

QUARTERLY
FINANCIAL
REPORT AS OF
MARCH 31ST, 2018

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 financials on March 31st 2018)

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 2018

Quarterly report

Introduction

This quarterly report as of March 31st 2018 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 2018, 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 2018 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

The El.En. Group uses some alternative performance indicators which have not been identified as accounting measurements by the IFRS in order to offer a more precise evaluation of the performance of the Group. For this reason the criteria applied by the Group may not be the same as that used by other groups and the results obtained may not be comparable with those determined by these latter.

These alternative performance indicators are determined in conformity with the *Orientation on alternative performance indicators* issued by ESMA/2015/1415 and adopted by the CONSOB with communication no. 92543 on December 3rd 2015 and refer only to the performance during the specific financial period being presented in this document and the periods used for comparison.

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

- 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 operating services and 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:

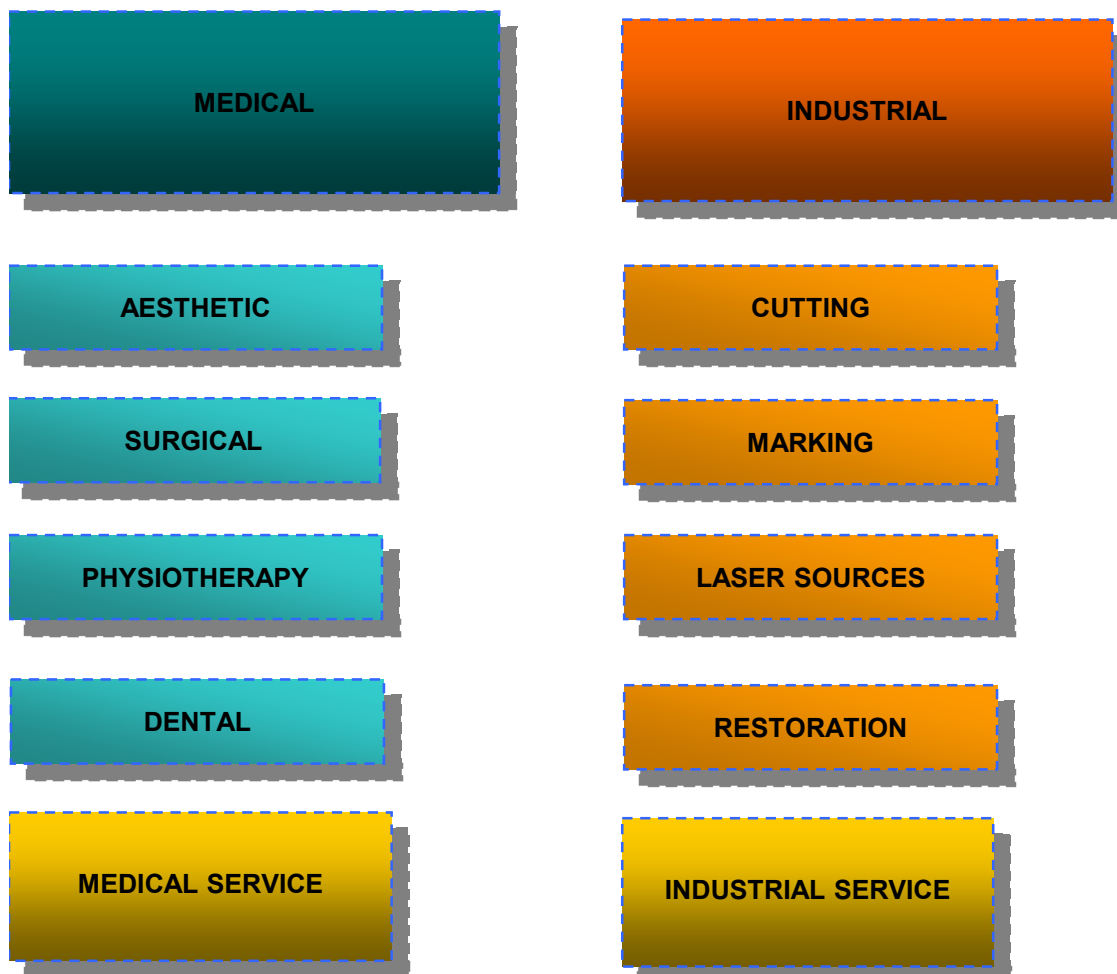
- the **net financial position** which means: cash available + securities entered among current assets + current financial receivables – debts and non-current financial liabilities - current financial debts.

