

El.En. Group

Consolidated Non-Financial Statement 2017

Pursuant to Italian Legislative Decree no. 254 of 2016

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Light is energy that creates forms.

Leonardo Da Vinci

LETTER TO THE STAKEHOLDERS

To our Stakeholders,

For the first time in its history, the EI.En Group is publishing a Consolidated Non-Financial Statement (from now on called "NFS"). This document represents another step forward in the growth process that the Group has undertaken, a growth that is not only economic, organizational and managerial but also sustainable.

This is because sustainability means not only creating value over time but being ready to successfully meet the new challenges of tomorrow.

Up to now our financial reports only analyzed the economic and financial performance of the companies, whereas with the NFS we will try to go farther and offer a panorama of the policies and the commitment of the EI.En Group and the people that constitute it, toward a "sustainable" management of its business in order to set the goals for improvement and make them accessible with transparency to all those concerned with an aim to consolidating their trust.

In this regard, we consider the welfare of our personnel, the quality of our products, the investments in research and development, and the protection of our cultural, social and artistic heritage as well as the respect for the environment the central pillars of the daily management of our activities and the departure point for the planning of all our future initiatives.

The creation of sustainable value for the future of our planet and the people that inhabit it, in fact, represents a positive and necessary challenge for all companies.

This document, which clarifies the objectives and the initiatives promoted for this purpose, confirms the enthusiasm and the commitment that we place in all the areas in which we operate and represents an important demonstration for all of our stakeholders of the path we have chosen, a path which has given us great satisfaction and which continually spurs us on to improve.

The President

Gabriele Clementi



ABOUT OUR REPORTING

This document represents the first Consolidated Non-Financial Statement (hereinafter the "NFS") of the companies belonging to the industrial Group comprised of El.En. S.p.A. (hereinafter the "Parent Company") and its subsidiaries (hereinafter the "El.En. Group" or "the Group"). The NFS reports, to the extent that is necessary to ensure an understanding of the Group's operations, performance, results and the impact regarding the topics considered material and set out in Articles 3 and 4 of the Legislative Decree 254/16, with reference to the financial year 2017 (from the 1st of January to the 31st of December).

As established by Art. 5 of Italian Leg. Decree 254/16, this document constitutes a separate report and is marked with specific wording in order to connect it to the NFS required by law.

The NFS represents a first step towards an even more transparent and comprehensive sustainability communication, as well as being an opportunity for communicating the annual results of the sustainability performance that have been achieved during the financial year 2017 by the Group with and for its stakeholders.

This NFS has been prepared in accordance with the new standard «Global Reporting Initiative Sustainability Reporting Standards» established in 2016 by the GRI - Global Reporting Initiative (hereinafter "GRI Standards"), according to the «Core» option. Furthermore, for the preparation of the document the Guidelines CE 2017/C215/01, have been taken into account.

The selection of the topics and the indicators reported in the document was based of the information assessed as relevant for the Group and its stakeholders during the Materiality Analysis, conducted from a Group point of view, as described in the chapter titled "Approach to sustainability" of this document. It should be mentioned that in relation to the information required by Art 3, sub-section 2 of Legislative Decree 254/16, in consideration of the type of business activity of the Group, the polluting air emissions other than greenhouse gases were not deemed relevant.

The reporting and editing activities of this document involved several Functions across all the geographical areas in which the Group operates, centrally coordinated by the working group dedicated to the project.

The scope of the economic and financial data and information is the same as that of the Annual Financial Report. The scope of the social and environmental data and information presented is the same as that of the companies consolidated on a line-by-line basis in the Group Annual Financial Report. Consequently, it includes the Parent Company and those Italian and foreign companies in which El.En S.p.A controls directly or indirectly the majority of votes in the ordinary shareholders meeting. In 2017 no significant changes in the dimensions or in the organizational structure of the Group occurred.

The information and the data reported refer to the financial year 2017 (from January 1st 2017 to December 31st 2017). The data related to the previous financial year, when available, are reported only for comparative purposes and to facilitate an evaluation of the trend in the activity.

In addition, to fairly present the Group's performance and ensure the reliability of data, the use of estimates has been limited as much as possible. Any estimate in this document is made using the best available methods and is expressly noted. The Consolidated Non-Financial Statement is published annually: this 2017 version was approved by the Board of Directors of El.En S.p.A. on March 15th 2018.

The NFS was subject of a limited assurance engagement (according to the criteria set out by the ISAE 3000 Revised principle) by Deloitte & Touche S.p.A. which, at the end of the work performed, released a specific report with regard to the compliance of the information contained in the Consolidated Non-financial Statement prepared by El.En S.p.A. as required by the Legislative Decree 254/2016.

The El.En. Group is well aware of its responsibility toward society and the environment and has taken the direction of a continual development of their initiatives in relation to sustainability. The Group is committed to

the adoption of a Group sustainability plan which will be approved by the Board of Directors of El.En. S.p.A. by December 2018. In particular:

Environmental matters

The Group pays attention to the responsible management of its activities, seeking a balance between economic objectives and indispensable environmental requirements. Moreover, the Group is committed to the adoption of a medium to long-term Group environmental policy for the purpose of controlling and reducing the environmental impact of its activities.

Respect for Human rights

The Group protects human rights through the adoption and dissemination of the Ethics Code which requires conformity with the Universal Declaration of Human Rights issued by the United Nations and requires that it be respected also by its main suppliers. In particular, the Parent Company requires compliance with the Ethics Code by their consultants, distributors, agents and suppliers of critical components. Moreover the Group is committed to the adoption of a Group Human rights policy and to institute specific training in this field especially in those countries where legislation is not as restrictive as in Italy.

Fight against passive and active corruption

This subject is regulated by the Ethics Code of the Group to which all subsidiaries, associated companies and the main suppliers must comply. Moreover, the subject is overseen by the Parent Company and its subsidiaries Deka M.E.L.A. S.r.l. and Quanta System S.p.A. through the Organizational Model pursuant to Italian Legislative Decree 231/2001. For the purpose of re-enforcing its anti-corruption and bribery system, the Group has also committed to the adoption of a Group anti-corruption policy.

The development and implementation of the aforementioned plan may require about two years; the implementation timing of the individual activities will be further described in detail in the sustainability plan.

Social matters

The Group has always paid particular attention to the quality and safety of its products and, to this aim, the main manufacturing companies of the Group have adopted a quality control system and obtained certification ISO 9001* and ISO 13485** related to the quality control systems for medical devices.

Moreover, the Group bases its critical success factors also on its capacity for innovation, as demonstrated by the investments in research and development which have the objective of creating innovative systems and applications to meet the needs of customers and create new ones.

Employees-related matters

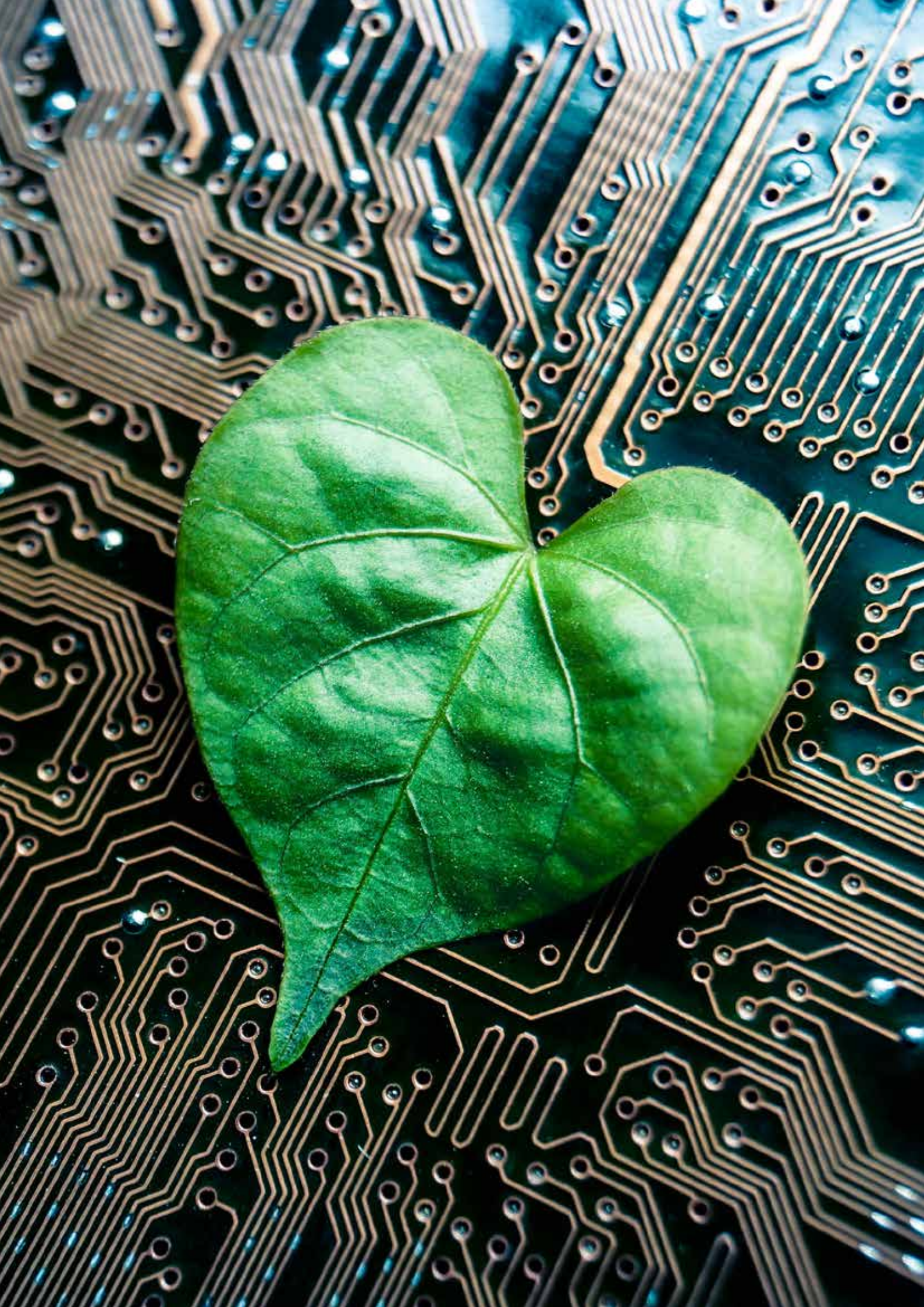
In the Ethics Code, the Group has codified its commitment to respect the dignity, the health, the safety and the privacy of its employees and collaborators. Moreover, as part of the quality control system (ISO 9001) adopted by the main manufacturing companies of the Group, the certified companies safeguard the aspects related to the management of the employees. In particular, the Parent Company has conducted a codification of the procedures for the management of human resources as well as a profiling of the company functions with a detailed description of the responsibilities and skills necessary.

***ISO-9001 Certified companies:** ASA S.r.l., El.En S.p.A., Deka M.E.L.A. S.r.l., Penta Chutian Laser (Wuhan) Co. Ltd and Penta Laser Equipment Wenzhou Co. Ltd, Quanta System S.p.A. and Asclepion Laser Technologies GmbH;

****ISO 13485 Certified companies:** ASA S.r.l., El.En S.p.A., Deka M.E.L.A. S.r.l., Quanta System S.p.A. and Asclepion Laser Technologies GmbH.



For the list of the companies of the Group consolidated on a line-by-line basis, please consult the section titled "subsidiary results" in the Annual Financial Report of El.En S.p.A. dated December 31st 2017.





SUSTAINABILITY APPROACH

Identification of *stakeholders*

Materiality analysis

1. Approach to Sustainability

In light of the developing context and since we wish to communicate our commitment to sustainability, we began by reflecting on some of the main aspects which might be relevant for the Group and for our stakeholders by using an approach based on transparency, integrity and honesty, for the purpose of involving our readers not only in the economic objectives of the company but also in our social and environmental goals.

1.1 Identification of Stakeholder

We have recognized the importance of sustainability and, as part of our company strategy, we have started a procedure for mapping and identifying our stakeholders, for the purpose of considering in our sustainability strategy all the individuals and institutions which could be directly influenced by it:



The chart below shows the main channels for communication and dialogue with the stakeholders of the Group:

Stakeholder	Topic	Main dialogue instruments
Human Resources	• Growth and training • Health and safety in the workplace • Diversity, equal opportunity and non discrimination • Human rights and working conditions • Quality of work • Ethics, integrity and compliance • Identity and values • Industrial relations	• Intranet portal • Company Mailing list • Communication from top management • Collective bargaining • Training and updating courses
Universities and Research centers	• Research, development and innovation • Transparency	• Communication from top management • Financial report • Scientific publications • Calls and competitions • Experimentation and research projects
Clients (B2B)	• Product quality and safety • Anticipating and identifying the needs and expectations of clients • Customer trust and satisfaction	• Institutional web site • Evaluation of customer satisfaction • Handling of complaints • After-sales service • Advertising
Consumers (B2C)	• Consumer trust and satisfaction • Product quality and safety	• Institutional web site • Handling of complaints • After-sales service • Advertising
Local community	• Indirect social impact • Respect for the territory • Support of employment • Legality • Support of social initiatives	• Institutional web site • Local meetings and events • Press releases • Collaboration and support of the artistic and cultural heritage in sites of public interest • National and regional research projects
Institutions and regulatory bodies	• <i>Corporate Governance</i> • <i>Transparency</i> • <i>Legality</i> • <i>Economic and financial performance</i> • <i>Indirect social impact</i>	• Institutional web site • Disclosures required Reports and financial statements • Shareholders' meetings • Spreading of regulated information • Investor Conference • Press releases

Stakeholder	Topic	Main dialogue instruments
Suppliers	• Trasparency • Ethical responsibility • Human rights and working conditions • Continuity of business relations • Qualification and evaluation • Negotiating conditions • Development of partnerships	• Institutional web site • Participation in initiatives and events • Negotiating relations • Technical qualification meetings • Regular audits
Shareholder and investors	• Corporate Governance • Trasparency • Economic and financial performance • Ethics, integrity and compliance	• Institutional web site • Financial report • Shareholders' meetings • Spreading of regulated information • Investor conference • Press releases
Agents and Distributors	• Trasparency • Ethics, integrity and compliance • Human rights and working conditions • Continuity of business relations • Negotiating conditions • Development of partnerships	• Institutional web site • Participation in initiatives and events • Negotiating relations • Training and updating courses

Our companies interact and communicate also with several associations operating in the sector or in the territory in which the Group is active. The chart below shows these relationships:

Associazione	Società
Confindustria	El.En. S.p.A.; Dekam M.E.L.A. S.r.l., Ot-las S.r.l.; Esthelogue S.r.l.; ASA S.r.l.
Confcommercio	El.En. S.p.A.; Dekam M.E.L.A. S.r.l.
ESU-EDA - Associazione dei fustellifici italiani	Ot-las S.r.l.
Comitato elettronico italiano	El.En. S.p.A.
AITA – Associazione Italiana Tecnologie Additive	El.En. S.p.A.
IBC - Associazione Beni di Consumo	El.En. S.p.A.; Dekam M.E.L.A. S.r.l.; Esthelogue S.r.l.; Pharmonia S.r.l.
ACIMIT – Associazione Italiana Costruttori Macchine Industriali	Ot-las S.r.l.

