

QUARTERLY
FINANCIAL
REPORT AS OF
SEPTEMBER 30th, 2017



EL.EN. S.p.A.

Headquarters in Calenzano (Florence), Via Baldanzese, 17

Capital stock: Underwritten and paid : € 2.508.671,36

Registry of Companies in Florence – C.F. 03137680488

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

CORPORATE BOARDS OF THE PARENT COMPANY

(as of the date of approval of the financial statement on September 30th 2017)

Board of Directors

CHAIRMAN

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangioli

BOARD MEMBERS

Fabia Romagnoli

Michele Legnaioli

Alberto Pecci

Board of statutory auditors

CHAIRMAN

Vincenzo Pilla

STATUTORY AUDITORS

Paolo Caselli

Rita Pelagotti

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

Enrico Romagnoli

Independent auditors

Deloitte & Touche S.p.A.

EL.EN. GROUP

**QUARTERLY MANAGEMENT
REPORT**

AS OF SEPTEMBER 30th 2017

Quarterly report

Introduction

This quarterly report as of September 30th 2017 for the El.En. Group was drawn up in compliance with the regulations of Borsa Italiana for the companies quoted in the STAR segment (article 2.2.3 subsection 3 letter a), in compliance with Borsa Italiana notice 7587 of April 21st 2016. Consequently, as specified in the above mentioned notice, as far as the contents of the quarterly report drawn up on September 30th 2017 are concerned, we have made reference to the previously in force subsection 5 of Art. 154-ter of Legislative Decree 58 of February 24th 1998. This document contains the information usually included by the company in the preceding quarterly reports.

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

The results as of September 30th 2017 are shown in comparative form with those for the same period last year. All amounts are expressed in thousands of Euros unless otherwise indicated.

Alternative Non-GAAP measures

In order to facilitate the evaluation of the performance of the Group, the El.En. Group uses some alternative performance indicators (non – GAAP measures) which are not identified as accounting measures by the IFRS. Consequently, the criteria applied by the Group may not correspond exactly to those used by other groups and the results may not be comparable to those obtained by other companies.

These non - GAAP measures are determined in conformity with the Orientation on non-GAAP measures issued by ESMA/2015/1415 and adopted by the CONSOB as per Communication nr. 92543 on December 3rd 2015, and refer only to the performance for the accounting period which is the subject of this document and the periods shown for comparison.