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 activities of the Group are focused on two main sectors, that for laser systems for medicine and for aesthetic treatments which is called the Medical Sector and that for laser systems for manufacturing which is called the Industrial Sector. 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:



Besides the main company activity of selling laser systems, there is also an after-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.

A better 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 1st 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 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.

The extraordinary growth registered in the last two years and, particularly in 2017, in the industrial sector, which was far greater than the growth predicted by market researchers, can be attributed to the transformation of the market for laser systems for cutting sheet metal and special metals, the most important market for laser machining, and to our capacity to take advantage of this positive phase. The main reason for this transformation is the technological shift in which laser sources in fiber replaced and quickly made obsolete the high powered CO₂ laser sources which had been used up to that time for this type of work. Laser sources in fiber made it possible for the users to reduce the costs of running the system and offered greater ease of installation and maintenance, with the possibility of installing lasers with a level of power that had been unthinkable with CO₂ lasers. The purchase and management of high-powered systems (more than 4 kW) which, up until two years ago had been almost prohibitively expensive for most potential users, is now accessible to a growing number of users and can be set for power levels of up to 10/12 kW. The high level of productivity for laser cutting systems equipped with high-powered optical fibers is reshaping the market and replacing traditional technologies for cutting metals like punches which for cutting and perforating require utensils that have no flexibility and wear out over time. Along with the amplification of the market, the superior performance of the systems that are now available have brought about the rapid obsolescence of the systems that were already in operation and this accelerated the market for replacements and up-dating of the vast number of systems that were installed.

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.

Group financial highlights

During the first three months of 2018 the El.En. Group registered a consolidated sales volume of 69 million Euros, showing a growth of 6,8% with respect to March 2017 and an EBIT of 5,3 million Euros, showing a decrease of about 3,3% with respect to last year and with an incidence on the sales volume of 7,7%.

The general situation on our markets remains overall favorable and able to offer interesting possibilities for growth for many of our activities. The comparison with the results for 2017 which registered the all-time record both for sales volume and EBIT for the Group, is not simple and must take into consideration some key factors, in particular, the variations in the exchange rate which in 2017 saw the Euro strengthened with respect to the other currencies so that the first quarter of 2018 will be compared unfavorably with respect to the comparison for the entire year 2018. The effects of a strong Euro are significant in particular for reporting our sales in China, Japan and the United States. The negative effect of the exchange rate on the sales volume for the first quarter of 2018 was worth about 3,8% and also had a significant impact on the sales margins, especially for sales in dollars in the USA and in Yen in Japan, while for the Chinese activities, since the production costs in China are expressed in Renminbi, the exchange rates effect only the absolute values of the sales volume and the margin.

The trend in sales during this quarter, the activities for receiving orders, the contribution from the sale of products that we are introducing on the market right now would indicate that, although they are below the goals for growth in the sales volume and EBIT given for the entire year, we may consider the results for this quarter in line with those needed to achieve our annual objectives.

The EBIT for the first quarter of 2018 showed a slight decrease with respect to that for 2017. This was in large part due to the increase in the incidence of staff costs and operating charges, in particular commercial costs, some of which were investments, related to the facilitation of the expected increase in sales volume. In fact, during the early months of 2018 some important development projects were concluded in the research departments of our companies and, this means that new products have already been or will soon be released on the market.

Along with the technical preparation of the product we have worked on obtaining the authorizations necessary for marketing it; in the first place, in the European Union for the CE brand and after that, for the other most significant markets like the United States, for which it is necessary to have the FDA clearance and in Japan where the Ministry of Health issues the authorization for sale.

In this phase, the launching of the Onda system has been very significant. Onda uses, in a highly innovative manner, microwave energy combined with a sophisticated cooling system for the effective and painless emission of “Coolwaves” for the removal of adipose cells and the firming and improvement of the look of cellulitis. The CE brand, which allows the marketing of products in the countries belonging to the European Union and a few others, has obtained this week. This authorization was obtained fifteen days before the expected date and will make it possible to start the first shipments of the product in the month of May; this will help to reduce the backlog of orders that had been accumulated immediately after the presentation of the product because of the great expectations that had been generated by its launching.