Associazione	Società
CEF – Consorzio Energia Firenze	El.En. S.p.A.
FAPIB – Associazione Nazionale Fornitori Attrezzature per Acconciatori ed Istituti di Bellezza	Esthelogue S.r.l.
Assorestauro	El.En. S.p.A.
CUOA – Centro Universitario di Organizzazione Aziendale	ASA S.r.l.
Laser Industry Association	Penta Laser Equipment Wenzhou Co. Ltd; Penta-Chutian Laser (Wuhuan) Co. Ltd
Laser Processing Committee of the Chinese Optical Society	Penta Laser Equipment Wenzhou Co. Ltd;
Optical Radiation Safety and Laser Equipment Technology of Standardization Administration of the People's Republic of China	Penta Laser Equipment Wenzhou Co. Ltd;
Japan Society for Laser Surgery and Medicine	Deka Japan Co. Ltd
Japan Medical Laser Association	Deka Japan Co. Ltd
PhotoMedicine Dermatology Therapy Association	Deka Japan Co. Ltd
Japan Esthetic Management Association	With Us Co. Ltd
Japan Esthetic Industrial Association	With Us Co. Ltd
Beauty Equipment Safety Promotion Association	With Us Co. Ltd
Economic World Club	With Us Co. Ltd

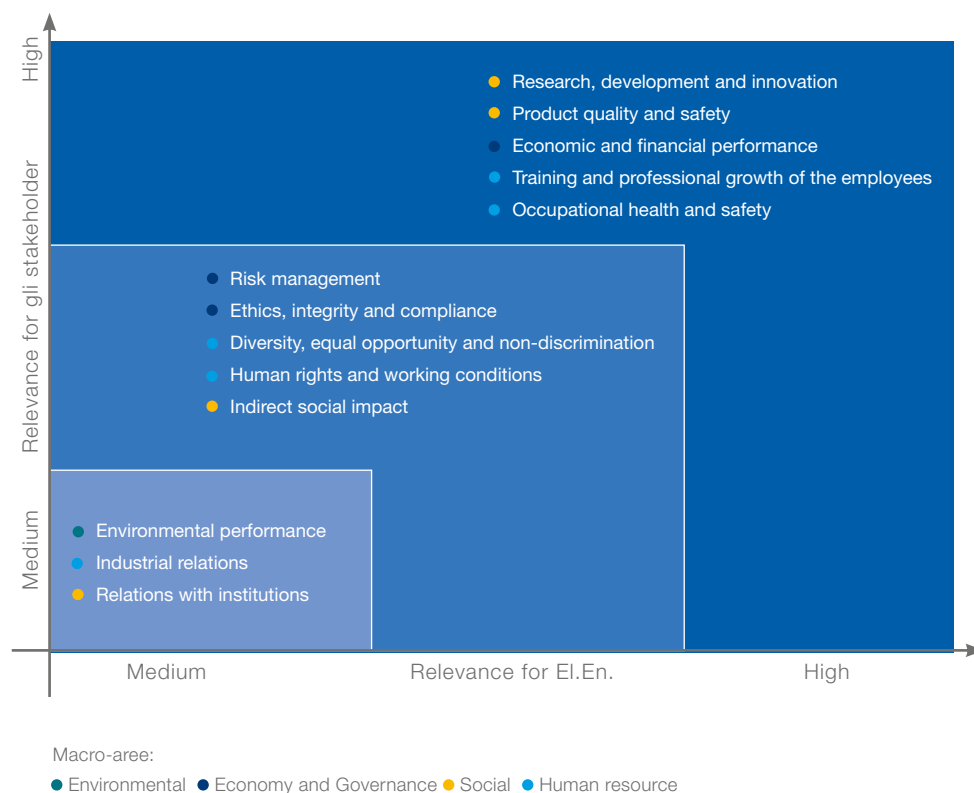
1.2 Materiality Analysis

The process of evaluating the relevant subjects was conducted through a materiality analysis which allowed us to identify the main aspects in terms of sustainability.

A working group made up of the top management of the Group, during a workshop, evaluated the relevance of the main aspects of a social, environmental, economic and governance nature which had been identified on the basis of the GRI Standards and an analysis of best practice in the sector.

The final result of the evaluation is shown on the materiality matrix below, in which the horizontal axis represents the relevance of the subjects for El.En, while the vertical axis of the ordinate shows the relevance of the same subjects for the stakeholders. .

Materiality matrix of the El.En Group



The most relevant topics represented in the sector on the right, are related to the aspects concerning research, development and innovation of the product and its quality and safety as well as those aspects that are an intrinsic part of the economic and financial performance and aspects related to the health and professional growth of our personnel. These topics confirm the commitment of all of our companies to a continued development of quality products and services that are increasingly at the forefront, as well as their commitment to the creation of a working environment that is safe and productive which will optimize results also for our clients.

The main topics that we have identified are shown in the chart below:

Material Topics	Description	Scope of impact	Type of impact
Research, development and innovation	Research and development activity aimed at the continual improvement of the quality and the innovation of the product while guaranteeing, when possible, the safeguarding of the intellectual property.	Group; University and research centers	Direct; Related to the business relationships
Product quality and safety	Identification and reduction of potential risks for health and safety related to the product along the entire value chain.	Group; Suppliers	Direct; related to the business relationships
Economic and financial performance	Achieving positive economic and financial results both in the short and long term consistently with the creation of value for the different categories of stakeholders.	Group	Direct
Training and professional growth of the employees	Development and training programs to improve the professional skills of the Group's employees.	Group	Direct
Occupational health and safety	regulations and agreements compliance and promotion of policies and practices that minimize risks for the health and safety of the personnel.	Group employees *	Direct
Risk management	Implementation of an extended and structured system for the identification, evaluation and management of risks and uncertainties, including environmental risks and/ or social or new risks that could emerge and are relevant to the activity of the Group.	Group	Direct
Ethics, integrity and compliance	Promotion of a good Corporate Governance and respect of the standards related to ethics, integrity and conformity with the laws, regulations and self-disciplining codes for the category.	Group, suppliers	Direct, related to the business relationships
Diversity, equal opportunity and non-discrimination	Development of practices and working conditions that are adequate to assure equal opportunity by removing every type of discrimination and moral or psychological violence against gender, age, race, religion or sexual orientation.	Group	Direct

*The organization evaluates the possibility of gathering data from the employers of external collaborators and suppliers who operate on the sites of the Group for the purpose of reporting accidents on the workplace or occupational diseases.

Material Topics	Description	Scope of impact	Type of impact
Human rights and working conditions	Respect, promotion and protection of human rights and working conditions during work related activities (for example, prohibition of child or forced labor and respect of ethics and/or conduct codes).	Group, suppliers	Direct, related to the business relationships
Indirect social impacts	Indirect social impact related to the use of the products of the Group, even by means of donations benefitting the collectivity.	Clients (B2B) e Consumers (B2C)	Indirect
Environmental performance	Commitment of the Group to the development of policies or procedures to mitigate its environmental impact (for example, efficiency of Energy consumption, reduction of water consumption and greenhouse emissions).	Group, suppliers	Direct, indirect
Industrial relations	Respect of freedom of association and expression of the workers, guaranteeing their right to be represented even by belonging to a labor union and/or category associations.	Group	Direct
Relations with institutions	Relations with public institutions, collaboration and contributions toward the development of activities for research and innovation.	Group, Institutions	Direct, related to the business relationships



El. En. Group

Sanità
Cultura
Promuovere l'eccellenza
per sostenere la crescita
EL EN SpA
Elettrotecnica e Progettazione





THE EI.En. GROUP

Our history

The Governance of the Gruppo EI.En.

The risk management system

Ethics, integrity and compliance

2. THE EL.EN. GROUP

The El.En. Group is one of the most important companies in the world for the manufacture and sale of laser systems; they are active in the production, research and development, distribution and sales of high performance, high tech systems. **Our products are characterized by technological excellence and quality.**

21 Companies in the world

1.212 People

300,4 Mln Direct economic value distributed

Oltre 20.680 Hours of training

166,7 Mln Supply purchases

25.054 GJ Energy consumption

12,9 Mln R&D expenditures

27.524 m³ Water consumption

Mission statement

The mission of El.En. Group is divided into three main categories:

Product development

- To achieve, through motivation and involvement of human resources, a continual improvement of the products and services by supplying technologically advanced solutions in the different sectors of application;
- To invest adequate resources in research and technological innovation, in the manufacturing and supporting processes, and in infrastructure.

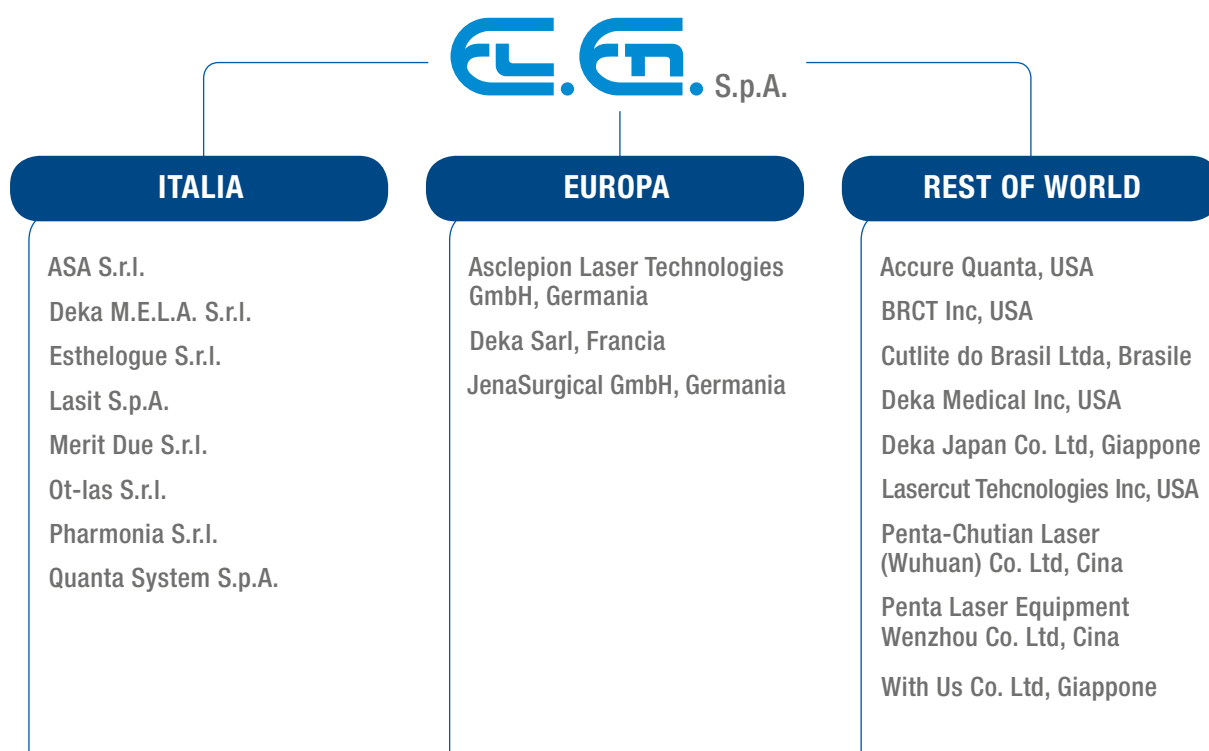
Building relationships

- To constantly improve the quality of the employee's work and the development of human resources within the Group, both in terms of knowledge and skills as well as personal wellbeing;
- To consolidate every day our competitive position on the International markets by facing the challenges, attempting to win important positions or become "leader" in our sector of activity.
- Offer to customers, not only the sale of products, but also a highly professional after-sales technical assistance service, as well as a support in training and marketing.

Create value

- To contribute to the success of our clients by supplying them with systems that are able to generate a real added value and fully satisfy the requirements, both expressed and implicit, of the end user.
- To supply technology that is intended to improve the quality of life;
- To constantly verify that the products and the processes of the company are in compliance with laws and safety regulations now in force with particular attention focused on the protection of the environment and energy saving.

As of December 31st 2017 the structure of the Group was as follows:



For a detailed description of the individual companies and their relative financial data, please consult the Annual Financial Report dated December 31st 2017 and published on the web site: www.elengroup.com.

El.En. in the world

The Headquarters of the Group is in Calenzano (Florence, Italy). The Group has a world presence; its main selling markets are: Italy, Europe, the United States, China and Japan.



Production sites Sale Subsidiaries

¹ The structure refers only to the companies in which El.En. S.p.A. controls directly or indirectly the majority of the votes in the ordinary shareholders' meeting..

2.1 Our history

El.En S.p.A. was founded in 1981 in Florence by Professor Leonardo Masotti, professor of electronic engineering at the University of Florence, and his most brilliant student, Gabriele Clementi. Over the years, thanks to the ability of the founders and the intense activity of research and development, the company developed a wide range of laser devices for use in the medical and industrial fields.

From 1990 to 1993, El.En. S.p.A. amplified its presence on the market by creating three new companies: **DEKA M.E.L.A. S.r.l.** for the distribution of biomedical equipment and still today represents the main distribution channel for the systems developed in the El.En. factory in Calenzano. Over the years Deka has gradually consolidated its position on the market, first in Italy and later in other countries. It now operates in the sectors of dermatology, aesthetics and surgery. **Lasit S.p.A.** for the manufacture of laser systems for industrial marking, is specialized in the production of marking systems for small surfaces; the company now conducts the activities of manufacture and development of its products at its headquarters in Torre Annunziata (NA); the company's mechanical workshop is complete with the most technologically advanced equipment (including laser cutting systems) which allows them to maintain a high degree of flexibility so that they can customize systems for their clients, a feature which makes them unique for this market. **Cutlite Penta S.r.l.** presently conducts its activity manufacturing laser systems for industrial applications with CO₂ laser cutting and with fiber laser cutting of metals, plastic, molds and wooden materials. At the end of the financial year 2017, as part of the process of re-organization of the industrial sector of the Group, Cutlite Penta was created as a new company for all the activities related to laser cutting systems. Moreover, Cutlite Penta was renamed Ot-las, and the name Cutlite Penta was given to the newly created company. This was done in order maintain the correspondence between the name of the company and the brands that each produced since Ot-las kept the business of laser systems for marking, which had always been sold under the brand name Ot-las, while the brand name Cutlite Penta has always been connected with laser cutting systems. It should be noted, however, that the new Cut-lite Penta company is effective only starting in January 2018.

2000

In December 2000, El.En. S.p.A. was listed on the stock market, thus confirming its status as a solid company and becoming very attractive on the financial markets thanks to its line of products with high technological value.

2002

In the month of May 2002, El.En. S.p.A. put in place their plans for rapid expansion on the US market by buying the majority share of the American company, Cynosure Inc..

2003

In 2003 the Group purchased **Asclepion Laser Technologies GmbH** from Carl Zeiss Meditec; Asclepion is now one of the most important companies in the Group and is one of the three business units with which the Group operates on the market of laser systems for medical applications. The company is favored by its geographical position in Jena, one of the cradles of the world electro-optical market and thanks to its ability in associating its image with the very high consideration with which German high-tech manufacturing has at a world level, Asclepion now enjoys an excellent reputation on the international markets.

2004

In 2004 **Quanta System S.p.A** entered in the scope of consolidation of the Group. The company was born as a research laboratory and has been able to maintain over the years its superior capacity in the manufacture of technologically advanced laser systems for applications in the medical sector, to which it has almost entirely dedicated its activity. Quanta is now recognized for its excellence at an international level for its innovativeness and technological research in the laser sector.

2005

In November of 2005 a 60% share of **ASA S.r.l.** was acquired, thus taking control of it, by the subsidiary **Deka M.E.L.A.**; for its role in the Group, ASA was assigned the physical therapy sector.