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

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

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

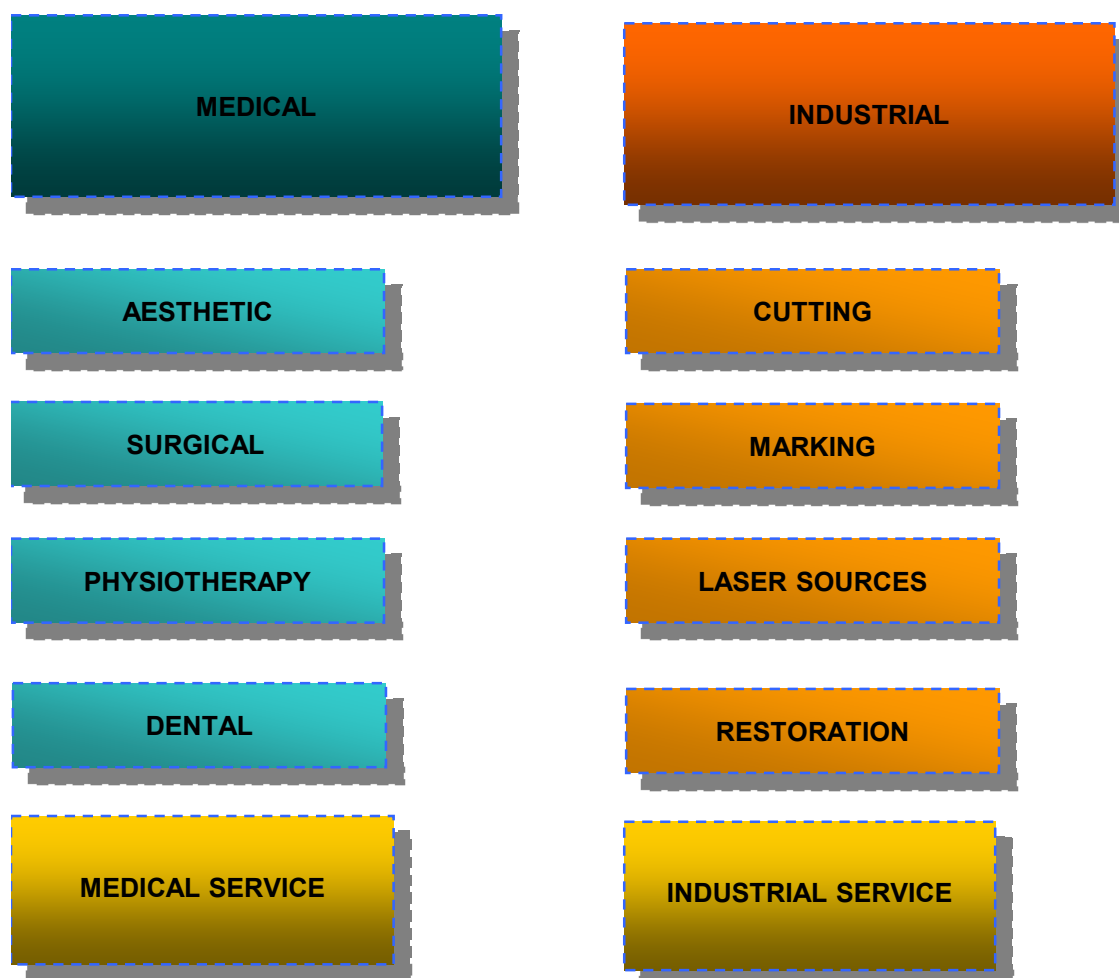
- the **net financial position** which means: cash available + securities entered among current assets + current financial receivables – debts and non-current financial liabilities - current financial debts.

Description of the activities of the Group

El.En. SpA controls a group of companies operating in the field of manufacture, research and development, distribution and sales of laser systems. The structure of the Group has been created over the years as a result of the founding of new companies and the acquisition of the control of others. Each company has a specific role in the general activities of the Group which is determined by the particular geographical area it covers, by a particular market niche and by a more extended and cross-cutting area of technology, applications and geographical markets. The activities of all of the companies are coordinated by the Parent Company for the purpose of optimizing coverage of all the markets by exploiting the dynamicity and flexibility of the single business units without losing the advantage of a coordinated management of the technical, managerial, commercial and financial resources.

The Group operates in two main sectors: that of laser systems for medicine and aesthetics which we call the Medical Sector and that for laser systems for manufacturing which we call the Industrial Sector. In each of these two sectors the activities can be subdivided into different segments which are different from each other in the specific application required from the system and consequently for the underlying technology and the kinds of users. Within the activity sector of the Group, which is generally defined as the manufacture of laser sources and systems, the range of clients and products varies considerably, especially if one considers the global presence of the Group and therefore, the necessity of dealing with the special requirements which every region in the world has in the application of our technologies.

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



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

The division of the Group into multiple companies also reflects the strategy for the distribution of their products and the coordinating of the various research and development and marketing activities. In fact, particularly in the medical sector, the various companies which through acquisitions have gradually become part of the Group (DEKA, Asclepion, Quanta System, and Asa) have always maintained their own special characteristics as far as the product typology and segment and their own distribution network which is independent from those of the other companies in the Group and represent real business units. At the same time, each one has been able to benefit from the cross-fertilization which the research teams have had on each other, thus creating centres of excellence for certain specific technologies which were made available also to the other companies of the Group. Although this strategy makes management more complex, it is chiefly responsible for the growth of the Group which has become one of the most important companies in the field.