Onda represents the return of the Deka brand to the sector of non-invasive “body shaping”, a market on which Deka had achieved considerable success with their Triactive product; they later concentrated on the minimally invasive approach off at by means of laser-lipolysis with their Smartlipo product, which represented a milestone for the Group in the aesthetic sector. The renewal of the focus of the market on completely non-invasive treatments, a rapidly growing applicative segment, gave rise to the creation, development, prototyping and experimentation of this new product which, after overcoming a series of difficulties in part due to the innovative nature of the technology has finally reached its goal in recent weeks.

As a demonstration of the intense activity of our research and development, Onda is not the only system that was authorized for sale during this quarter; in the surgical sector, Quanta System amplified its range of high-powered systems for treating BPH (benign hyperplasy of the prostate) and has obtained FDA clearance for its 100W holmium system and clearance from the Japanese Ministry of Health for its tullium 200W and holmium 70W systems. These authorizations represent two green lights which will soon show results, both for the clientele that Quanta system serves with its distribution network as well as with the important OEM clients that move the Quanta products.

The chart below shows the income statement for the first quarter of 2018 shown in comparative form with the results for the same period last year.

Income Statement	31/03/2018	Inc %	31/03/2017	Inc %	Var. %
Revenues	69.552	100,0%	65.107	100,0%	6,83%
Change in inventory of finished goods and WIP	8.158	11,7%	4.379	6,7%	86,30%
Other revenues and income	991	1,4%	544	0,8%	82,33%
Value of production	78.701	113,2%	70.030	107,6%	12,38%
Purchase of raw materials	48.750	70,1%	38.625	59,3%	26,22%
Change in inventory of raw material	(5.335)	-7,7%	(703)	-1,1%	659,30%
Other direct services	5.613	8,1%	5.185	8,0%	8,26%
Gross margin	29.672	42,7%	26.923	41,4%	10,21%
Other operating services and charges	9.641	13,9%	8.122	12,5%	18,70%
Added value	20.031	28,8%	18.801	28,9%	6,54%
Staff cost	13.604	19,6%	12.261	18,8%	10,95%
EBITDA	6.427	9,2%	6.539	10,0%	-1,72%
Depreciation, amortization and other accruals	1.079	1,6%	1.008	1,5%	7,07%
EBIT	5.348	7,7%	5.532	8,5%	-3,33%
Net financial income (charges)	(758)	-1,1%	(345)	-0,5%	119,88%
Share of profit of associated companies	44	0,1%	(17)	0,0%	
Other non-operating income (charges)	(6)	0,0%	0	0,0%	
Income (loss) before taxes	4.627	6,7%	5.170	7,9%	-10,49%

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

Net financial position	31/03/2018	31/12/2017
Cash and bank	84.797	97.351
Financial instruments	2.010	2.036
Cash and cash equivalents	86.807	99.388
Current financial receivables	87	155
Bank short term loan	(7.480)	(8.230)
Part of financial long term liabilities due within 12 months	(959)	(932)
Financial short term liabilities	(8.440)	(9.161)
Net current financial position	78.454	90.381
Bank long term loan	(3.439)	(3.525)
Other long term financial liabilities	(2.442)	(2.350)
Financial long term liabilities	(5.881)	(5.875)
Net financial position	72.573	84.506

Operational performance

The chart below shows the subdivision of the sales volume for the first three months of 2018 according to the sector of activity of the Group, compared with the same subdivision for the same period last year

	31/03/2018	Inc %	31/03/2017	Inc %	Var. %
Medical	41.706	59,96%	39.053	59,98%	6,79%
Industrial	27.846	40,04%	26.055	40,02%	6,88%
Total revenue	69.552	100,00%	65.107	100,00%	6,83%

The two sectors register the same growth rate, just under 7%. For the medical sector this represents an improvement with respect to the results for last year, while for the industrial sector there was a slight decrease. However, for this latter sector, the impact of the exchange rate played an important role because the sales showed an increase of 14% in local currency on our most important market, the Chinese one, and this growth was dampened by the strengthening of the Euro during 2017.

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

	31/03/2018	Inc %	31/03/2017	Inc %	Var. %
Italy	13.382	19,24%	13.403	20,59%	-0,16%
Europe	13.988	20,11%	10.659	16,37%	31,23%
ROW	42.182	60,65%	41.045	63,04%	2,77%
Total revenue	69.552	100,00%	65.107	100,00%	6,83%

The growth shown this quarter is mainly concentrated on the European markets. After the great acceleration shown in 2017, the Italian market remains stable. The non-European markets increased by 2,8% notwithstanding the fact that they were penalized by the conversion of the Euro on the sales volume of our subsidiaries.

