sources in fiber: a 12kW source installed for high-speed cutting of sheet metal even of considerable thickness.

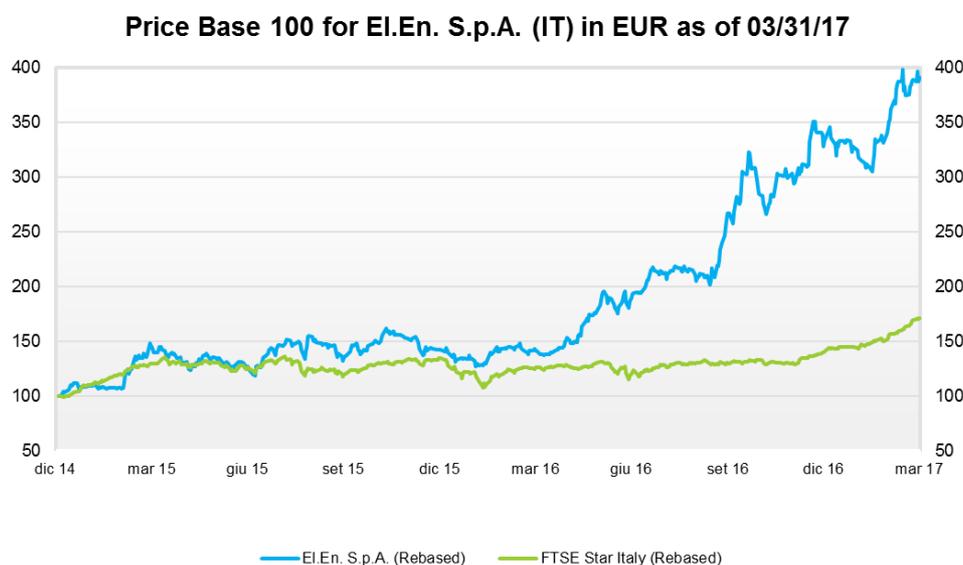
The following chart shows the costs for Research and Development for this period:

<i>Thousand of Euros</i>	31/03/2017	31/03/2016
Staff costs and general expenses	1.920	1763
Equipment	42	50
Costs for testing and prototypes	281	399
Consultancy fees	79	153
Other services	12	15
Total	2.333	2.380

Following the usual company policy, the expense shown in the chart have all been entered in the operating costs. The amount of expenses sustained corresponds to about 3,6% of the consolidated sales volume of the Group. The expenses are mostly sustained by El.En. S.p.A., and amount to 8% of its sales volume.

Trend of El.En. stock

The graph below shows the performance of the stock:



Other information

It should be recalled that on October 3rd 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.

Significant events which occurred during this quarter

No significant events occurred during this quarter.

Subsequent events

On May 15th 2017 the Shareholders' meeting approved the financial statement as of December 31st 2016 and authorized the distribution of the income for the year, amounting to 41.510.952,00 Euros as follows:

- 33.791.963,20 Euros as extraordinary reserve;
- Distribution to the shares currently in circulation at the date of the maturity of coupon no. 1 on May 29th 2017 – in compliance with art. 2357-ter, second sub-section Civil Code – a dividend of 0,40 Euros for each share in circulation for an overall amount at the date of the authorization of 7.718.988,80 Euros.

The Assembly also voted to approve the report on remuneration including the incentive remuneration as per ex art. 123-ter T.U.F.

No other significant events occurred after the closure of the first quarter of 2017.

Current outlook

We can confirm that the favorable trend of the markets will make it possible to register a good growth in sales volume for 2017, probably over 10%. Moreover, because of the mix of products sold and the intensification of some costs in view of a probable continued growth in the future, the EBIT achieved in 2016 now represents the objective which we will try to reach this year.

For the Board of Directors

Managing Director
Ing. Andrea Cangioli

Attachment “A”: List of consolidated companies as of March 31st 2017

Subsidiary companies

Company name	Headquarters	Percentage held			Consolidated percentage
		Direct	Indirect	Total	
<u>Parent company</u>					
El.En. S.p.A.	Calenzano (ITA)				
<u>Subsidiary companies</u>					
Cutlite Penta S.r.l.	Calenzano (ITA)	96,65%		96,65%	96,65%
Deka Mela S.r.l.	Calenzano (ITA)	85,00%		85,00%	85,00%
Esthelogue S.r.l.	Calenzano (ITA)	50,00%	50,00%	100,00%	100,00%
Deka Sarl	Lione (FRA)	100,00%		100,00%	100,00%
Lasit S.p.A.	Torre Annunziata (ITA)	70,00%		70,00%	70,00%
Quanta System S.p.A.	Milano (ITA)	100,00%		100,00%	100,00%
Asclepion GmbH	Jena (GER)	50,00%	50,00%	100,00%	100,00%
ASA S.r.l.	Arcugnano (ITA)		60,00%	60,00%	51,00%
BRCT Inc.	New York (USA)	100,00%		100,00%	100,00%
With Us Co., Ltd	Tokyo (GIAP)		78,85%	78,85%	78,85%
Deka Japan Co., Ltd	Tokyo (GIAP)	55,00%		55,00%	55,00%
Penta-Chutian Laser (Wuhan) Co., Ltd	Wuhan (CHINA)		55,00%	55,00%	53,16%
Penta-Laser Equipment Wenzhou Co., Ltd	Wenzhou (CHINA)		55,00%	55,00%	53,16%
Cutlite do Brasil Ltda	Blumenau (BRASIL)	68,56%		68,56%	68,56%
Lasercut Technologies Inc.	Hamden (USA)		100,00%	100,00%	100,00%
Pharmonia S.r.l.	Calenzano (ITA)	100,00%		100,00%	100,00%
Deka Medical Inc.	San Francisco (USA)		100,00%	100,00%	100,00%
JenaSurgical GmbH	Jena (GER)		100,00%	100,00%	92,50%
Accure Quanta, Inc.	Wilmington (USA)		100,00%	100,00%	100,00%
Merit Due S.r.l.	Calenzano (ITA)		100,00%	100,00%	96,65%

Associated companies

Company name	Headquarters	Percentage held			Consolidated percentage
		Direct	Indirect	Total	
Immobiliare Del.Co. S.r.l.	Solbiate Olona (ITA)	30,00%		30,00%	30,00%
Actis S.r.l.	Calenzano (ITA)	12,00%		12,00%	12,00%
Elesta S.r.l.	Calenzano (ITA)	50,00%		50,00%	50,00%
Chutian (Tiajin) Laser Technologies Co.,Ltd	Tianjin (CHINA)		41,00%	41,00%	21,79%
Quanta Aesthetic Lasers Usa, LLC	Englewood (USA)		19,50%	19,50%	19,50%
Accure LLC	Delaware (USA)		43,82%	43,82%	43,82%

Attachment “B”: DECLARATION IN COMPLIANCE WITH ART. 154BIS, SUB-SECTION 2, D.LGS. N.58 / 1998

The undersigned Dr. Enrico Romagnoli, as the executive officer responsible for the preparation of the financial statements of El.En. S.p.A. declares, in compliance with sub-section 2 of art. 154-bis of Legislative Decree n. 58 of February 24th 1998, that the accounting disclosures provided in this document correspond to the accounting records, books and entries.

Calenzano, May 15th 2017

Executive officer responsible for the preparation of the financial statements
Dott. Enrico Romagnoli