While we are aware of the importance that the multi-brand and multi R&D approach has had for the growth of the Group, at the same time we can see the need to keep the activities of the different business units in the medical sector more strictly coordinated with each other and to continue to promote joint activities like the distribution in Italy which, under the new brand name of “Renaissance”, combines the pre-existing distribution networks of Deka and Quanta System into a single organization. For this reason, an improved integration of the business units operating in the medical sector is one of the objectives of the General Director of El.En. Spa who was appointed to this position, which is new for the Company, on January 1st 2017.

Although both of them use laser technology and share numerous strategic components and some activities at the production and R&D level, the Medical and Industrial sectors operate in two very different markets and their company activities are organized in such a way as to satisfy the radically different requirements of the clientele. For each of the two markets, moreover, correspond specific dynamics of demand and expectations for growth that are related to different key factors.

For the two sectors, the outlook for a tendency for growth is good. In the medical sector, the demand for aesthetic and medical treatments is constantly increasing, by a population which, on the average, is growing older, and increasingly wishes to limit the effects of aging; there is an increased demand for technologies which are able to minimize the time required for some types of surgery or to increase the effectiveness so as to reduce the impact on the patient (minimally invasive operations) and the overall costs. In the industrial sector, laser systems constitute a tool that is increasingly indispensable for manufacturing since they represent technologies that are flexible and innovative for companies that are competing on the international markets and wish to raise their standard of quality and increase production. Consequently, although they remain part of the traditional manufacturing market, laser systems represent a hi-tech component which, thanks to the continual innovation of the laser products and of the processes that use lasers, show a very positive outlook for growth.

The extraordinary growth that has been registered recently in the industrial sector, which was much greater than that forecast by market researchers, is mainly due to the transformation of the most important market for laser processing in the manufacturing sector, that is, the cutting of sheet metal and metal parts, and our ability to profit from this particular situation. The main reason for this transformation was caused by the technological shift which saw the fiber laser sources replace and quickly render obsolete, the high powered CO₂ laser sources which had been used up to that time for this kind of cutting. The laser sources in fiber made it possible for users to reduce costs while at the same time offering easier installation and maintenance with the possibility of installing laser powers that were unthinkable with the CO₂ laser sources. The purchase and installation of high-powered systems (more than 4 kW) which, up to two years ago was practically prohibitive for most potential users, is now accessible to a growing number of users and can be set to powers of up to 10/12 kW. The high productivity of the laser cutting systems with high-powered optical fiber sources is redesigning the market and replacing traditional technologies for cutting metal like punches which, to cut and pierce metal use utensils that have no flexibility and which deteriorate over time.

Along with the amplification of the market, the superior performance of the systems that are now available have caused the rapid obsolescence of the systems previously operating and have accelerated the substitution and up-dating of the vast number of systems already installed.

It should also be recalled, as we consider the excellent outlook for growth on our markets, that the Group succeeds in acquiring new market quotas and in creating new market niches thanks to innovation. The adequacy of the range of products offered, the capacity to continually innovate in order to meet the requirements of the market and create new products are the critical factors in the success on our markets. The El.En. Group has had and still has the capacity to excel in this activity. The long section dedicated to research and development activities documents and testifies to their fundamental importance in the activities of the Group and the focus on what is necessary to guarantee the prosperity of the Group in the years to come.

Group financial highlights

During the third quarter of 2017 the El.En. Group registered record results, with a consolidated sales volume of 75,5 million Euros (+27,2% over 2016) and an EBIT of 9 million Euros (+ 44% over 2016). Thanks to these extraordinary results after the first 9 months of 2017 the consolidated sales volume of the Group had exceeded 218 million Euros, an increase of 21,6% with respect to the corresponding period in 2016, and the EBIT of 22,2 million Euros improved the result for 2016 by 12% and exceeded the 10% threshold of incidence on the sales volume. These results are well above the figures forecast for 2017 and suggest the possibility of exceeding the records set in 2016 for volume of business and EBIT.