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

	31/03/2018	Inc %	31/03/2017	Inc %	Var. %
Aesthetic	21.945	52,62%	22.914	58,67%	-4,23%
Surgical	9.399	22,54%	6.480	16,59%	45,06%
Physiotherapy	2.555	6,13%	2.441	6,25%	4,69%
Dental	57	0,14%	188	0,48%	-69,46%
Others	41	0,10%	32	0,08%	29,30%
Total medical systems	33.998	81,52%	32.054	82,08%	6,06%
Medical service	7.708	18,48%	6.999	17,92%	10,13%
Total medical revenue	41.706	100,00%	39.053	100,00%	6,79%

The sales in the aesthetic sector showed a decrease of 4,2%, the result of the fact that some segments showed further growth this quarter while others showed a slight decline.

It should be recalled that the innovation presented by a product represents the most effective competitive weapon that the Group uses to augment its share of a market that is in expansion but competitive. Products that are going through the first phase of their life cycle increase revenue with high margins thanks to the premium price that is usually afforded to innovations. In 2018 we expect to place on the market significant new products starting in the second quarter, while products that in 2017 were still in their first phase of life after being launched are now in a more stable phase of their life cycle.

In the introduction we have already commented on the outlook for growth that the new Onda system presents for the Group; this is a product that is aimed at the non-invasive body shaping segment which is in great expansion all over the world.

We are confident that Onda can join our other most successful products in the other segments of aesthetics, for example the alexandrite hair removal systems like Deka's Motus AX or Quanta's Thunder MT; with diodes like Asclepion's and Esthelogue's Mediosstar, which has become a standard on the professional aesthetics market; the systems for removal of tattoos and pigmented lesions, mainly Quanta's Discovery Pico in the most innovative sector reserved for laser systems which emit impulse lengths in pico-seconds, and the other nano-second systems that Quanta System, Deka and Asclepion offer on the market with success. However, Onda is not the only novelty this year in the aesthetic sector which will also see the launching on the market of Motus AY and Luxea, the former for hair removal and the latter as a multi-functional platform.

The results in the surgical sector were excellent: this sector has started to grow again with great intensity, mainly driven in the first quarter by the significant sales of the Mona Lisa Touch in the United States, thanks to the relaunching of this product, which has exceptional characteristics and great potential, by the management of Hologic which is now directing Cynosure, and has focused their business on this product with success. Mona Lisa Touch effectively treats vaginal atrophy, a pathology typical of female aging. On the other hand, for a pathology typical of male aging, we have created systems for the treatment of benign hyperplasia of the prostate (BPH), high-powered holmium and tullium laser systems that are technologies in which Quanta System and Asclepion excel. In this segment sales have shown a two-digit growth. Good also the sales for lithotripsy systems; in this segment the Group has consolidated their primary market position by assigning the distribution of its systems to the principal operators in the sector who distribute the devices under their own brand.

The progressive growth of Asa in the physical therapy sector which showed a growth of 4,7% this quarter has been a constant in the last few years and is the result of the careful placement of new products and, at the same time, the gradual reinforcement of the commercial and marketing structure which supports the international sales. In the first quarter of 2018 we launched Hiro TT, the latest arrival among the products that are the result of the collaboration between Asa and El.En. in the use of high intensity Nd:YAG laser sources for therapeutic treatments.

The sales volume in the dental sector and in the other segments of the Medical sector is still negligible.

After a pause in 2017, the sales volume for medical service has started to grow again. In this regard it is interesting to note the increase in the sales volume for consumables and creams sold in the aesthetic sector and, above all, mono-use and multi-use optical fibers used in applications for urology.

For the industrial applications, the chart below shows the breakdown of the sales volume according to the various markets on which the Group operates.

	31/03/2018	Inc %	31/03/2017	Inc %	Var. %
Cutting	20.825	74,79%	19.406	74,48%	7,31%
Marking	3.707	13,31%	3.930	15,08%	-5,66%
Laser sources	914	3,28%	799	3,07%	14,30%
Conservation	137	0,49%	86	0,33%	58,10%
Total industrial systems	25.583	91,87%	24.222	92,97%	5,62%
Industrial service	2.263	8,13%	1.833	7,03%	23,48%
Total industrial revenue	27.846	100,00%	26.055	100,00%	6,88%

The cutting sector shows an increase of 7% and continues the growth which makes it one of the most significant segments for the whole Group.