2007

In 2007 the subsidiary **Cutlite Penta S.r.l.**, together with its local partner, Chutian Group of Wuhan, constituted a joint venture, **Penta Chutian Laser (Wuhan) Co. Ltd** in the Hubei region in central China, in which it has an equity share of 55%. The joint venture is supposed to manufacture laser cutting systems for the local market; it benefits from the systems technology of Cutlite Penta, the laser sources of El.En. and the experience of the local partner for the manufacturing, knowledge of the market and distribution.

In the same year, the Parent Company El.En. founded **Cutlite do Brasil Alta tecnologia Ltda.**, for the distribution and manufacture in Brazil of laser systems for industrial applications, with headquarters in Blumenau in the state of Santa Catalina.

2009

In 2009 the Group entered the segment of professional aesthetics by launching **Esthelogue S.r.l** for its own direct distribution in Italy. As a confirmation of the determination of the Group to expand its activities, Asclepion Laser Technologies GmbH, a subsidiary of El.En. and main supplier of technologies for Esthelogue, in 2011 underwrote a capital injection and became a 50% partner in the company.

2013

In early 2013 the subsidiary Cutlite Penta S.r.l. entered into a second chinese joint venture, **Penta Laser Equipment (Wenzhou) Co. Ltd**; the purpose of the operation was to increase the Chinese production capacity by building a new factory and create a new stimulus for the development of products for the Chinese market, thanks also to the contributions made available by the local government.

2015

In 2015 Asclepion, together with Deka M.E.L.A. founded Jena Surgical GmbH, to promote and distribute systems for surgical applications on the international markets.

Consequently, the Group can now count on a vast presence on the national and international markets with more than thirty subsidiary or associated companies operating in various segments of our business. The development of El.En. has contributed in the past and continues to contribute now to bring "made in Italy" products to the world with technologically advanced and highly innovative solutions and products.

2.2 Governance of the El.En. Group

The governance model chosen by El.En. S.p.A. follows the traditional system based on a Board of Directors which has the function of strategic direction and supervision, and a Board of Auditors which has controlling functions.

The Board of Directors is made up of six members, four men (67%) and two women (33%), and, as of December 31st 2017, was composed as follows:

Position	Name	Gender	Year of birth ²	Executive (E) Non executive (NE)
Presidente and Chief executive officer	Gabriele Clementi	M	1951	E
Executive officer	Andrea Cangioli	M	1965	E
Executive officer	Barbara Bazzocchi	F	1940	E
Manager	Fabia Romagnoli	F	1963	NE – INDEPENDENT
Manager	Alberto Pecci	M	1943	NE
Manager	Michele Legnaioli	M	1964	NE – INDEPENDENT

The composition, role and operation of the Board of Directors of El.En. S.p.A. are in compliance with the law and with the Codice di autodisciplina for companies listed on the stock market approved by the Committee for Corporate Governance and promoted by the Italian Stock Market, Borsa Italiana S.p.A..

The Board of Directors is made up of Executive and Non-executive directors.

The non-executive directors, two of which are independent, for the consulting and proposing functions of the Board are organized into three committees: risk management committee, the remuneration committee and the nomination committee.

Among other things, the Board is responsible for the system for internal audit and management of risks, in relation to which it defines the main criteria and periodically verifies the adequacy and the effective functioning, making sure that the main risks involving the Group have been correctly identified, measured, monitored and managed.

El.En. S.p.A. is one of the few companies listed on the stock market that, since it was founded, has always had a woman on its Board of Directors, first as sole administrator and later as executive administrator.



For a complete description of corporate governance of El.En. S.p.A., please refer to the Annual Financial Report dated December 31st 2017 and the Report on Corporate Governance published on the company site: www.elengroup.com.

² All of the members of the Board of Directors belong to the "Over fifty" age group.

The Supervisory Board supervises observance of the law and of the company by-laws, respect of the standards of proper administration, the adequacy of the organizational arrangements of El.En. S.p.A. for the aspects of competence, system of internal controls, administrative and accounting system used by El.En. S.p.A., and their effective functioning.

The other companies of the Group that are subject to Italian law follow the traditional model and therefore are administered by a Board of Directors or by a single CEO and, when necessary, have a controlling commission and are subject to auditing.

2.3 Risk management

In a macro-context that is continually evolving, where the themes of sustainability of company activities, the fight against climate change, the protection of the environment and the implementation of suitable policies for development are of fundamental relevance, every economic operator is called to evaluate with increasing attention, the evolution of the trends and the new challenges that these create, in order to grasp the opportunity and adequately manage the related risks.

In a micro-context in which for El.En. S.p.A. and the Group the main objective is the sustainability of the company activities over a mid- to long-term period and the creation of value while respecting the external members of society, the **system of internal controls and risk management** is intended to be a set of methods of analysis, procedures, organizational functions and structures, and the related activities intended to identify the individual company risks and the methods to be used to manage them as well as the organization of the system to defend them.

The preparation of an adequate system of controls is aimed at an efficient management of the company, the safeguarding of its capital, the efficient management of its operations, the reliability of the information – both financial and non-financial - issued by the company, as well as the respect of the laws, regulations and company bylaws and internal procedures.

With an aim to the creation and development of an adequate system for risk management, the Parent Company has defined its own system of internal controls and risk management, above all in relation to the process of financial information, that is based on the CoSo Framework, following international best practice. The main characteristics of the internal controls and risk management systems are represented, on one hand, by rules and procedures, and, on the other, by governance and control commissions. The rules are, first of all, made up of a series general principles, listed in the Ethics Code, and, secondly, by a series of second level procedures (those of ex D. Lgs. 231/01, L. 262/05, L. 81/09, internal regulations for the treatment of confidential information, operations with related parties, internal dealing, etc) that make it possible to act within the company reality and to make the above mentioned general principles effective.

On the other hand, they carry out the observance controls, the rules and procedures on the basis of competency and functions defined and attributed by the Board to the different commissions at their respective levels.

The bodies, each with its own area of competence, which are involved in the system of internal controls and risk management are as follows:

- **The Board of Directors**, appointed by the shareholders' meeting, has a function of strategic direction and evaluation concerning the adequacy of the system of controls that has been implemented; it identifies among its members the Commission for Controls and Risks, composed mainly of Independent Directors who carry out the functions described in the relative regulations and appoint an Executive Director who is charged with system of internal controls and risk management and has the task of initiating and maintaining an efficient system of internal controls and risk management;
- The **Supervisory Board** appointed by the shareholders' meeting, has the function of the commission of internal controls and accounting audits, with the tasks and responsibilities described in art. 19 D. Lgs. 39/2010;

- **Internal Auditor**, appointed by the Board of Directors, has the task of verifying, both continually and sporadically for certain specific necessities, the operations and suitability of the internal controls system and risk management;
- **Manager in charge of financial and company documents** appointed by the Board of Directors; besides the responsibilities assigned to him/her jointly by the Executive administrator in charge of the internal control system and risk management, he/she has the responsibility of evaluating and monitoring the level of adequacy and effectiveness of the system of the internal administrative-accounting system by means of a preliminary investigation activity;
- **Surveillance body**, instituted in compliance with D.Lgs. 231/2001, this organism has the task of supervising the respect of the procedure set up by the Company as part of the system of prevention of the so-called predicate offences, identified after an in-depth analysis, including offenses against the company and the health and safety in the workplace;
- **Sole Directors and delegates of subsidiary companies;**
- **Employees** of the company.

The management process of the System of Internal Controls guarantees protection against risks related to the achievement of strategic objectives, operational, reporting and compliance goals, both for the Parent Company and the subsidiary companies that have adopted this approach. The main risks inherent to sustainability are shown below:

Risk related to ethical behaviour

The risk is related to the lack of integrity on the part of the management or the employees of the Group who might behave in an unethical manner or one which is not authorized, illegal or fraudulent, with particular reference to active or passive corruption, corruption between private individuals and human rights.

Management approach

The Group has adopted an Ethics Code for the purpose of re-enforcing the divulgation of a company culture based on the importance of social and ethical responsibility in conducting business and company activities. The Parent Company and the Italian subsidiaries, Deka Mela S.r.L., Quanta System S.p.A. and ASA S.r.l. have adopted an organizational model in conformity with D.Lgs 231/2001. Moreover, the Group is committed to the adoption of an anti-corruption policy.

Risk related to compliance with environmental and health and safety laws and regulation

The risk is related to the lack of compliance with the current laws and regulations related to environmental protection and occupational health and safety in the countries in which the Group operates.

Management Approach

The Group has stated in the Ethics Code its commitment for the protection of the environment and health and safety and adopts management approaches that are suited to the management of these topics. In particular, the Italian companies belonging to the Group have stated their commitment to the topics of the environment and health and safety in the organizational Model drawn up in conformity with Legislative Decree 231/2001. Moreover, the Group is committed to the adoption of an environmental policy for the purpose of controlling and reducing the environmental impact of their activities.

Risks related to employees

The risk is related to an inadequate management of the process of attracting, selecting, developing and motivating key professional figures in the Group.

Management approach

The Group has stated in the Ethics Code its commitment to respect and protect the dignity, health, safety and privacy of its employees and collaborators. Moreover, the companies of the Group adopt management approach which have the objective to manage personnel matters.

Risk related to the respect of human rights

The risk is related to the lack of respect for human rights which are inalienable and which all people possess, which could undermine the correct and responsible management of the activities of the company. The risk is related in particular to the operators and suppliers of the Group who operate in countries (for example, in Asia) where the legislation in this respect is not as restrictive as in Italy.

Management approach

The protection of human rights is explicitly mentioned in the Ethics Code of the Group and must be respected by all the companies belonging to the Group. The Group extends the application of their Ethics Code also to all their suppliers and makes explicit reference to the Universal Declaration of Human Rights issued by the United Nations Organization. Moreover, the Group is committed to the adoption of a policy related to human rights and plans specific training especially in those countries where the legislation in this respect is not as restrictive as in Italy.

2.4 Ethics, integrity and compliance

The El.En. Group is well aware of its responsibility towards society and the environment in which it operates and, for this reason, since 2008 the Parent Company has adopted its own **Ethics Code** as a tool for re-enforcing and promulgating a company culture that is founded on the importance of ethical and social responsibilities in conducting the business and activities of the Company.

The Ethics Code defines the principles and the values which must be followed in every moment of the production process and must always be observed in relations between colleagues, collaborators and when buying or selling: legality, impartiality, honesty, correctness and transparency, privacy, fairness, respect for collaborators and the integrity of people. The Ethics Code is applied to the Group and to all those who conduct an activity in its favor.

The companies of the Group have accepted the Ethics Code and, where necessary, have translated it into the local language. They have spread the Code to their employees and collaborators using the most suitable means of communication. The updated version of the Code is always available on the internet site . www.elengroup.com, in the section titled "Investor Relations – Governance – Company Documents".

The principles laid out in the Ethics Code are intended to protect the integrity of the Group and to ensure the compliance with the laws and regulations of every country in which the Group operates; the Group will establish opportune channels of communication which can be used to report any violations or suspected violations of the Ethics Code, or for requests for explanations. Violation of the principles defined in the Code constitutes non-fulfillment of contractual obligations derived from work and/or collaboration relations and may be cause for suing for damages.

In contracts stipulated by the Parent Company with consultants, distributors, agents and suppliers of critical components explicit reference is made to the Group Ethics Code and the contract signer must declare that they have received a copy and accepted it.

Moreover, the Parent Company and the Italian subsidiaries, Dekam M.E.L.A. S.r.l., Quanta System S.p.A. and ASA S.r.l. have adopted an **Organizational Model in conformity Italian Legislative Decree 231/2001** (from now on also called "Organizational Model"), intended to prevent their employees and/or collaborators from committing offenses in the interest of the company. This model for organization, management and control of company activities is made up of a series of general rules of behavior in the areas which have been identified as sensitive for the purpose of preventing the so-called "presumed offenses" and by a structured system of procedure and surveillance activities intended to prevent this type of offense.

The protected areas which have been identified because they are sensitive are the prevention of: offenses related to safety and health in the workplace (ASA S.r.l. has identified just this one as a sensitive area in which to create a special section of their Organizational Model); offenses against the public administration; company crimes; receiving stolen goods, money laundering, use of money, goods or facilities of illegal provenance; moreover, El.En. S.p.A. and Dekam M.E.L.A. S.r.l. have identified as sensitive also the areas related to the following crimes: market abuse, transnational crimes and environmental crimes.

With particular reference to the risks related to ethical behavior, the El.En. Group has focused attention on the topic of prevention of **risks related to corruption**.

In this context, the Parent Company El.En. S.p.A. and its subsidiaries Dekam M.E.L.A. S.r.l. and Quanta System S.p.A. have analyzed, determined relevant, mapped this risk and inserted it in their Organizational Model Italian Legislative Decree 231/2001.

These companies have conducted an analysis of the risks of crimes being committed against the public administration (including acts of corruption) from which a high level of risk did not emerge, in consideration of the existence of preventive measures and the type of activity that the company conducts. Nevertheless, they identified most sensitive areas of activity of the company and a special section of the Organizational Model was dedicated to the prevention of this type of crime.

The analysis, therefore, is part of the mapping of the activities and the identification of the risks connected with each one of them by assigning a certain number of points (the parameters for assigning the points are: occurrence in the past, existence of company procedures, impact of the penalties for that type of crime, and frequency of occurrence). We decided that the frequency of the event and the impact of the penalties made it opportune to dedicate a part of the Organizational Model to all the preventive measures connected to this type of crime, although the occurrence in the past (none up to now) and the existence of company procedures lowered the risk.

The Ethics Code also contains a precise set of standards for avoiding corruption activities. In 2017 no cases of corruption and/or reports of corruption were recorded.

FOCUS: THE RESPECT OF HUMAN RIGHTS

The Group sustains and respects the rights of individuals in conformity with the Universal Declaration of Human Rights issued by the United Nations and therefore they require the utmost respect of individuals and of the regulations that are applicable to the workplace and any discriminatory behavior or threat to the safety of people will not be tolerated. The Group considers impartiality of treatment a fundamental value in every relationship, both inside and outside of the workplace and believes that the individual, his/her ideologies and rights are values that must be protected. The behavior of every employee and collaborator must comply with the principles and the rules expressed in the Ethics Code and the laws and contractual obligations that govern employment.

By extending their own Ethics Code to collaborators and suppliers, the El.En. Group institutes a safeguard intended to guarantee the respect of human rights (prohibiting discrimination, forced labor, child labor and protecting free association) even in the areas considered to be potentially more at risk in relation for these topics (for example, the supply chain).



For further details concerning the Ethics Code and the Organizational Model of the El.En. Group, please consult the text of the Code and the Annual Financial Report dated December 31st 2017, available on the site www.elengroup.com, in the "Investor relations" sector

Relations with institutions

Relations with government and institutions are maintained in respect of the legislative and administrative regulations and in a spirit of the maximum collaboration.

For this purpose, as defined in the Ethics Code, the Group commits itself to:

- Establish, without any kind of discrimination, stable channels of communication with all the relative institutions, at the international, EEC and territorial level;
- Represent the interests and the positions of the companies of the Group in a manner which is transparent, rigorous and consistent and avoiding attitudes of a collusive nature.

In order to guarantee maximum transparency in relations, the contacts with institutional representatives must take place only with individuals who have received a specific mandate from the persons who have been authorized to do so by the Group

Interaction with the Public Administration, with EEC institutions, the international bodies, institutions and agencies are always inspired by the principles of legality, loyalty, correctness and transparency.

With all of the authorities who have functions of inspection, surveillance, regulation and guarantee, the Group maintains relations of full collaboration and immediately places at their disposal all information that is requested and complies with all provisions they may issue.