Like the first six months of the year, the third quarter was characterized by an extremely rapid growth in the volume of business in the industrial sector. The sales volume in this sector increased by 54,7% during this quarter and by 52,4% on an annual basis. The growth rates are overwhelming and, even though the medical sector showed good results on its own, the importance of the industrial sector in the Group rose from 34% in 2016 to 43% for this year. Moreover, the ability to manage this growth in the sales volume by keeping the overhead costs under control, allowed the companies in the industrial sector to get a significant leverage effect, considerably improve their own results. The lack of critical mass which, in preceding years, had prevented the industrial sector from equaling the revenue results obtained by the medical sector has now been offset by a growth that has greatly exceeded our expectations. This result has, of course, been in part due to the favorable economic conditions but it is also solidly based on the organizational choices that have been made in the last few years and on the effects of the increase in the dimensions of some of our markets.

The medical sector also did well this quarter and showed a growth of over 10% which brings the growth for the 9 month period up to 5,4%. Market conditions remain generally favorable but the growth rates registered this year by the Group in this sector are below their actual potential, mainly due to the phase of transition from the Cynosure management to the Hologic management for the distribution in the USA of the Mona Lisa Touch for the treatment of vaginal atrophy, one of the most significant and representative products of the Group. In the other segments of the medical sector the innovation in the products being offered which has also been the main feature of this range of products manufactured by the companies of the Group, has made it possible to maintain a growth rate well above 10%, which is in line with the trend that market research registers for mid-term in this sector.

General economic conditions continue to improve and represent a positive factor for growth in the demand on our main markets, as shown by the current and prospective growth indicators of the Italian and European GNPs as well as the American GNP. The trend in currency exchange, however, has remained unfavorable and has seen the Euro strengthened again in the third quarter with respect to all the other main currencies including the US dollar which has the greatest impact on us. The negative effects of the weakness of the dollar are also reflected in the financial management which are affected by the losses on the assets and liabilities in this currency and in general benefit our competitors who have their cost base in American dollars.

The Group's pre-tax income show a major drop with respect to 2016: the EBIT improved significantly but is negatively affected by the trend of the financial management and above all, by the non-operational management which cannot repeat the capital gains of 23 million Euros earned in 2016 from the sale of the block of Cynosure Inc shares. In the preceding reports we have described the purchase of Cynosure Inc by Hologic and the positive effects which were initially expected from this acquisition on the distribution in the USA of one of our most significant products, the Mona Lisa Touch for the treatment of vaginal atrophy, for which Cynosure is the exclusive distributor. The sales volumes increased also in the third quarter but the expectations of a rapid acceleration have for now been suspended and, even according to Hologic, which confirms it in their public comments on the quarterly results, have been postponed until 2018. The drop in the sales in the gynecological surgery sector is due to this circumstance.

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

Income statement – quarterly	30/09/2017	Inc %	30/09/2016	Inc %	Var. %
Revenues	75.535	100,0%	59.389	100,0%	27,19%
Change in inventory of finished goods and WIP	3.120	4,1%	252	0,4%	1139,02%
Other revenues and income	888	1,2%	615	1,0%	44,43%
Value of production	79.544	105,3%	60.256	101,5%	32,01%
Purchase of raw materials	42.472	56,2%	33.643	56,6%	26,24%
Change in inventory of raw material	427	0,6%	(3.321)	-5,6%	
Other direct services	5.255	7,0%	4.576	7,7%	14,84%
Gross margin	31.390	41,6%	25.358	42,7%	23,79%
Other operating services and charges	7.910	10,5%	7.429	12,5%	6,47%
Added value	23.480	31,1%	17.929	30,2%	30,96%
Staff cost	12.402	16,4%	10.534	17,7%	17,73%
EBITDA	11.078	14,7%	7.395	12,5%	49,80%
Depreciation, amortization and other accruals	2.052	2,7%	1.150	1,9%	78,50%
EBIT	9.026	11,9%	6.246	10,5%	44,52%
Net financial income (charges)	(837)	-1,1%	(211)	-0,4%	297,06%
Share of profit of associated companies	38	0,1%	13	0,0%	190,48%
Other non-operating income (charges)	(0)	0,0%	(0)	0,0%	
Income (loss) before taxes	8.227	10,9%	6.048	10,2%	36,03%