On the market for laser systems for cutting sheet metal, we saw a continuation of the rapid expansion triggered by a technological shift which multiplied the number of potential users and, at the same time, reduced the technological gap existing in the traditional technology between market leaders and their competitors and allowed even smaller players to acquire a portion of the market. This various positive phase involves all of the markets but, above all, the Chinese one, where the Group has been present for over ten years with the two joint venture in Wuhan and Wenzhou. The production capacity will be increased again in 2018 in order to sustain the market, with a move to a new and larger factory in Wuhan

which is being rented and the construction of a new factory, the second in Wenzhou, which will become operative in 2019.

Cutlita Penta, which operates in Italy and the rest of Europe in the cutting sector, has benefitted from this favorable phase and their revenue continues to increase.

The marking sector showed a slight drop during this period but this result can be improved in the next quarters in consideration of the market situation which is still positive despite the result for the quarter.

Sales for laser sources were good; in this segment the new spaces which have been opening in the areas of packaging and special applications in the textile field are increasingly interesting.

Sales volume for restoration also showed a recovery; in this field the Group receives some revenue but mainly contributes to the conservation of the artistic heritage on a global level. The activity of the Group in this sector represents a homage to our location in one of the cradles of world artistic production. We dedicate our technologies to this activity and acquire significant visibility which is sometimes supported also by collaboration and donations from great institutions.

There was also a significant increase in the sales volume for service, an area in which the significant sales of consumables related to the use of laser sources has taken on an increasingly important role.

Let us now comment on the Income statement. The gross margin was 29.672 thousand Euros, an increase of 10,21% over the 26.923 thousand Euros shown on March 31st 2017, thanks to the increase in the sales volume. The increase in margins from 41,4% to 42,7% during the first quarter of 2018 was due to a favorable mix of products sold in both the medical and industrial sectors.

Costs for operating services and charges were 9.641 thousand Euros showing an increase of 18,7% over the 8.122 thousand Euros registered on March 31st 2017. The incidence on the sales volume rose from 12,5% to 13,9% during the first quarter of 2018.

Staff costs were 13.604 thousand Euros, showing an increase of 10,95% with respect to the 12.261 thousand Euros for the same period last year, with an incidence on the sales volume which showed a slight increase, from 18,8% on March 31st 2017 to 19,6% on March 31st 2018.

On March 31st 2018 there were 1.308 employees in the Group; this is an increase with respect to the 1.212 registered on March 31st 2017. Most of the new hiring was done by the Chinese subsidiary Penta Laser Equipment (Wenzhou) which is now expanding rapidly.

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.

Consequently the EBITDA was 6.427 thousand Euros, a drop of 1,72% with respect to the 6.539 thousand Euros registered on March 31st 2017.

The decrease in the EBITDA, which showed an incidence on the sales volume which decreased from 10% to 9,2% is derived from the increase in staff and overhead costs which were greater than the sales volume. These expenses should be offset by a continued and more significant acceleration of the revenue.

The costs for amortizations, depreciations and accruals showed a slight increase, from 1.008 thousand Euros on March 31st 2017 to 1.079 thousand Euros on March 31st 2018, which is in line with the increase in revenue.

The EBIT therefore amounted to 5.348 thousand Euros, a decrease with respect to the 5.532 thousand Euros registered on March 31st 2017. The incidence on the sales volume was 7,7% and showed a decrease with respect to the 8,5% for the same period last year.

The financial charges amounted to 758 thousand Euros with respect to the 345 thousand Euros registered for the same period last year. The exchange rate losses, in particular for the US dollar which was much weaker with respect to the Euro this quarter, determine the loss for this period.

The income before taxes showed a positive result of 4.627 thousand Euros, a decrease with respect to the 5.170 thousand Euros registered on March 31st 2017.

Financial position and investments

Comments on the net financial position

The net financial position of the Group decreased by almost 12 million with respect to the closing of the financial year 2017.

The main use during this quarter was the increase in net working capital on account of the growth and, above all, in preparation for the rapid growth which is expected. In fact, the most significant variations were registered for the Chinese companies and for El.En. S.p.A.

Gross investments made this quarter

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

	31/03/2018	31/03/2017
Intangible assets	61	115
Tangible assets	6.947	583
Financial fixed assets	1	
Total	7.008	698

The investments in tangible assets increased on account of the expansion of the manufacturing facilities in many companies of the Group. During the first three months of this year Lasit acquired a building which is adjacent to the one that they now occupy; this purchase represented an investment of about 3 million Euros and will make it possible for the company to organize their production in a manner that is more suitable for the brilliant growth that they have been achieving. El.En. S.p.A has acquired a building, part of which they had already rented, near their factory in Calenzano, which will facilitate the distribution of the production and logistic processes. Other investments are planned for later in the year.