OUR BUSINESS

Supply chain

Research & Development as a tool
of innovation

The quality and safety of our products

3. OUR BUSINESS

El.En. S.p.A. leads a group of companies that operate in the field of **manufacture, research and development, distribution and sales of laser systems**. The activities of all the companies are coordinated with an aim to provide optimal services to our markets taking advantage of the dynamic features and flexibility of the individual business units without losing the advantage of a coordinated management of all the technical, managerial, commercial and financial resources.

Our activity is divided into two main sectors: the sector of laser systems for medicine and aesthetics (**medical sector**) and the sector for manufacturing processes (**industrial sector**). Each sector is divided into various segments which are different from each other on account of the specific laser application and, therefore, for the specific technologies on which it is based, as well as for the type of client it is intended for. Our activity produces a wide variety of products and it serves a wide range of clients, especially if one considers our global presence and, consequently, the need to deal with the particular customs that each area of the world has in the use of these technologies.

Although they both use laser technology and share numerous strategic components and some activities at the manufacturing and R&D level, the two sectors serve **markets that are totally different** and the activities within these markets are organized in such a way as to satisfy the radically different requirements of the two types of clientele that they serve.

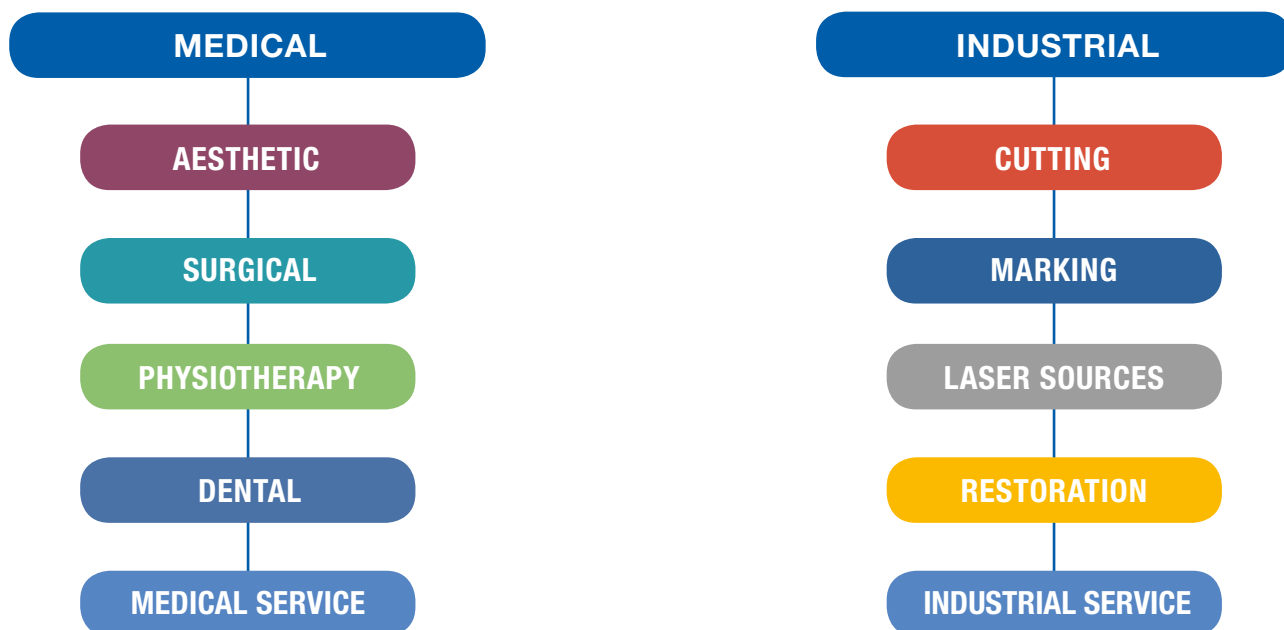
For both sectors, the mid- to long-term growth outlook is positive. In the medical sector, there is a constant increase in the demand for aesthetic and

medical treatments from a part of the population which, on the average, tends to grow older and wishes to limit as much as possible the effects of aging; there is also an increase in the demand for technologies that can reduce the time necessary for surgical operations and post-operative recovery, or to increase the effectiveness of the operation while reducing the impact on the patient (minimally invasive) and the overall costs.

For the industrial sector, laser systems represent an increasingly indispensable instrument for manufacturing since they represent flexible and innovative technologies for the companies that compete on the international market and wish to raise their qualitative standards and improve productivity. Although they continue to be widely used on the traditional manufacturing markets, laser systems represent a high-tech component which, thanks to the continual innovation of the laser product and of the processes that can be performed with it, show an extremely positive outlook for the future.

It should be recalled that, in the industrial sector, our Group is the leader in Italy and abroad in the sector of laser for **restoring works of art**: for many years now the Group has contributed to the conservation of the world's artistic heritage by offering advanced non-destructive solutions that have been developed in collaboration with the most important national research centers and tested at some of the outstanding restoration laboratories.

The chart below shows how the numerous companies belonging to the Group are divided according to the type of activity they conduct:



Along with the sales of the laser systems, the Group offers after-sales assistance which is an indispensable support for the installation and maintenance of laser systems, for the sale of spare parts and consumables and for technical assistance.

The division of the Group into numerous different companies reflects their strategy for the distribution of the products and coordinating the activities of research and development and marketing. Above all, in the medical sector, the various companies that have gradually become part of the Group have maintained a specific identity based on the typology and segment of the product, with brand names and distribution networks that are independent from the other companies and constitute a separate business unit which benefits from the cross-fertilization that each research group has had on the other.

3.1 Supply chain

Our Group is made up of manufacturing companies serving the medical and industrial sector and sales companies serving the medical sector. The medical companies supply their products to qualified distributors or directly to the end users (medical clinics, doctors, etc.) while the industrial companies supply their products prevalently to the end users.

The components used in the assembly of the final product can be purchased from the catalog or according to our specifications from outside suppliers or produced in our own factory. The assembly of the components and the basic machining can be conducted either in our factory or outside, by one of the manufacturing companies or by local jobbers. The supplies are usually related to components and accessories for manufacturing (technical accessories, critical components, industrial accessories, etc...). The other categories of purchases include office supplies, software and computer products, and packaging for shipping.

For services, the companies of the Group usually turn to outside suppliers, for example, for computer assistance, technical maintenance, services from scientific laboratories and certifying institutions, services for the removal of toxic waste, advertising and marketing, financial services and shipping.

In 2017, the amount spent on purchases at a consolidated level was **166,7 million Euros**, while jobbing amounted to **5,5 million Euros**.

For the management of its suppliers and contractors, the Group continually **conducts a preventive analysis and evaluation** which is intended to gather information on the tendencies of the market, the evolution of the present suppliers and of the potential

ones, technical up-dating and regulations for the sector in relation to the sale of its products.

For the process of selection and the relations with its suppliers the Group evaluates, consistently with the internal procedures and company schedules, the price level with reference to the objectives of cash and profit on a long term basis, as well as the presence on the market, technical capacity and reliability of the supplier.

The main goal is to establish long-term relations with our suppliers and contractors that are based on principles of legality, correctness and transparency as well as the principles contained in the Ethics Code of the Group. As already mentioned in paragraph 2.4 "Ethics, integrity and compliance", in the contracts signed by El.En. S.p.A. with suppliers of critical components, the signer of the contract must declare that they have received the Ethics Code and accepted it.

In particular, in the selection of its suppliers, the Group considers the following factors:

- Solid financial status;
- Purchase experience in the sector;
- Reliability;
- Technical and engineering resources and capacity;
- Manufacturing capacity;
- Adoption of systems for quality control and product safety, consistent with the requirements of the Group.

As far as this latter point is concerned, in the manufacturing companies of the Group, the selection of the suppliers follows a distinct **procedure of qualification and approval** in order to guarantee the quality of the product and maximum respect of delivery deadlines. The procedure requires the subscription of a form called the Suppliers qualification request form" which is used to evaluate the general level of the Quality system of the supplier with an aim to the continual improvement of the aspects that influence the quality of the products or the services that we acquire; for the supply of merchandise we also issue trial orders which allow us to run tests directly on the product.

In the case of particular types of products or services, for example, testing laboratories, the procedure "Qualification and approval" is mainly based on the analysis of the certification possessed by the supplier which was issued by the certifying institution and represents a guarantee of reliability. The supplier may also be subject to an audit: at the end of the analysis, on the basis of the outcome of all the test that have been conducted, the supplier will be inserted in the list or his qualifications will be deemed insufficient.

Once a supplier has been judged as qualitatively suitable, in any case, periodic evaluations are conducted to be sure that the necessary level is maintained. These evaluations take into consideration

aspects like the flexibility of the supplier, that is, his capacity to adapt to the requirements of the organization, speed of response and management of the unexpected, organizational structure and punctualness of delivery as well as the quality of the goods delivered.

The Group also runs annual inspections at some of the suppliers using a trained internal auditor, both as a routine and on account of anomalies or non-conformity like a drop in the quality of the product or services.

3.2 Research and Development as an instrument of innovation

The adequacy of the range of products that we offer and our ability to continually innovate it in order to meet the requirements of the market and create new ones are the critical factors in the success of El.En. Group.

Our most outstanding feature is our capacity to think in a unique manner, to innovate considering the needs of the doctor and the patient in the medical sector rather than that of the client in the industrial sector departing from every intuition that might arise from close observation of problems that have not yet found a solution.

The competence that has matured and the dedication of our people is what makes the difference. The El.En. Group and the human resources that work for it are proud of their knowledge of the physical, bio-medical and technological phenomena that have matured in over thirty years of experience and which give rise to a special capacity for innovation of their know-how, production technologies, processes, products and related services.

The Group organizes its research and development activity according to a schedule based on mid- to long term results so that they can quickly and continually put out products that are innovative both in their performance and applications.

In the research activities that are conducted in our laboratories, as in the collaboration with important research centers, hospitals and universities, both at a National and International level, we have set no limits and are inspired by the passion for everything that is new or may become new.

For most of the activities the research conducted is of the applied type, while it is basic for some specific subjects which are generally related to activities having mid- to long-term objectives.

The chart below shows the costs sustained by the Group in 2017 for research and development:

	31/12/2017	31/12/2016
Personnel and general expenses	8.058	7.194
Equipment	169	149
Material for testing and making prototypes	3.944	2.317
Consultants' fees	712	683
Jobbers	54	57
Intangible goods	-	-
Total costs for R&D	12.936	10.401

Amounts are expressed in thousands of euros.

The amount spent corresponds about to 5% of the consolidated sales volume of the Group. Most of the expenses are paid by El.En. S.p.A. and amount to 7% of its sales volume.

In 2017 the El.En. Group received in capital account grants for research and development amounting to 300 thousand Euros.

The Parent Company El.En. at this time holds 29 patents, 5 of which are pending, and 32 with brand name.



Laser systems and applications for medicine

For research and development in the medical field, the list below shows some of the main directions taken by the Group:

- Clinical experimentation on the extension of applications of the “Mona Lisa Touch” laser treatment to reduce the effects of atrophy of the vaginal mucous; this is an extremely important application in uro-gynecology and urology;
- Research and clinical experimentation on the effects of laser application to biological tissues, also through the laboratory study of biological samples and cell cultures; experimentation on laser emissions wave length for which theoretical models require a particular treatment of some pathologies of the skin or in general of the human body.
- Research for new clinical applications for laser use in dermatology (cutaneous ulcers and diabetic feet). The cure for chronic ulcers, for example, is based on the unique characteristics facilitated by the use of a laser beam during the clearing of the wound and on its capacity for bio-stimulation which is made by the light of the laser and activates the cells, thus promoting the regeneration of the cutaneous tissues;
- Development of new laser systems and improvement of those which have already been developed, with emission of impulses lasting only picoseconds, for dermatological applications;
- Preliminary study, development and engineering for a new system based on microwaves as a highly effective form of energy used for the reduction of the layer of subcutaneous fat in various parts of the body by means of a non-invasive treatment (called ONDA system).
- Preliminary study, development and design of multifunctional platforms for dermatological and aesthetic applications;
- Preliminary study, development and engineering of systems which integrate and improve the existing laser technologies for hair removal applications.

Systems and applications for industry

In the industrial sector the Group is conducting the following activities:

- Development of innovative processes for the pre-cutting and micro-perforation in the machine of labels.
- Development of software and algorithms for advanced high-speed coding in the digital converting sector.
- Raising of the maximum power of the radio-frequency range sources, maintaining a high quality and modularity of the beam; development of innovative applications in the field of digital converting (for example, micro-perforation of panels or special applications in the field of digital converting) made possible by the technology.
- Research for the improvement of the management and focalization of the laser beam in high powered fiber;
- Experimentation and multi-disciplinary research (electronics, optics, fluid-dynamics) for the optimization of the potential of laser systems for flat cutting sheet metal;
- Improvement of the performance of the galvanometric components of scanning systems.



For further information on research and development of the Group consult the Annual Financial Report 2017 which is available on the web site of the Group: www.elengroup.com.

BEST PRACTICE

The approach of El.En. S.p.A. in the medical sector

El.En. S.p.A. has recently augmented the strategic functions of research and development for the purpose of maintaining the leadership of the company and the Group for innovation in the sector of medical lasers.

In a brief period of time the company implemented a process for the improvement of the efficiency and the effectiveness of the development of new products and reduced as much as possible the "time to market" without compromising the level of quality and reliability. We concentrated our resources on projects in areas of consolidated experience and focused on our Core Technologies.

Specific competence also emerged in other technologies, like, for example, in the sector of body contouring where, for the first time, microwave technology was applied. For this application and for the aesthetic market in general, which is now showing a strong growth, new products and new approaches are needed.

The mid- to long-term objective is to come up with substantial innovations which will allow El.En. to increase its competitive edge on the market by presenting break-through products, thus consolidating their market position and opening new niches both in the aesthetic and surgical sectors.

There are three main technological directive for innovations: above all the implementation of technological innovations in the field of photonics, like the diode sources, fiber laser sources and ultrafast (picoseconds or femtoseconds) sources in order to optimize the interaction between radiation and tissue in a manner that is both effective and safe.

Secondly, new specific systems for cooling tissues to reduce to a minimum the collateral effects, including pain and post-treatment inflammation which will, at the same time, reduce the duration of the treatment.

Thirdly, the implementation and use of the most sophisticated diagnostic systems, which will make it possible to determine in the most reliable manner the reaching of the end point of the treatments, and guarantee the greatest efficiency in conditions of maximum safety for the patient.

3.3 Quality and safety of our products

Our commitment toward the quality and safety of our products is essential to guarantee their continued growth and success.

We have always focused our attention on the phases of design and development of our systems; our value also passes through the study and application of methods that are increasingly selective, effective and safe.

The Group is committed to the supplying of products of value to its clients for the purpose of creating a process of customer loyalty based on quality, reliability and safety, and to guarantee that these product requirements be identified and evaluated and that all necessary measures be taken to guarantee their conformity with the law.

To this aim, some of the Group companies are equipped with a "Manual for an integrated management system" which is in conformity with the requirements of TUSSE n. 81 of 2008, to describe the objectives and policies of the Management System for the Quality and methods with which it is applied. The manual defines the general criteria necessary for satisfying the requirements for safety and performance during the entire life cycle of the products just as they are sold; all of the manufacturing processes and the services rendered, the results of which cannot be totally verified by later monitoring and measurement, must be validated as

Special Processes. All those processes for which eventual defects may appear only after the product has been used or the service rendered enter into this classification.