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

Income Statement	30/09/2017	Inc %	30/09/2016	Inc %	Var. %
Revenues	218.412	100,0%	179.565	100,0%	21,63%
Change in inventory of finished goods and WIP	8.329	3,8%	1.159	0,6%	618,74%
Other revenues and income	2.549	1,2%	2.484	1,4%	2,64%
Value of production	229.290	105,0%	183.207	102,0%	25,15%
Purchase of raw materials	122.238	56,0%	95.975	53,4%	27,36%
Change in inventory of raw material	191	0,1%	(5.784)	-3,2%	
Other direct services	15.963	7,3%	14.394	8,0%	10,90%
Gross margin	90.899	41,6%	78.623	43,8%	15,61%
Other operating services and charges	25.887	11,9%	22.875	12,7%	13,17%
Added value	65.012	29,8%	55.747	31,0%	16,62%
Staff cost	38.464	17,6%	32.785	18,3%	17,32%
EBITDA	26.548	12,2%	22.962	12,8%	15,61%
Depreciation, amortization and other accruals	4.387	2,0%	3.193	1,8%	37,42%
EBIT	22.160	10,1%	19.769	11,0%	12,09%
Net financial income (charges)	(3.041)	-1,4%	(675)	-0,4%	350,54%
Share of profit of associated companies	(11)	0,0%	(87)	0,0%	-87,28%
Other non-operating income (charges)	0	0,0%	23.019	12,8%	
Income (loss) before taxes	19.108	8,7%	42.027	23,4%	-54,53%

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

Net financial position	30/09/2017	31/12/2016
Cash and bank	88.933	97.589
Financial instruments	2.032	0
Cash and cash equivalents	90.965	97.589
Current financial receivables	207	150
Bank short term loan	(8.306)	(7.991)
Part of financial long term liabilities due within 12 months	(984)	(2.621)
Financial short term liabilities	(9.291)	(10.613)
Net current financial position	81.881	87.127
Bank long term loan	(3.601)	(1.231)
Other long term financial liabilities	(2.520)	(3.111)
Financial long term liabilities	(6.121)	(4.342)
Net financial position	75.760	82.784

Operational performance

The table below shows the sales volume for the first nine months of 2017 divided by sector of activity of the Group compared with that for the same period last year.

	30/09/2017	Inc %	30/09/2016	Inc %	Var. %
Medical	124.007	56,78%	117.628	65,51%	5,42%
Industrial	94.405	43,22%	61.936	34,49%	52,42%
Total revenue	218.412	100,00%	179.565	100,00%	21,63%

As mentioned in the introduction to this report, the highest growth rate was registered by the industrial sector so that its relative percentage in the sales volume of the Group is now over 43%.

The chart below shows the sales volume for this period according to geographic distribution.

	30/09/2017	Inc %	30/09/2016	Inc %	Var. %
Italy	40.309	18,46%	32.647	18,18%	23,47%
Europe	36.047	16,50%	29.683	16,53%	21,44%
ROW	142.055	65,04%	117.234	65,29%	21,17%
Total revenue	218.412	100,00%	179.565	100,00%	21,63%

Oddly enough, the growth in all of the geographical areas for which we show the sales volume is practically the same, just over 20% for all three areas. Further on, we will show the trends in some specific areas worthy of note because of their importance in the overall consolidated sales volume.

Among the numerous comments published concerning the positive trend of Italian companies operating in the machine tool sector (to which our industrial sector is headed) and the manufacturers in general of investment goods, almost all of them emphasized the decisive effect of the fiscal facilitations promoted by the financial program for 2017 with increased amortization quotas, especially for goods which fall under the category of the so-called *Industria 4.0.* facilitations. The results of our sales volume confirm the brilliance of the Italian market which grew overall 23%, but, above all, shows the capacity of the Group to grow thanks to the success of its products on the international markets without the support of the facilitations temporarily available in Italy.

For example, we should mention the case of Lasit Spa: the benefits received from the facilitations offered by *Industria 4.0* are undeniable and its purposes are perfectly suited to the characteristics of an integrated marking system that are part of the cybernetic environment of a *smart-factory*. In reality, in 2017 Lasit more than doubled their amount of exports, which were almost 50% of their sales volume, and consequently expanded independently of any tax breaks, tank to the quality of its products and the ability to supply flexible customized solutions for the specific requirements of the client anywhere in the world.