Research and Development activities

During the first quarter of 2018 we continued our intense activity of Research and Development for the purpose of creating new applications for lasers and for other light sources, both in the medical sector and the industrial sector (which includes applications for the restoration of works of art) and to place on 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- 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.

Systems and applications for lasers in medicine

The parent company, **El.En.** in collaboration with the subsidiary **DEKA** has been active in research on biological samples and cell cultures in the laboratory 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, for cutaneous ulcers and for aesthetic medicine.

An application that is extremely important and has already obtained considerable commercial success, is related to urogynecology and urology. We have continued the experimentation activities with the Monna Lisa treatment (or Mona Lisa, depending on the country), our treatment to reduce the effects of the atrophy of vaginal mucous. Moreover, at several centers that operate in university structures or highly prestigious private clinics in Italy or other countries (particularly in the USA) we are conducting important research to increase our knowledge of the acting mechanisms and obtain new applications from further scientific advancements.

The fundamental clinical studies conducted on laser treatment of the atrophy of vaginal mucous have confirmed that it is effective, safe and has no negative collateral effects. It can be stated that this is an extremely important innovation for

medicine which will always remain among the basic requirements for the specific therapy. It is our precise intention to remain at the top of the global development of this new therapeutic sector and we will direct and re-enforce the scientific and technological developments in order to maintain our pre-eminent position. The atrophy of the vaginal mucous is a very common and incapacitating condition which interacts with other pathologies and affects a high percentage of women in menopause and young women with tumors for whom therapies that alter the hormone balance and provoke a sort of premature menopause are indicated.

Moreover, 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.

We are accumulating important scientific papers published in international reviews on the effectiveness of the treatment on women who have had breast tumors and have been forced to use pharmaceuticals that induce premature menopause in order to avoid recurrence.

For surgical applications we are now obtaining interesting results for the treatment for diabetic feet. In this sector we have introduced the possibility of cleaning (debridement) and removal of the necrotic tissue and 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; when, on the other hand, for this kind of treatment, scalpels or other contact instruments are used, more nerve endings are involved by the mechanical pressure applied by the scraping or cutting which necessarily comports a tearing effect which involves a volume of material which includes the area surrounding the portions to be eliminated both on the sides and underneath it.

Moreover, the laser energy is emitted in impulses of extremely short duration which instantaneously vaporize the nerve endings which may be present only in a small superficial layer of biological material to be eliminated; in fact, due to the brevity of the impulses, the heat does not affect the layers below it. The healing of chronic ulcers by means of laser treatments is based on the above characteristics of the laser beam opportunely designed by us to be used in the clearing phase of the lesion but also on the capacity for bio-stimulation operated by the laser light, our cultural heritage because of the numerous experiments and research that we have conducted over the years.

We have given the name “Giotto Touch” to the device and the treatment; the name of Giotto is related to the great artist of the painter who was the first one to study perspective in painting which, up to that time had been purely instinctive, and gave three-dimensionality to his figures; This important characteristic recalls the effect generated by our laser device which makes it possible to restore three-dimensionality and structure to the ulcerated portions of the body once they have been cured. We have recently installed a Giotto Touch device in an important hospital in China on the basis of an agreement with the National Chinese Society for treating ulcers that are difficult to cure, for clinical trials on the treatment of ulcers.

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 latest generation LCD capacitors; the device received the CE approval mark in January 2017. Sales of the system have just started and we have found that there is considerable interest from the centers where the device is being experimented.

As part of the FOMEMI Project, with El.En. leading the project, which has recently received approval for funding on the basis of the Regione Toscana contest for European Funds, we are conducting research activities for the characterization of the components present in the ulcers of diabetic feet, using visible light and near infrared; we have also scheduled research on the tissue/air interface using the analysis of the radio-frequency version of the ultrasound echo signal. We are also conducting research on a static illuminator for laser bio-stimulation in collaboration with some of the partners in the FOMEMI research project.

As part of this project we are now conducting feasibility studies on an ergonomic bed for treating patients affected with cutaneous ulcers made so as to minimize fatigue both on the part of the physician and the patient during the therapy session.