El.En. S.p.A., Deka M.E.L.A. S.r.l., Quanta System S.p.A., ASA S.r.l. and Asclepion GmbH have implemented a **Quality Policy** which guarantees the conformity of the activities with the regulations of the national institutions of the country in which they are operating. Moreover, the different companies of the Group, depending on the geographical area and the type of business they run, must comply with the following standards:

- ISO 9001;
- ISO 13485 related to quality management systems for medical devices and/or specific regulations related to medical products;
- ISO 14971 related to risk analysis for medical devices;
- European Directive MDD93/42/EEC (Medical Devices Directive);
- National laws of the countries that are members of the EEC and the countries outside of Europe like the United States (21CFR820/803/806), Japan, China (CCC- Certification for electronic components Enterprise standard "CNC laser cutting machine") and Brazil.

Company	Certification
ASA S.r.l.	• ISO 9001: 2015; • ISO 13485: 2006; • Directive 93/42/ECC Medical Devices
Deka Japan Co. Ltd e With US Co. Ltd	Companies must comply with the regulations issued by the Japanese Ministry of Health, labor and welfare. To import and sell machines in Japan, companies must have a selling permit and the type of product imported must be approved in advance. The sales permit is renewed every 5 years and the permit for the sale of machinery is renewed for a period of 1 to 5 years on the basis of the risk it represents.
El.En S.p.A. e Deka M.E.L.A. S.r.l.	• ISO 9001: 2008; • ISO 13485: 2012; • Directive 93/42/ECC Medical Devices
Penta Chutian Laser (Wuhan) Co. Ltd e Penta Laser Equipment Wenzhou Co. Ltd	• ISO 9001: 2015

Company	Certification
Quanta System S.p.A.	• ISO 9001:2015 • ISO 13485:2016 • Directive 93/42/ECC Medical Devices
Asclepion Laser Technologies GmbH	• ISO 9001: 2008; • ISO 13485: 2012; • Directive 93/42/ECC Medical Devices
Cutlite do Brasil	• ACIB - Centro Empresarial de Blumenau • ABIMAQ (National Association of Machine Industries) • INDAC (Instituto Nacional Para Desenvolvimento de acrilico - National Institution for Development of Acrylic) • Conselho Regional de Engenharia e Agronomia de SC • Sindicato Nacional da Industria de Maquinas • Sind. Trab. Ind. Met. Mec. Mat. Eletr. BLUMENAU

Our products and our quality control system are certified by the most important institutions at a world level that are charred with the surveillance of the safety and effectiveness, above all, of medical devices. Our companies are subject to periodic inspections for the renewal of the certificates they possess which are indispensable for the export of our products to foreign countries.

The Group is committed to the achievement, through the motivation and involvement of their personnel , of a continuous improvement in the quality of its products and services; this objective is pursued through the optimization of company processes, according to criteria of efficiency and work methods that are univocal, homogeneous, simple and effective.

There is an increased tendency to implement a Quality policy that is oriented toward risk management as an instrument for evaluation and decision, for the purpose of pursuing continual improvement by taking preventive or corrective measures.







OUR PEOPLE

Diversity and equal opportunities

Training

Health & Safety

People's well-being

4. OUR PEOPLE

The El.En. Group firmly believes that their people represent an important resource for the company and that they should be put in a condition to give their best. The people and the collaborators involved in the activities of El.En. constitute a precious resource that must be protected and put to best use, especially in consideration of the high degree of qualifications that are necessary and the specialization which is developed during the relationship of employment or collaboration.

In the Group Ethics Code, El.En. has codified its commitment to respect and protect the dignity, health, safety and privacy of its employees and collaborators. In particular, the Group aims to protect the physical and moral integrity of its workers by informing them of their rights and the risks that they could run while operating in the workplace and guarantee working conditions that respect the dignity of the individual in conformity with the laws in force. The rights which protect the individual worker also include a constant commitment towards the creation of a workplace that is positive and productive for all, besides, obviously, being healthy and safe.

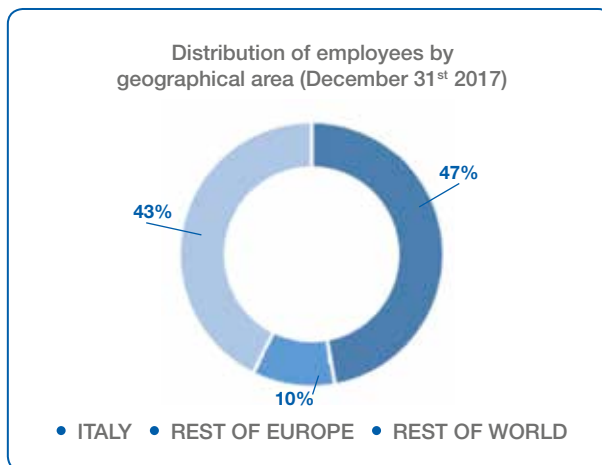
The focus on human resources is a very important topic which most of the manufacturing companies of the Group have adopted in conformity with regulation ISO 9001. On the basis of the provisions stated in this latter, in fact, the certified companies became involved in the defense of topics like the selection, training, development of skills and the definition of the responsibilities of the functions.

The El.En. Group aims at maintaining a high level of motivation among its people by placing at their disposal all the resources and instruments necessary to work well (financial resources, high quality equipment, adequate work environment) in such a way that the highly competent personnel can be used to the maximum benefit of the organization.

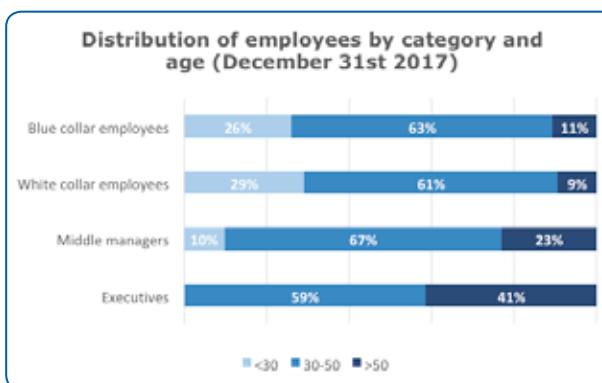
In particular, the Parent Company has conducted a detailed codification of the procedures for the management of human resources (hiring, remuneration, etc) as well as a profiling of the company functions with the identification of the responsibilities and skills that are necessary. On the basis of this profiling ad hoc training programs are scheduled in order to meet the training requirements of each individual.

As of December 31st 2017 there were 1.212 people employed by the Group, an increase of

11% compared to the previous year (1.093 people on December 31st 2016). Most of the employees are in Italy (47% with 572 employees), while the remaining portion are in European countries (France and Germany, classified as "the rest of Europe") and countries outside of Europe (China, Japan and Brazil, classified as "the rest of the world").



The personnel of the Group consists mainly of young people, and is concentrated in the age group between 30 and 50 years old (62%), followed by 26% employees under 30 old and only 12% over 50 years old. Most of the employees (68%) have permanent contracts, while 32% have fixed term contracts, which confirms the policy of the Group to create strong long-lasting professional relationships.



The Group is committed to establishing a dialogue with its employees and, when they are present, with the representatives of the labor unions, for the purpose of reconciling the needs of its people with the requirements for growth. This commitment is represented by the different categories of contracts: National contracts and those for a specific sector, collective and/or company contracts, as well as contracts that are stipulated with individuals.

TEAM
makes the WORK
DREAM
WORK

In particular, in Italy the National Collective Labor Contract is applied (employees are covered 100% by the collective contracting); in Germany workers sign a collective agreement on an annual basis (82% of the workers are covered by the collective contracting; the others are selling staff which have signed a different individual contract), in France the Convention Collective IDCC n°1982 is applied to all workers; in Brazil a collective negotiation is conducted annually; in China and in Japan the local legislation is followed. In Japan, moreover, the management holds a monthly meeting with its employees to discuss relevant issues. At the Group level, it should be noted that 58% of the employees are covered by agreements stipulated on the basis of collective bargaining.

4.1 Diversity and equal opportunity

The management of human resources in the El.En. Group is aimed at integration and respect of diversity, the prevention of any discrimination which may be based on nationality, sexual orientation, age, political or religious opinions and all other characteristics that are not related to work. The activity of the Group is prevalently manufacturing; in any case, equal opportunity is offered to employees of both sexes: as of December 2017 there were 291 female employees, representing 24% of the total number of employees.

The Group promotes and facilitates initiatives to favor the balance between work and family life and to this aim has also introduced part time contracts.

Distribution of employees by geographical area and gender (December 31st 2017)

TOTAL



Rest of World



Rest of Europe



Italy



■ Donne ■ Uomini

Our commitment aims at guaranteeing a constructive and dynamic working environment which sustains the diversity of people and talents, respects all opinions and promotes equal opportunity on the basis on the principles of impartiality.

The Group supports and respects the rights of the individual in conformity with the Universal Declaration of Human Rights promulgated by the United Nations Organization and is committed to avoiding any form of discrimination. This commitment is applied to all aspects of employment including hiring, training, work assignments, promotions, transfers and termination.

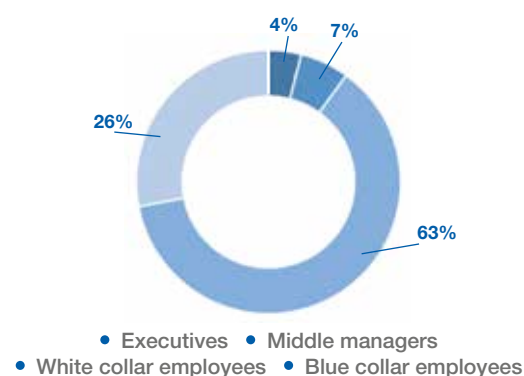
This commitment is also intended to safeguard the moral and physical integrity of their personnel, by guaranteeing a working environment that respects the dignity of the individual in conformity with present legislation regarding health and safety in the workplace.

4.2 Training

We have always considered training fundamental since it is necessary for the growth of the personnel and the development of the skills which are the key to the success of the company. We promote a continual training with courses dedicated not only to up-dating but also to specific topics for the purpose of improving the knowledge and skills of each resource in the organization.

In 2017 a total of 20.680 hours were dedicated to training activities, with an average hours per capita of about 17 hours.

Professional training by employment category (2017)



With a specific focus on the Italian companies, the types of training and refresher courses that the Group offers are as follows:

- Training on topics related to safety and quality, i.e., learning the laws and regulations that are required by the law and/or the company in relation to safety and quality systems;
- Technical training, i.e., related to the improvement of skills and knowledge that will make it possible to carry out the work assigned more effectively;
- Linguistic training, i.e. improvement of the linguistic skills of the resource involved;

- Training in information systems and on the acquisition of IT skills (i.e. the acquisition of new types of software);
- On the job training, usually conducted at the company by qualified employees for specific periods of time.

Although at this time in the Group there is no specific training involving human rights, the Group is committed to the spread and application of the Ethics Code, which contains the principles of legality, loyalty, correctness, transparency and professionalism to which every employee of the Group must adhere. Moreover, the Group has committed to provide a specific training in this area, in particular in those countries where the legislation is not as restrictive as in Italy.

4.3 Health and Safety

We are committed to guaranteeing an healthy and safe workplace in compliance with all regulations that protect the safety of the workers and the environment.

Beside the measures intended to prevent injury to people, our objective is to spread a “culture of safety” by developing in people the awareness of the risks connected with their work and by promoting responsible behavior on the part of all employees.

We wish to protect our people by constantly looking for the necessary synergy not only within the Group but also with the suppliers and clients involved in the activities. For this reason we continually conduct analysis of risks and of critical points in the processes and the resources that must be protected and we adopt the best technologies available.

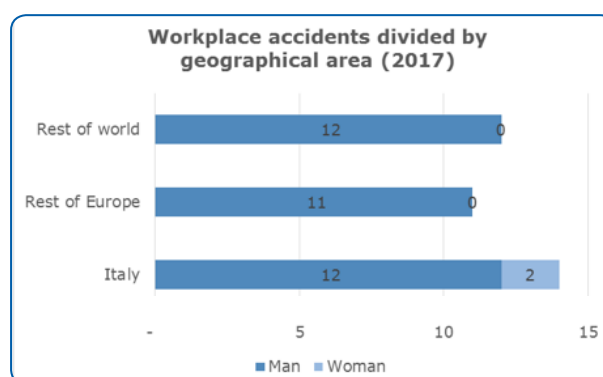
In order to guarantee complete knowledge and continued up-dating, many companies of the Group are committed to the spread of information, through internal communications and training courses, on the existing procedures on the basis of which decisions are made concerning health and safety in the workplace.

Some of the Italian companies of the Group dealt with the topic of health and safety also as part of the Organizational Model according to D.lgs 231/2001. The guiding principle is that the safety policy should be raised to the level of company value, like all the other values which characterize the company strategy. Just as we use organizational systems for managing economic resources, in the same way, safety must represent an essential value, which must constantly be pursued and implemented, with the help of an organizational system which can identify the instruments, the responsibilities and the motivation needed to express and transform the commitment of the top management on this topic.

From this principle the following will be derived: the commitment to respect the regulations regarding health and safety and the Organizational Model for the purpose of reducing the number of accidents at work to zero; the recognition that the responsibility of the safety management concerns the entire company, from the employer to each individual employee, according to their position and attributes; the commitment to assign adequate human and financial resources to the implementation of the “accident reduction to zero” objective and to that for the constant improvement of working conditions; the commitment to see that workers are adequately informed and trained about the risk connected with the work.

In conformity with the Organizational Model the following measures are planned: the identification and assignment among the company functions of the various responsibilities connected with the issue of health and safety, the mapping and evaluation of the risks, the instituting of training courses.

In 2017 we registered a total of 37 accidents in the Group, 8 of which were on the way to or from work. The accidents, divided by geographic area, are shown on the chart below:



4.4 Welfare of people

The welfare of its people is a key factor in the success of a company. In fact, technical skills are not enough to guarantee a good result but the company must offer its employees an environment that is stimulating for their potential and skills. To this aim, during this year, the Parent Company has invested resources to make the shared spaces and the working environment more attractive and comfortable.

Moreover, since 2014 the Parent Company and its subsidiary Cutlite Penta S.r.l., renamed Ot-las S.r.l. at the end of the year adhered to the Cassa Sanitaria Integrativa, a health insurance plan for all of the employees, by paying an annual fee for each worker;

this made it possible for all of the personnel to gain access to better and less expensive health care, according to the modalities stated in the insurance policy that they signed.

In 2017, the metalworking companies of the Group with headquarters in Calenzano, in compliance with the CCNL in force, paid part of the salaries in flexible benefits. The companies used a specific platform that made it possible for each worker to choose the welfare service that best satisfied his/her interests and needs, like expenses for in-home assistance or health services, re-imbursement for school expenses, supplementary social security, training courses, recreational goods, goods in kind and collective transportation services. The purpose of these benefits is to assist workers in paying for their own needs and those of their families.

The Group companies that are located in Calenzano have always offered a free canteen service for all their employees; the subsidiary Quanta System S.p.A. has set up a gym inside its buildings that is available to all the employees who wish to use it.

The Group considers that communication with its people is fundamental for the purpose of achieving the objectives that have been reached and company values; for this reason, in January 2017 the Parent Company El.En. S.p.A., set up a company e-mail address directed to all the employees and they also attached a post box at the main entrance of the company to receive communications (including anonymous ones) sent to the management.