In the first quarter of 2018 we completed the phase of preliminary study, engineering and clinical evaluation of an innovative system of “body shaping” (the reduction of the subcutaneous adipose layer in various parts of the body) which we have called Onda (Wave) which is based on a form of micro-wave electro-magnetic energy which is able to reduce the adipocytes. The device is equipped with innovative applicators which have the intrinsic safety of not transferring energy when they are not in contact with the skin; moreover, special applicators have been designed so that they issue energy through cooled contact, with a normal electrical field at the skin and the tissues beneath it. In this way the subcutaneous fat and the muscle beneath it become part of a series in the chain of tissues that absorb the micro-wave energy and most of the energy is absorbed by the fat, as planned, which allows for an extra protection to guarantee that the muscle layers under the fat are not subjected to induced heat.

We have again taken up the study of waveguide coupling for CO₂ lasers with 10,6 μm emissions for surgical applications. The experimental activity is aimed at determining the best conditions for launching the beam in the hollow wave guide for the purpose of minimizing losses in transmission. We have continued the development of a new RF power supply for exciting a sealed CO₂ source for medical applications (surgical and dermatological). The RF power supply was redesigned for the purpose of integrating it directly on the laser source in order to reduce the dimensions and the cost of the complete system. The performance of the source must be guaranteed in order to get a 50 W system coming out of the hand-piece. We continued the study of the system for measuring the temperature of the epidermis which will be useful for managing the safety of energy-based dermatological treatments. In collaboration with Quanta System S.p.A. we have developed a real time system for monitoring the temperature of the skin during the pre-cooling process before a laser treatment.

In collaboration with Elesta, we are now 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 biocompatible sterile liquid.

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; we are now in the process of obtaining certification for it (expected in September 2018) so that we can begin marketing.

They have concluded the development and the certification of the 100 W Holmium laser for BPH applications and, in particular, for the enucleation of the prostate. The EU medical certification and FDA clearance have been received and the system will be put on sale starting in the third quarter of 2018. This level of power will complete our range of Holmium lasers for applications in urology where we already have 30W models for lithotripsy and 60W models for applications in lithotripsy and enucleation.

They have continued innovative applications in the field of gastroenterology. The evaluation of the effects of Thulium lasers on the gastric mucous which we started in 2015 brought positive results which made it possible to proceed from studies on animal models to clinical experiments on humans. They have begun extensions of studies on: the ablation of superficial lesions, debulking of tumours in the gastro-intestinal tract, coagulation of bleeding in the rectal tract, BE (Barret Esophagus) ablation, Laser ESD – endoscopic submucosa dissection (up to now attempted only on animals).

We have defined and completed the launching of Thunder MT, a laser which employs two sources like Alexandrite e Nd:YAG in single emission mode or mixed mode. The machine integrates a high speed scanner and an optional air cooler that is controlled by the same interface software of the laser. Thunder MT is certainly the fastest and most powerful hair removal device in the world in the field of depilatory lasers, and has the possibility of being used also for the treatment of superficial pigmentation and vascular lesions.

At **Asclepion** they continued their research activity as part of an up-dating strategy for all the systems in their catalog that consist of a new philosophy of user interface, new electronics and new design.

They have developed an automatic vessel recognition for vascular treatments using a camera and experimentation has begun.

They are now developing a new Mediostar model with substantial technical and aesthetic innovations. They have started the process for the integration of other modules with Mediostar and the relative clinical trials.

New versions of the morcellator to be used with the Holmium systems for the treatment of benign hyperplasia of the prostate have been completed for the purpose of innovation and in order to adapt it to the legislation of certain countries.

They have started the mass production of Tattoostar Pico, the system for the removal of tattoos and pigmented lesions which was first presented on the market at the Medical Fair in November 2017.

In the field of dermatology, they have completed the new Quadrostar product for the treatment of psoriasis and vitiligo.

Laser systems and applications for industry

We have completed the prototypes of the Blade RF1222 source and the technical dossier and are now proceeding with the trials necessary for the documentation of the product.

The EMC trials that are required 2014/30/UE were passed by making a few modifications which were verified in two distinct sessions. At the same time we began the preliminary series of the types that are part of the project, which is now in progress.

We have continued working on the improvement of the Blade RF888 source for marking textiles by improving and stabilizing the performance; in particular we have worked on the cooling system, on the radio frequency power supply, and on the characteristics of the resonator (distance between electrodes, dimensions of the exit window, new

configuration with a greater enlarging factor, the band selector mounting). Besides the marking trials, we verified the effects of the modifications with HgCdTe sensors, by examining the temporal evolution of the piloted emission with modulation signals analogous to those typically present during operation. For this application we have also designed a fixed optical objective which is now being experimented by a client and which has made it possible to reproduce images with high definition.