In 2017, at the Headquarters in Calenzano, we also held our first Open Day, an event that was open to the families of all the employees and collaborators. We showed our working environment to the families and their children in a fun and playful way and explained what we do by giving a tour of the company and showing where we work: everyone had fun with the many attractions and activities that had been specially created for the event.

The period of notice provided to employees prior the implementation of significant organizational changes in the Italian companies of the Group is regulated by the CCNL and may vary from a minimum of 7 days to a maximum of 120 days depending on the type CCNL being applied, on the professional category of the employee and seniority; for other companies in the Group, for example, those in China and Japan, the national laws and practice require a notice of 30 days minimum; in Germany the period of notice is stated in the contract and may vary from one to three months.



For further information on occupational health and safety data refer to the section titled "Performance indicators" in this document.





SOCIAL IMPACT OF THE GROUP

Added value distributed to stakeholders

5. SOCIAL IMPACT OF THE GROUP

The use of **medical lasers** and our continual dedication to research and development for new applications generate a series of social impacts that translate into benefits that involve not only the end-users but the entire local community. In particular, with our laser systems for medical applications we provide tools and solutions that improve the quality of life of the patient, to the extent that they contribute to the reduction of health problems, rather than physical or aesthetic, in addition to those of a psychological nature associated with them.

The list below shows the main uses of our medical lasers and the benefits they offer to the patients:

- Surgical applications in urology for the treatment of benign hypertrophy of the prostate;
- Surgical applications in gynecology;
- Vascular surgery;
- Surgical applications in pulmonology and chest surgery, otolaryngology, neuro-surgery, vascular surgery, spinal cord surgery, odontology, andrology and proctology.
- Ablative laser used in dermatology for the removal and vaporization of benign neo-plastic formations;
- Applications for the reduction of scars, including acne scars, which represent a very common pathology of both an aesthetic and psychological nature;
- Treatment of psoriasis and vitiligo, skin diseases which often produce negative psychological effects on the patient and can influence the quality of life;
- Laser and pulsating light for the treatment of vascular lesions on the face, chest and legs;
- Laser therapy and magneto therapy in numerous cases.

Besides these, the devices that have been conceived and developed by the companies of the Group for minimally invasive surgery have determined an improvement in the quality of life in terms of the recovery of healthy tissues, a reduced risk due to the decrease or elimination of local anesthesia and reduction of post-operative recovery time.

The removal of skin blemishes (including hirsutism, angioma, acne, rosacea, large scars, etc...) using medical lasers has made it possible for individuals, both children and adults, both in the family and in society, to act with acceptance and dignity with other members of the community.

The quality of life is also influenced by the image that one has of oneself. In fact, there is a continued increase in the demand for medical and aesthetic treatments by a population that increasingly wishes to improve their appearance because the personal psychological equilibrium can be obtained by reducing even minor blemishes and physiological disturbances.

In the past few years the Group has conducted an intense activity of research for the development of equipment for aesthetic medicine to make the face appear more youthful by treating wrinkles and discolorations in order to improve the cutaneous base or to tone up the skin, rather than for body shaping or hair removal.

In conclusion, the indirect benefits of industrial laser systems can be summarized as follows:

- To promote the transformation of industry towards industry 4.0 by introducing new technologies;
- To represent an example of high technological development for other similar companies in the surrounding area;
- To improve the quality and the productivity of work by reducing the environmental impact and consumption of materials.

Paolo Salvadeo, General Director of the EI.En. Group has stated:

“EI.En. wishes to be confirmed not only as a valid point of reference for its shareholders and stakeholders, but also as a pillar of the community. At EI.En. we are committed every day to make sure that our work produces a positive impact on the health of people. Our social strategy is to place our skills, knowledge and instruments at the disposal of everyone with the objective of promoting access to the best cures and health care for the most fragile and disadvantaged persons all over the world. At the same time we are working to increase our scientific knowledge. We are working for science and for a healthier world.”.



5.1 Economic value generated and distributed to the stakeholders

The economic value generated and distributed represents the wealth produced by the El.En. Group which, in different ways, is **distributed to the stakeholders**.

The data related to the production and distribution of the added value, through the reclassification of the financial statement, give us a general indication of the manner in which the Group has created wealth for its stakeholders, and highlights the economic effects produced by the management on the main categories of stakeholders.

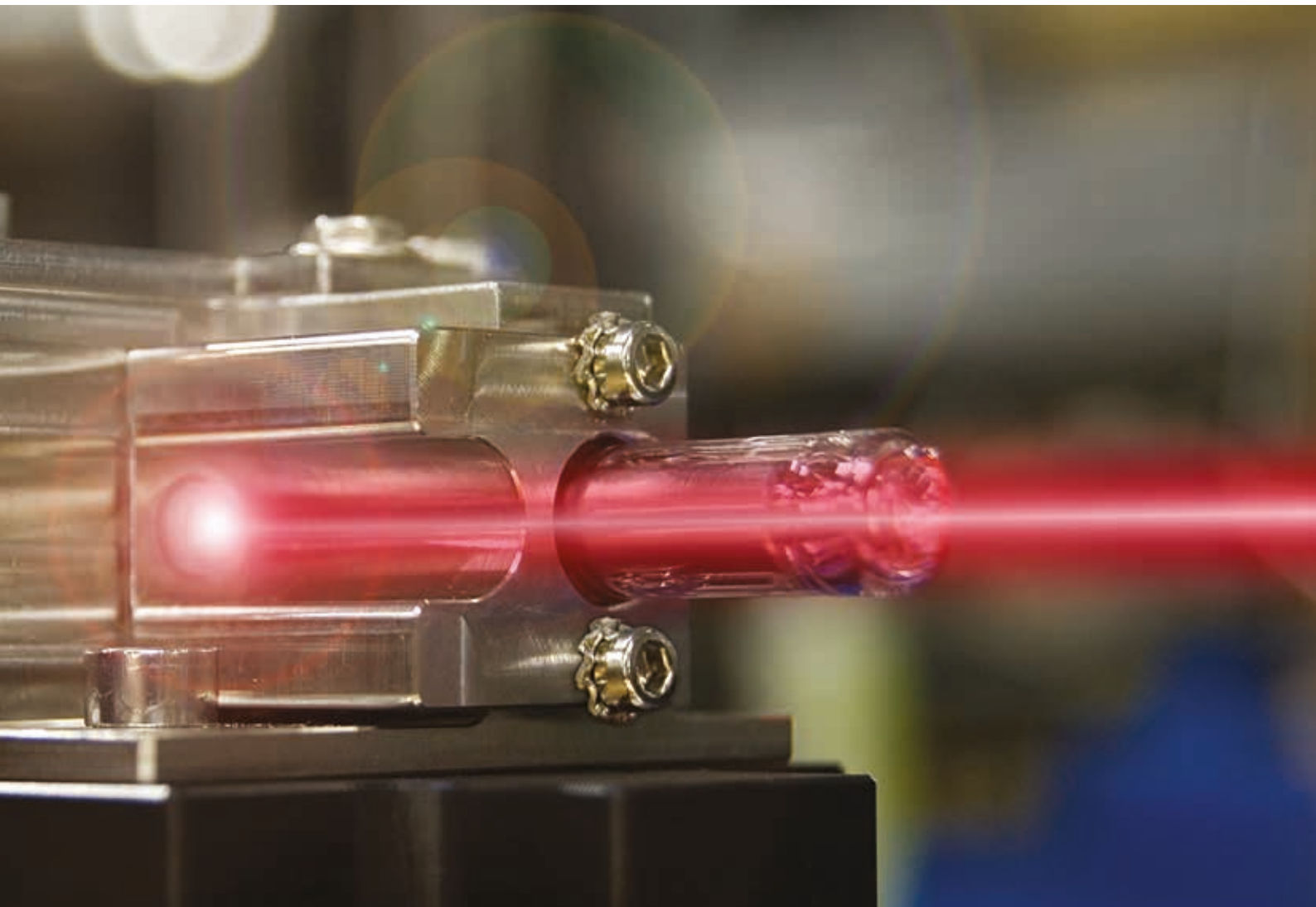
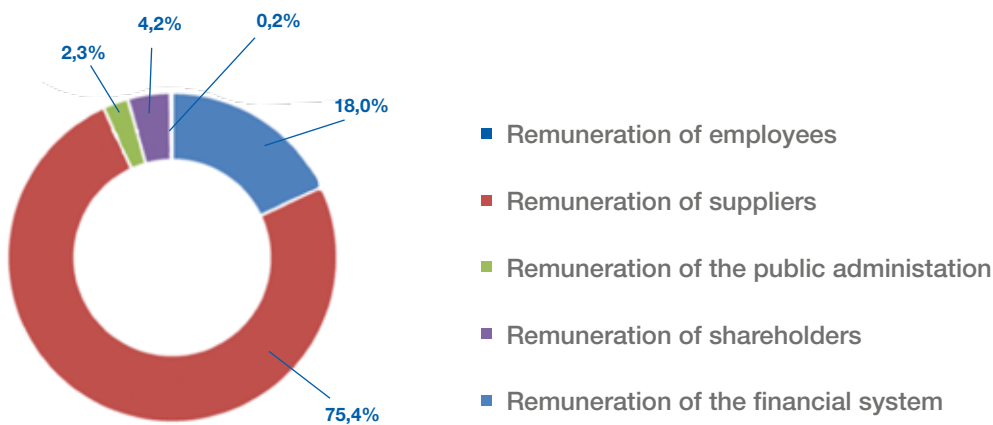
In 2017 the global net added value distributed by the Group was 300,4 million Euros.

Most of this amount, 75,4% is represented by the "remuneration of suppliers" and consists mainly of the costs for raw material and services. In second place, the "remuneration of personnel" (18,0%) represents the salaries, severance indemnities and social security charges. The "remuneration of shareholders" consists of profits of minority interest and the net income distributed, the "remuneration to the public administration" consists of the income taxes and "remuneration of the financial system".

Chart for determining the economic value generated and distributed	
Euro	2017
Economic value generated by the Group	313.989.972
Revenues	306.461.017
Change in inventories	5.871.135
Other revenues and income	4.264.318
Financial charges/income	(2.739.870)
Share of profit of associated companies	(430.284)
Other non-operating income (charges)	563.655
Economic value distributed by the Group	300.398.768
Remuneration of personnel	54.090.983
Staff cost	54.090.983
Remuneration of suppliers	226.380.489
Total purchase	166.694.443
Other direct services	22.618.067
Other operating services and charges	37.067.979
Remuneration of the public Administration	6.807.349
Income taxes	6.807.349
Remuneration of shareholders	12.494.816
Net profit of minority interest	4.775.827
Distribution of net income	7.718.989
Remuneration of financial system	625.132
Financial charges	625.132
Economic value retained by the Group	13.591.203
Net income retained for reserves	7.915.304
Depreciation, amortization and other accrual	5.675.899

The distribution of net income corresponds to the destination of the net income to dividends that the Board of Directors of El.En. S.p.A. proposes to the Shareholders' Assembly.

Disrtibution of the economic value generated by the El.En. Group (2017)







CONSERVATION OF THE WORLD'S ARTISTIC HERITAGE

6. CONSERVATION OF THE WORLD'S ARTISTIC HERITAGE

One of our main points of pride at the El.En. Group is represented by the little sector of restoration; the sensitivity directed towards the conservation of the world's artistic heritage has grown over the years in the Group and has inspired research projects intended to provide advanced technologies for the conservation or restoration of some of the world's greatest works of art. The Group has continued to conduct experiments on new technologies which might offer increasingly effective processes that respect the integrity of artistic works.

In fact, lasers offer a solution that is effective, reliable and safe for the **conservation of the world's artistic heritage** and give new life to works of art that have left an indelible mark on the history of humanity, while respect their precious surface and original texture because lasers make it possible to remove the patina that has formed over time with a non-invasive procedure which respects the original structure of the work of art and restores the work to its original appearance so that it can be admired by the public.

Roman frescoes, Egyptian statues, pre-Columbian textiles and remains of Renaissance bronzes have been returned to their original splendor and displayed to the public. In fact, lasers can be used for cleaning works of art and architectural elements in stone that have been degraded by incrustations, in conservation procedures of metal artifacts of artistic and archeological interest, like bronze and gilded surfaces, in the clearing of both antique and modern silver artifacts and even for cleaning wooden objects.

“The beauty of works of art is the inheritance we leave to the future generations and which we have the duty of protecting for them. For this reason we are proud to be the first company in the world to present lasers specifically designed for the restoration of art works using the same tools used in medicine and surgery. Whether we are talking about the restoration of works of art or medicine, we can say that we are responding to the same principle: we are taking care of people, our masterpieces».



Below is a list of some of the most important works of art that have been treated with our lasers:

- Cleaning of part of the marble facade of the **Baptistry of San Giovanni** in Florence;
- Cleaning of the **Doors of Paradise** and the **North Door** by Ghiberti of the **Baptistry of San Giovanni in Florence**;
- Restoration of some of the frescoes in the Roman **catacombs of Santa Domitilla** in Rome;
- Contribution to the restoration of the **Egyptian sarcophaguses** in the *Musées Royaux d'Art et d'Histoire* in Brussels;
- Contribution to the restoration of **“David and Attys” by Donatello**, at the Bargello Museum, Florence;
- Restoration of the Courtyards and facade of the **Istituto degli Innocenti** in Florence;
- Contribution to the clearing of the **Statue of Neptune** by Ammannati, in **Piazza della Signoria** in Florence and the **Rape of the Sabines** by Giambologna, in the **Loggia dei Lanzi** in Florence;
- Contribution to the clearing of some of the frescoes in the della **Villa dei Misteri in Pompei**, which brought it back to its original splendor;
- The laser technology of the Group has also been used successfully on the damaged portions of the **Leaning Tower of Pisa** and the **Cathedral of Santa Maria Assunta** in Pisa;
- Cleaning of the frescoes in the **Cappella Paolina**, in the Vatican.

In 2017 a laser was made available for the clearing of the frescoes in the **Domus Aurea in Roma**, bringing them back to their original state so that they can now be admired by the many tourists who visit the archeological site.

Over the years the El.En. Group has also made many **donations** of its equipment for restorations. One of the most important of these was the donation **to the Vatican** in 2015 of laser equipment for the restoration of marble sculptures, busts, fountains and statues as well as some paintings.

This year we donated to the Paul Getty Museum of Los Angeles a laser for the restoration of the masterpieces from Palmyra in memory of the Syrian archeologist Khaled Al Asaad. Also in 2017 the Group donated a laser to the Onlus volunteer association “Gli Angeli del Bello” of Florence, to improve the appearance of the urban area by removing graffiti and relaunch the downtown area by reacting against the daily acts of vandalism. The foundation named **“Angeli del Bello”** pursues the objective of putting volunteers in touch, building a network of relations and collaborating with other associations and organizations operating in the area. The activities of urban volunteerism they conduct are related to the care and decorum of public spaces like gardens, monumental parks, roads and plazas. In particular they focus on the schools for the purpose of promoting the education of the young towards a sense of civic responsibility and respect for the city starting with the young and very young.

Moreover, the Group has always been involved in cultural, social and educational initiatives in favor of the local communities with an aim to strengthening their relations with the territory in which it operates and with the people involved directly or indirectly in the activities of the Group. The basic idea is to promote a mutual and positive exchange of ideas between the Group and the local community which will benefit both parties involved in the projects and activities that are developed.

In particular the Group is committed to the promotion of the following activities:

- **School-work alternation projects** which involve students in the local schools and allows them to attend school in a working situation and integrate theoretical aspects with practical ones;
- Curricular and extra-curricular **internships**;
- Participation in the **career day** event, days that are open for a reciprocal exchange between companies and recent graduates looking for their first job;
- **Donations and sponsorships** to humanitarian associations;
- **Participation in associations** for preparation to enter the workplace in the fields of pharmaceuticals, biotechnology and medical devices (MTA foundation – Tecnico Superiore per le Nuove Tecnologie della Vita).

The El.En. Group among other things sponsored the exhibition **“Firenze 1966 - 2016. La bellezza salvata”**, curated by Cristina Acidini and Elena Capretti, in the Museo Mediceo di Palazzo Medici Riccardi, which was held from December 2016 to March 2017.

The Parent Company El.En. S.p.A. is a member of the Association **“Partners Palazzo Strozzi”**, member of **“Assorestauro”**, the Italian association for architectural, artistic and urban restoration and sponsored the 11th edition of the International conference of **LACONA** (Laser in the Conservation of Artworks) and the last 6 editions of the International Conference of APLAR (Laser applications in restoration).







ENVIRONMENTAL RESPONSIBILITY

7. ENVIRONMENTAL RESPONSIBILITY

For the Group, the environment represents a primary resource which must be safeguarded. For this purpose the activities are scheduled trying to find a balance between economic objectives and indispensable environmental needs, **respecting the protection of the rights of future generations and aligned with the principle of sustainable development**. The Group is committed to the monitoring of the environmental impact generated by their activities as well as the prevention of potential risks, by implementing corrective and mitigating actions in respect of the laws now in force and the relative best practice.

Energy consumption

The Group is committed to the reduction of its energy consumption by taking appropriate measures like the replacement of neon ceiling lights with LED lights and the promotion of behaviors and habits which favor the saving of energy and promote the development of an environmental conscience in people.

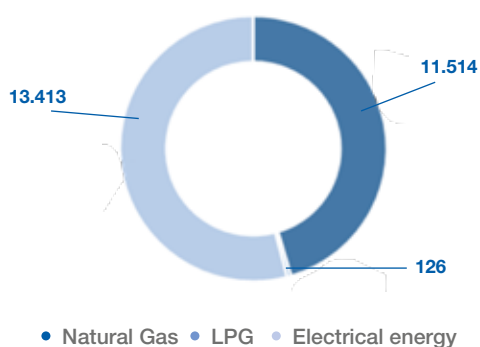
We create light, energy and waves.
Laser is the cleanest system you can imagine
for the environment.

The energy consumed by the Group consists mainly of natural gas, diesel and LPG used as fuel for heating buildings and factories, and electric energy purchased directly from the public grid and used for heating, air conditioning and for manufacturing processes.

In particular, in 2017, we consumed 327.731 m³ of natural gas and 5.350 liters of LPG. The total consumption of electric energy was 3.725.870 kWh. The overall consumption of energy therefore was 25.054 GJ. Most of the consumption was due to the use of electricity (about 54%); 46% was due to consumption of natural gas for heating buildings. During 2017 moreover, the Group did not purchase energy from renewable sources with guarantees of origin.

Quanta System S.p.A. installed a cogeneration plant that went into operation in early 2017 and it allowed to self-produce 37% of the energy consumed and to feed into the public grid 10% of the mentioned amount.

Energy consumption of the Group by source (GJ) 2017

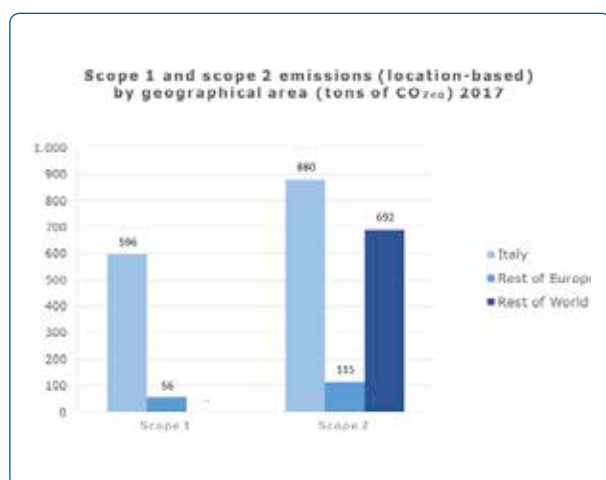


Emissions

The direct and indirect CO₂ emissions associated with the main consumption of the Group can be divided into two categories:

- **Direct emissions (Scope 1):** emissions of greenhouse gas due to direct consumption of fuel by the Group (for example, natural gas and diesel);
- **Indirect emissions (Scope 2):** emissions of greenhouse gas due to the consumption of electric energy, heat and vapor purchased and consumed by the Group.

In particular, for the calculation of the CO₂ equivalent emissions, in compliance with the GRI Sustainability Reporting Standards, we used both the "Location-based method" and the "Market-based method" in order to calculate the Scope 2 emissions. The Location-based method uses the average of emission factors related to the generation of energy at regional, subnational or national level. The Market-based method is based on the CO₂ emissions of the energy suppliers from which the company purchases, by contract, electric energy or the emission of the reference market.



In line with the commitment to reduce their energy consumption, the Group is working also to record a decrease of the emissions directly or indirectly generated by its own activity. In 2017, the majority of CO₂ emissions was due to the consumption of electric energy purchased, while 28% was due to the use of fuel.

Concerning the indirect emissions calculated according to the market-based method, CO₂ eq emissions are in line with the amount reported above with a total amount of 2.616 tons of direct and indirect CO₂ eq emissions.

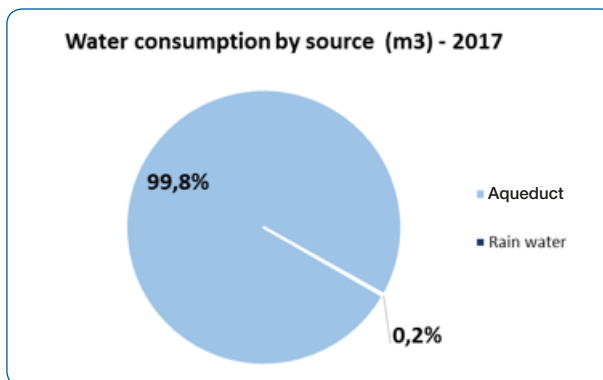
Water consumption

The actions of the Group toward the respect and optimization of environmental resources are demonstrated also by the **efficient use of water** resources with the objective of using the minimum amount necessary and reduce waste at a time in which water represents a resource that is both valuable and at risk for the future generations.

The Group is committed to promoting good habits in relation to the saving of water by offering practical advice to its employees and implementing improvements like shutting off the faucet when it is not in use and avoiding the phenomenon of "running water".

Water is used mainly in the bathrooms, in the company canteen and for production processes. In this latter case, water is mostly used in closed circuits so that it can be recovered and is not dispersed into the environment.

In 2017 water consumption was 27.524 m³ and came almost exclusively from the municipal aqueduct.







PERFORMANCE INDICATORS

Data on human resources

Environmental data

8. PERFORMANCE INDICATORS

DATA RELATED TO HUMAN RESOURCES

Total number of employees by country, Gender and type of contract						
	December 31 st , 2016			December 31 st , 2017		
	Men	Women	Total	Men	Women	Total
ITALY	387	124	511	428	144	572
Permanent contract	362	115	477	390	127	517
Fixed term contract	25	9	34	38	17	55
REST OF EUROPE	77	30	107	88	35	123
Permanent contract	76	29	105	87	34	121
Fixed term contract	1	1	2	1	1	2
REST OF WORLD	364	111	475	405	112	517
Permanent contract	140	62	202	128	55	183
Fixed term contract	224	49	273	277	57	334
TOTAL FOR THE GROUP	828	265	1.093	921	291	1.212
Permanent contract	578	206	784	605	216	821
Fixed term contract	250	59	309	316	75	391

Total number of employees part time/full time by gender						
	December 31 st , 2016			December 31 st , 2017		
	Men	Women	Total	Men	Women	Total
ITALY	387	124	511	428	144	572
Full time	385	101	486	421	123	544
Part time	2	23	25	7	21	28
REST OF EUROPE	77	30	107	88	35	123
Full time	75	27	102	87	30	117
Part time	2	3	5	1	5	6
REST OF WORLD	364	111	475	405	112	517
Full time	362	103	465	404	105	509
Part time	2	8	10	1	7	8
TOTAL FOR THE GROUP	828	265	1.093	921	291	1.212
Full time	822	231	1.053	912	258	1.170
Part time	6	34	40	9	33	42

Total number of employees divided by employee category and gender						
	December 31 st , 2016			December 31 st , 2017		
	Men	Women	Total	Men	Women	Total
ITALY	387	124	511	428	144	572
Executives	27	1	28	30	-	30
Middle managers	30	6	36	29	7	36
White collar employees	182	115	297	204	134	338
Blue collar employees	148	2	150	165	3	168
REST OF EUROPE	77	30	107	88	35	123
Executives	-	-	-	-	-	-
Middle managers	12	1	13	12	2	14
White collar employees	65	29	94	76	33	109
Blue collar employees	-	-	-	-	-	-
REST OF WORLD	364	111	475	405	112	517
Executives	9	3	12	13	3	16
Middle managers	26	11	37	29	12	41
White collar employees	292	93	385	268	89	357
Blue collar employees	37	4	41	95	8	103
TOTAL FOR THE GROUP	828	265	1.093	921	291	1.212
Executives	36	4	40	43	3	46
Middle managers	68	18	86	70	21	91
White collar employees	539	237	776	548	256	804
Blue collar employees	185	6	191	260	11	271

It should be noted that the division of the employees by employee category for Penta Chutian Laser (Wuhan) Co. Ltd in 2017, has been up-dated for the purpose of better aligning it with the data of the Group; in particular, some of the employees earlier classified as as white-collar employees have now been placed in the category of blue collar employees.

Percentage of employees by employee category and gender										
CAT	December 31 st , 2016					December 31 st , 2017				
	M	M	W	W	Tot	M	M	W	W	Tot
Executives	36	90%	4	10%	40	43	93%	3	7%	46
Middle managers	68	79%	18	21%	86	70	77%	21	23%	91
White collar employees	539	69%	237	31%	776	548	68%	256	32%	804
Blue collar employees	185	97%	6	3%	191	260	96%	11	4%	271

Percentage of employees by employee category and age group							
CAT	December 31 st , 2016						
	<30	<30	30-50	30-50	>50	>50	Tot
Executives	-	0%	23	58%	17	43%	40
Middle managers	1	1%	63	73%	22	26%	86
White collar employees	224	29%	473	61%	79	10%	776
Blue collar employees	21	11%	148	77%	22	12%	191

Percentage of employees by employee category and gender							
CAT	December 31 st , 2017						
	<30	<30	30-50	30-50	>50	>50	Tot
Executives	-	0%	27	59%	19	41%	46
Middle managers	9	10%	61	67%	21	23%	91
White collar employees	235	29%	493	61%	76	9%	804
Blue collar employees	71	26%	171	63%	29	11%	271

Average hours of training per employee category and gender						
	December 31 st , 2016					
	Man n. hours	Average per capita	Woman n. hours	Average per capita	total hours	average total per capita
TOTAL	12.814	15	4.792	18	17.606	16
Executives	677	19	-	-	677	17
Middle managers	655	10	326	18	980	11
White collar employees	6.441	12	4.467	19	10.908	14
Blue collar employees	5.042	27	-	-	5.042	26

Average hours of training per employee category and gender						
	December 31 st , 2017					
	Man n. hours	Average per capita	Woman n. hours	Average per capita	total hours	average total per capita
TOTAL	15.499	17	5.187	18	20.686	17
Executives	851	20	12	4	863	19
Middle managers	933	13	519	25	1.451	16
White collar employees	8.501	16	4.602	18	13.103	16
Blue collar employees	5.215	20	55	5	5.270	19

Occupational health and safety data 2017												
	ITALY			REST OF EUROPE			REST OF WORLD			GROUP		
	M	W	Tot	M	W	Tot	M	W	Tot	M	W	Tot
Injuries *	12,0	2,0	14	11,0	-	11,0	12,0	-	12,0	35,0	2,0	37,0
<i>of which fatalities</i>	-	-	-	-	-	-	-	-	-	-	-	-
Lost day rate	0,6	1,7	0,9	0,1	0,4	0,2	0,1	-	0,1	0,2	0,5	0,3
Injury rate	16,9	9,1	15,1	68,7	-	49,0	14,8	-	11,6	20,8	3,9	16,9
Occupational disease rate	-	-	-	-	-	-	-	-	-	-	-	-
Absentee rate	2,1%	2,0%	2,1%	4,1%	3,4%	3,9%	0,1%	0,1%	0,1%	1,4%	1,4%	1,4%

*the data includes accidents occurred while travelling to and from work.

During the year, there were no cases of occupational diseases.

The Lost day rate has been calculated on the basis of the total number of working days that have been lost due to injuries and occupational diseases and the total number of hours scheduled to be worked by 1.000.

The injury rate has been calculated as the ratio between the total number of injuries and the total number of hours worked by 100.000.

The absentee rate has been calculated as the ratio between the total number of days of absence and the total number of days scheduled to be worked.

ENVIRONMENTAL DATA

Energy consumption⁴

ITALY						
Type of fuel	December 31 st , 2016			December 31 st , 2017		
	Consumption [UoM]		GJ	Consumption [UoM]		GJ
Natural gas	m3	143.177	5.039	m3	299.357	10.518
Diesel	l	3.000	109	l	-	-
LPG	l	3.470	82	l	5.350	126
Electrical energy	kWh	2.318.136	8.345	kWh	2.345.964	8.445

REST OF EUROPE						
Type of fuel	December 31 st , 2016			December 31 st , 2017		
	Consumption [UoM]		GJ	Consumption [UoM]		GJ
Natural gas	m3	27.554	970	m3	28.374	997
Diesel	l	-	-	l	-	-
LPG	l	-	-	l	-	-
Electrical energy	kWh	224.903	810	kWh	243.051	875

³ The subdivision by gender of the hours worked and scheduled to be worked related to the employees of Quanta System S.p.A. have been estimated on the basis of the percentage distribution of the workforce by gender. For the Chinese companies (Penta Laser Equipment Wenzhou Co Ltd and Penta-Chutlian Laser (Wuhuan) Co Ltd) the data for the number of hours scheduled to be worked have been estimated on the basis of the number of hours scheduled to be worked at the National level in China for the year involved, while the hours worked have been estimated taking into consideration the number of days of absence registered during the year.

⁴ The data related to Energy consumption, unless otherwise specified, have been registered using the invoices of the suppliers of the energy services. The data related to energy consumption of Penta-Chutlian Laser (Wuhuan) Co Ltd was estimated starting with the cost of electric energy and the ratio yuan/kWh applied in the invoice.

REST OF WORLD						
Type of fuel	December 31 st , 2016			31 dicembre 2017		
	Consumption [UoM]		GJ	Consumption [UoM]		GJ
Natural gas	m3	-	-	m3	-	-
Diesel	l	-	-	l	-	-
LPG	l	-	-	l	-	-
Electrical energy	kWh	824.054	2.967	kWh	1.136.855	4.093

TOTAL OF THE GROUP						
Type of fuel	December 31 st , 2016			December 31 st , 2017		
	Consumption [UoM]		GJ	Consumption [UoM]		GJ
Natural gas	m3	170.731	6.009	m3	327.731	11.514
Diesel	l	3.000	109	l	-	-
LPG	l	3.470	82	l	5.350	126
Electrical energy	kWh	3.367.093	12.122	kWh	3.725.870	13.413

The increase in energy consumption is due to various factors including the refurbishment work in the headquarters in Calenzano and at Penta Laser Equipment Wenzhou Co Ltd, which became officially productive in 2017, and the increase in production and employees at a Group level.