We have continued the development of the low-power laser source derived from Blade RF88, for use in the Smartxide Punto machine for medical applications, and have completed the prototype and started mass production.

New models of high powered laser sources have been added to the catalog.

At **Cutlite Penta S.r.l.** they have developed and experimented with new process sensors installed in machines for metal cutting.

They 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.

At **Cutlite Penta, Penta Laser Wenzhou and Penta Chutian** they have developed and started production of laser systems for cutting metal that are equipped with very high-powered laser sources in fiber, with sources of up to 12kW, for high-speed cutting of sheet metal, even of considerable thickness. For these systems, they have developed focalizing heads with specific technical details which make them suitable for managing even very high-powered laser beams.

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

<i>Thousands of Euros</i>	31/03/2018	31/03/2017
Staff costs and general expenses	2.179	1.920
Equipment	41	42
Costs for testing and prototypes	492	281
Consultancy fees	76	79
Other services	12	12
Total	2.800	2.333

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 5% 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

On January 2nd 2018 the founding of the Cutlite Penta Srl company became effective; as part of the process of re-organization of the activities in the industrial sector of the Group, Ot-las Srl turned over to Cutlite Penta all of their activities related to laser cutting systems.

Subsequent events

On April 27th 2018 the shareholder's meeting of the Parent Company El.En. S.p.A., approved the financial statements for the year 2017 and took the following resolutions:

- to distribute all of the net income for the year, amounting to 41.146,00 Euros to the shareholders;
- to distribute to all the shares in circulation at the time that coupon 2 becomes due, on May 28th 2018, in compliance with art. 2357-ter, second sub-section of the Civil Code, a dividend of 0,40 Euro (zero comma forty) gross for each share in circulation, for a total amount on the date of the resolution of 7.718.988,80 Euros by using all of the net income of the year, for an amount of 41.146,00 Euros, and, for the residual amount 7.677.842,80, using the net income not distributed in the last few years and accrued in the voluntary reserve called "extraordinary reserve".

The shareholder's meeting, moreover, approved the remuneration report, including the incentive bonuses, ex art. 123-ter T.U.F..

The shareholder's meeting also nominated the Board of Directors for the three-year period 2018-2020 and therefore, until the approval of the financial statement for 2020. The assembly established that the number of members of the Board would be six and appointed Gabriele Clementi as president and elected as other board members Barbara Bazzocchi,

Andrea Cangioli, Alberto Pecci, Fabia Romagnoli, Michele Legnaioli. The composition of the Board of Directors respects the balance of genders in compliance with Art. 147-ter, sub-section 1-ter del D.Lgs. 58/1998.

On the same day, the Board of Directors of the Parent Company El.En. S.p.A. appointed as managing directors, the president, Ing. Gabriele Clementi and the board members, Barbara Bazzocchi and Andrea Cangioli and attributed to them, separately from each other and with free signature, all of the ordinary and extraordinary powers of administration for conducting all activities that are part of the company mission except for those which cannot be delegated in compliance with the law and with the company by-laws.

Current outlook

The results of the first quarter show a good growth in sales volume for both sectors and a slight drop in profitability. These results should be interpreted in the light of an annual outlook for a gradual growth of the sales volume and a reduction in comparison to last year, of the disadvantage of the trend in the currency exchange rate.

The situation on our markets remain favorable and the exchange rates would appear to be less penalizing. As we can count on the quality of our products, the Group is able to confirm the objectives for annual growth of the sales volume and the EBIT, about 10% for both, as were forecast at the beginning of the year.

For the Board of Directors

The managing director
Ing. Andrea Cangioli

Appendix “A”: List of consolidated companies as of March 31st 2018

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>					
Ot-Las S.r.l.	Calenzano (ITA)	96,65%		96,65%	96,65%
Cutlite Penta S.r.l.	Calenzano (ITA)		100,00%	100,00%	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 (JAP)		78,85%	78,85%	78,85%
Deka Japan Co., Ltd	Tokyo (JAP)	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)		53,53%	53,53%	51,74%
Cutlite do Brasil Ltda	Blumenau (BRAZIL)	98,27%		98,27%	98,27%
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%
Penta Laser Europe S.r.l.	Calenzano (ITA)		100,00%	100,00%	51,74%
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 2018

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