In order to calculate the energy consumption in GJ, we have used the conversion factors from the following sources:

- Natural gas: Ministry of the Environment (Italy), 2017;
- Diesel and LPG: Department for Environment, Food & Rural Affairs (DEFRA), UK, 2017;
- Electric energy: ABI guidelines, December 2017.

Energy Consumption of The Group		
Type of fuel	December 31 st , 2016	December 31 st , 2017
	GJ	GJ
Non-renewable fuel for heating	6.200	11.641
Natural gas	6.009	11.514
Diesel	109	-
LPG	82	126
Electrical energy acquired	12.122	13.701
Electrical energy sold and delivered to the grid	-	(288)
Total	18.321	25.054

Emissions

Scope 1 and Scope 2 emissions (location-based method)

	December 31 st , 2016			December 31 st , 2017		
	EMISSIONS (Tons of CO _{2EQ})					
	Scope 1	Scope 2	Total	Scope 1	Scope 2	Total
Italy	294	869	1.164	596	880	1.476
Rest of Europe	54	107	161	56	115	170
Rest of World	-	484	484	-	692	692
Total	348	1.460	1.809	652	1.686	2.338

Scope 1 and Scope 2 emissions (market-based method)

	December 31 st , 2016			December 31 st , 2017		
	EMISSIONS (Tons of CO _{2EQ})					
	Scope 1	Scope 2	Total	Scope 1	Scope 2	Total
Italy	294	1.092	1.386	596	1.105	1.701
Rest of Europe	54	156	210	56	168	223
Rest of World	-	484	484	-	692	692
Total	348	1.732	2.080	652	1.964	2.616

The CO₂ equivalent emissions reported in this document include only CO₂ emissions and were calculated using the 100-year Global Warming Potential (GWP) of the IPCC (Intergovernmental Panel of Climate Change) of 1 for CO₂. In addition, the source of the applied emission factors are shown below:

For the calculation of the **scope 1 emissions** we have considered different emission factors on the basis of the type of fuel being used. The sources are listed below:

- Natural gas: Ministry of the Environment 2017 (Italy) and DEFRA 2017;
- Diesel: ISPRA 2017 (Italy) and GHG Protocol 2014 (USA);
- LPGG: Ministry of the Environment 2017 (Italy).

For the calculation of the **Scope 2 emissions**, we have used different factors based on the calculation method and the country they refer to. In particular:

- For the **location-based method** we have used average emission factors related to the generation of National Energy for the different countries in which we operate published in the Confronti Internazionali, Tema 2015.
- For the **market-based method** we have used average emission factors derived from the production of electric energy of the European market for Italy, France and Germany, which are published in the document titled Residual Mix Results, Association of issuing bodies (AIB), 2016. For the other countries we have applied the same factor used for the location-based method.

Water consumption⁵

GROUP TOTAL		
Source of water	December 31 st , 2016	December 31 st , 2017
	Consumption [m ³]	Consumption [m ³]
Aqueduct	20.755	27.463
Rain water	60	60
Other	1	1
Total	20.816	27.524

The same considerations expressed for energy consumption apply to the increase in the consumption of water. During the year at Calenzano there was a loss of water due to leakage which also increased the consumption for this period.

⁵ For the calculation of the water consumption we have used estimates when the exact data were not available: in particular for Quanta System S.p.A., Elen S.p.A. and Otlis S.r.l. part of the consumption was estimated on the basis of daily consumption as recorded by the water supplier. For the Chinese company Penta-Chutlian Laser (Wuhuan) Co Ltd the data were estimated on the basis of the costs in yuan for water consumption and the ratio yuan/kWh applied in the invoice.





GRI CONTENT INDEX

9. GRI CONTENT INDEX

The chart below shows the information of the Group based on GRI Standards with reference to the materiality of El.En.. For all of the information supplied we have given the relative page number in this document.

Universal Standards		
GRI Standard	Page	Description
GRI 102: General Disclosures (2016)		
Organizational profile		
102-1	22	Name of the organization.
102-2	22-23, 34-35	Activities, brands, products and services.
102-3	23	Location of headquarters
102-4	23	Number of countries where the organization operates, and the names of countries where it has significant operations and/or that are relevant to the topics covered in the report.
102-5	23, 26	Ownership and legal form
102-6	23, 34-35	Markets served
102-7	22-23, 54	Scale of the organization
102-8	68	Total number of employees by employment contract (permanent and temporary), by gender
102-9	34-36	Supply chain
102-10	7	Significant changes to the organization's size, structure, ownership, or supply chain
102-11	27-28, 40-41	Precautionary Principle or approach
102-12	30	A list of externally-developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes, or which it endorses.
102-13	14-15	Membership of associations

Universal Standards		
GRI Standard	Page	Description
GRI 102: General Disclosures (2016)		
Strategy		
102-14	5	Statement from senior decision-maker.
Ethics and integrity		
102-16	22, 29-31	Values, principles, standards, and norms of behavior.
Governance		
102-18	26-27	Governance structure
Stakeholder Engagement		
102-40	12	List of the stakeholders groups engaged by the organization.
102-41	46	Percentage of total employees covered by collective bargaining agreements.
102-42	12	The basis for identifying and selecting stakeholders with whom to engage.
102-43	13-14	The organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.
102-44	13-14, 16-18 During 2017 the organization has not carried out any specific direct surveys on topics of interest for stakeholders.	Key topics and concerns that have been raised through stakeholder engagement, including: how the organization has responded to those key topics and concerns, including through its reporting; the stakeholder groups that raised each of the key topics and concerns.
102-45	7-8, 23	Entities included in the consolidated financial statements.
102-46	7-8, 16-18	Defining report content and topic Boundaries.
102-47	16-18	A list of the material topics identified in the process for defining report content.
102-48	This is the first NFS issued by the El.En. Group.	The effect of any restatements of information given in previous reports, and the reasons for such restatements.
102-49	This is the first NFS issued by the El.En. Group.	Significant changes from previous reporting periods in the list of material topics and topic Boundaries.

Universal Standards			
GRI Standard	Page	Description	
GRI 102: General Disclosures (2016)			
102-50	7	Reporting period	
102-51	This is the first NFS issued by the El.En. Group.	If applicable, the date of the most recent previous report	
102-52	7	Reporting cycle	
102-53	93	Contact point for questions regarding the report	
102-54	7	Claims of reporting in accordance with the GRI Standards	
102-55	78-88	GRI Content Index	
102-56	89-91	External assurance	
GRI Standard	Page	Omissions	Description
Material Aspects			
ECONOMIC			
Economic Performance			
GRI 103: Management approach (2016)			
103-1	17-18, 54-55		Explanation of the material topic and its Boundary
103-2	34-35, 54-55		The management approach and its components
103-3	54-55		Evaluation of the management approach
GRI 201: Economic performance (2016)			
201-1	54-55		Direct economic value generated and distributed.
Anti-corruption			
GRI 103: Management approach (2016)			
103-1	17-18, 27-31		Explanation of the material topic and its Boundary
103-2	27-31		The management approach and its components

GRI Standard	Page	Omissions	Description
103-3	27-31		Evaluation of the management approach

GRI 205: Anti-corruption (2016)

205-3	No corruption cases confirmed during 2017		Confirmed incidents of corruption and actions taken
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ENVIRONMENTAL

Energy

GRI 103: Management Approach (2016)

103-1	17-18, 64-65		Explanation of the material topic and its Boundary
103-2	8, 64-65		The management approach and its components
103-3	64-65		Evaluation of the management approach

GRI 302: Energy (2016)

302-1	64, 72-73		Energy consumption within the organization
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Water

GRI 103: Management approach (2016)

103-1	17-18, 64-65		Explanation of the material topic and its Boundary
103-2	8, 64-65		The management approach and its components
103-3	64-65		Evaluation of the management approach

GRI 303: water resources (2016)

303-1	65, 75		Water withdrawal by source
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GRI Standard	Page	Omissions	Description
Emissions			
GRI 103: Management Approach (2016)			
103-1	17-18, 64-65		Explanation of the material topic and its Boundary
103-2	8, 64-65		The management approach and its components
103-3	64-65		Evaluation of the management approach
GRI 305: Emissions (2016)			
305-1	65, 74		Direct (Scope 1) GHG emissions
305-2	65, 74		Energy indirect (Scope 2) GHG emissions
Environmental compliance			
GRI 103: Management Approach (2016)			
103-1	17-18, 64		Explanation of the material topic and its Boundary
103-2	8, 28-30, 64		The management approach and its components
103-3	28-30, 64		Evaluation of the management approach
GRI 307 Environmental compliance (2016)			
307-1	The organization has not identified any non-compliance with environmental laws and/or regulations during 2017		Non-compliance with environmental laws and regulations
SOCIAL			
Labor/Management Relations			
GRI 103: Management Approach (2016)			
103-1	17-18, 44-48		Explanation of the material topic and its Boundary
103-2	44-48		The management approach and its components
103-3	44-48		Evaluation of the management approach

GRI Standard	Page	Omissions	Description
GRI 402: Labor/management relations (2016)			
402-1	48		Minimum notice periods regarding operational changes
Occupational health and safety			
GRI 103: Management Approach (2016)			
103-1	17-18, 47		Explanation of the material topic and its Boundary
103-2	47		The management approach and its components
103-3	47		Evaluation of the management approach
GRI 403-2: Occupational health and safety (2016)			
403-2	47, 71-72		Types of injury, injury rate (IR), occupational disease rate (ODR), lost day rate (LDR), absentee rate (AR), and work-related fatalities, for all employees, with a breakdown by region and by gender.
Training and education			
GRI 103: Management Approach (2016)			
103-1	17-18, 46-47		Explanation of the material topic and its Boundary
103-2	46-47		The management approach and its components
103-3	46-47		Evaluation of the management approach
GRI 404: Training and education (2016)			
404-1	71		Average hours of training that the organization's employees have undertaken during the reporting period, by gender and employee category
Diversity and equal opportunity			
GRI 103: Management Approach (2016)			
103-1	17-18, 46		Explanation of the material topic and its Boundary
103-2	46		The management approach and its components

GRI Standard	Page	Omissions	Description
103-3	46		Evaluation of the management approach
GRI 405: Diversity and equal opportunity (2016)			
405-1	26, 46, 69-70		Diversity of governance bodies and employees
Non-discrimination			
GRI 103: Management Approach (2016)			
103-1	17-18, 46		Explanation of the material topic and its Boundary
103-2	28-30, 46		The management approach and its components
103-3	28-30, 46		Evaluation of the management approach
GRI 406: Non- discrimination (2016)			
406-1	No discrimination incidents occurred during 2017		Incidents of discrimination and corrective actions taken
Freedom of association and collective contracting			
GRI 103: Management Approach (2016)			
103-1	8, 17-18, 44		Explanation of the material topic and its Boundary
103-2	8, 28-30, 47-48		The management approach and its components
103-3	8, 28-30, 47-48		Evaluation of the management approach
GRI 407: Freedom of association and collective contracting (2016)			
407-1	8, 28, 46		Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk

GRI Standard	Page	Omissions	Description
Child labor			
GRI 103: Management Approach (2016)			
103-1	8, 17-18, 28-30		Explanation of the material topic and its Boundary
103-2	8, 28-30		The management approach and its components
103-3	8, 28-30		Evaluation of the management approach
GRI 408: Child labor (2016)			
408-1	8, 28		Operations and suppliers at significant risk for incidents of child labor
Forced or compulsory labor			
GRI 103: Management Approach (2016)			
103-1	8, 17-18, 28-30		Explanation of the material topic and its Boundary
103-2	8, 28-30		The management approach and its components
103-3	8, 28-30		Evaluation of the management approach
GRI 409: Forced or compulsory labor (2016)			
409-1	8, 28		Operations and suppliers at significant risk for incidents of forced or compulsory labor
Human rights assessment			
GRI 103: Management Approach (2016)			
103-1	8, 17-18, 28-30		Explanation of the material topic and its Boundary
103-2	8, 28-30		The management approach and its components
103-3	8, 28-30		Evaluation of the management approach
GRI 412: human rights assessment (2016)			
412-2	8, 47		Employee training on human rights policies or procedures

GRI Standard	Page	Omissions	Description
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Customer health and safety

GRI 103: Management Approach (2016)

103-1	17-18, 40-41		Explanation of the material topic and its Boundary
103-2	40-41		The management approach and its components
103-3	40-41		Evaluation of the management approach

GRI 416: Customer health and safety (2016)

416-2	the organization has not identified any non-compliance with regulations and/or voluntary codes during 2017		Incidents of non-compliance concerning the health and safety impacts of products and services
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Socioeconomic compliance

GRI 103: Management Approach (2016)

103-1	17-18, 28-30		Explanation of the material topic and its Boundary
103-2	28-30		The management approach and its components
103-3	28-30		Evaluation of the management approach

GRI 419: socioeconomic compliance (2016)

419-1	the organization has not identified any non-compliance with laws and/or regulations during 2017		Non-compliance with laws and regulations in the social and economic area
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GRI Standard	Page	Omissions	Description
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Research, development and innovation

GRI 103: Management Approach (2016)

103-1	17-18, 52-53, 58-61		Explanation of the material topic and its Boundary
103-2	52-53, 58-61		The management approach and its components
103-3	52-53, 58-61		Evaluation of the management approach

Risk management

GRI 103: Management Approach (2016)

103-1	17-18, 27		Explanation of the material topic and its Boundary
103-2	27-28		The management approach and its components
103-3	27-28		Evaluation of the management approach

Indirect social impact

GRI 103: Management Approach (2016)

103-1	17-18, 36-39		Explanation of the material topic and its Boundary
103-2	36-39		The management approach and its components
103-3	36-39		Evaluation of the management approach

Relationship with public institutions

GRI 103: Management Approach (2016)

103-1	17-18, 31		Explanation of the material topic and its Boundary
103-2	31		The management approach and its components
103-3	31		Evaluation of the management approach

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND ART. 5 OF CONSOB REGULATION N. 20267

To the Board of Directors of
El.En. S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter the "Decree") and to article 5 of the CONSOB Regulation n. 20267, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of the El.En. Group (the "Group") as of December 31, 2017 prepared on the basis of article 4 of the Decree, and approved by the Board of Directors on March 15, 2018 (hereinafter the "NFS").

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" established in 2016 by GRI – Global Reporting Initiative (hereinafter "GRI Standards"), which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Verona

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Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board* (IAASB) for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of article 3 of the Decree and taking into account the adopted reporting standard.
2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree.
3. Comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the El.En. Group.
4. Understanding of the following matters:
 - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
 - policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
 - main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a).

5. Understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

In particular, we carried out interviews and discussions with the management of El.En. S.p.A. and with the employees of Quanta System S.p.A. and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

In addition, for material information, taking into consideration the Group's activities and characteristics:

- at the parent company's and subsidiaries' level:
 - a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
 - b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.
- for the following companies and sites, Calenzano headquarters and production site for El.En. S.p.A. and Samarate operations center for Quanta System S.p.A. which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the El.En. Group as of December 31, 2017 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the GRI Standards.

Other Matter

The data for the year ended December 31, 2016 presented for comparative purposes in the NFS have not been subject to a limited or to a reasonable assurance engagement.

DELOITTE & TOUCHE S.p.A.

Signed by
Gianni Massini
Partner

Florence, Italy
March 30, 2018

This report has been translated into the English language solely for the convenience of international readers.



For further information and clarifications: finance@elen.it



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