The medical sector also contributed to the growth inside of Italy; for example we could mention the success of the Deka and Quanta System products, the distribution in Italy of which has been combined under a new organization and new brand, "Renaissance". The new brand was launched at the beginning of this year and already identifies the leader on the market and generates concrete results in the amplification of business volume. The rapid expansion of Esthelogue, specialized in the distribution of technologies for professional aesthetics, has also continued.

For the sector of medical and aesthetic systems which, for the first nine months of 2017, represented 57% of the sales volume, the results of sales in the various segments is shown in the chart below.

	30/09/2017	Inc %	30/09/2016	Inc %	Var. %
Aesthetic	70.196	56,61%	57.443	48,83%	22,20%
Surgical	24.006	19,36%	26.341	22,39%	-8,86%
Physiotherapy	6.929	5,59%	5.930	5,04%	16,85%
Dental	341	0,28%	260	0,22%	31,44%
Others	109	0,09%	279	0,24%	-60,93%
Total medical systems	101.581	81,92%	90.252	76,73%	12,55%
Medical service	22.426	18,08%	27.376	23,27%	-18,08%
Total medical revenue	124.007	100,00%	117.628	100,00%	5,42%

The medical sector grew more than 10% this quarter and once again shows a satisfactory performance and contributes significantly to the growth of the Group. Despite the issues discussed in the previous reports which are still evident in the service and surgery segments, the growth on an annual basis was over 5%.

As occurred in the first six months of the year, in the sector of surgical applications, the drop was due exclusively to the decrease registered in the United States, of systems for the application of Mona Lisa Touch (MLT) for the treatment of vaginal atrophy. This drop was partially expected as a consequence of the stabilization of the market and the scheduled reduction of the amount of inventory by our exclusive distributor in North America and was somewhat attenuated in the third quarter on account of the good purchase volume by Cynosure/Hologic but remains, as expected, significant. Cynosure is now a division of its parent company Hologic; this represents a change which is potentially good for the development of the market, since Hologic is a solid partner with long experience in the specific sector of gynecology, who is better able to deal with the market, both for the commercial distribution of the product as well as for the clinical experimentation which can be directed with greater effectiveness to confirm the leadership of the product and increase its elective applications. In practice, Hologic has admitted that they have had to face unexpected difficulties in the management of the new division and to have begun an in-depth reorganization so that they have had to postpone the acceleration of growth which the sizeable investment made in Cynosure (1,6 billion US dollars) demands. In the rest of the world the sales volume for MLT showed a slight increase with respect to 2016.

The other surgery application segments all show very favorable results with growth of over 20%, and confirm the positive growth trend registered in the last few quarters. For the urological applications of lithotripsy and BPH (benign hypertrophy of the prostate) and those for otorhinolaryngology our offer is innovative and competitive and contributes to the growth of the sales volume of the Group.

The excellent trend in sales of systems for aesthetic applications continued this quarter and during these nine months exceeded 22%, demonstrating the capacity of the Group to follow rapid growth strategies thanks to products and sales volumes in all the main application segments: hair removal, removal of tattoos and pigmented lesions, skin rejuvenation.

We continue to grow in the hair removal segment which, for us, is the most significant. We have been able to follow the growth of the market and also to be drivers of the market by developing technologies which have improved the effectiveness and economy of the treatments, in this way increasing the number of potentially interested clients. Our wide range is a demonstration of the continual improvements we are making on this type of product: the Motus AX with its special features which make hair removal with alexandrite lasers more accessible and less painful; the Mediostar (manufactured by Asclepion in the Next, Pro and Light versions), which is a standard of reference in Italy in the professional aesthetics sector; Deka's Repla:y and Quanta's Duetto Evo complete the range by adding to alexandrite hair removal the functionality of Nd:YAG lasers, which are highly effective also for vascular treatments, and the most recent arrival, the Thunder MT by Quanta System, which features a laser with a power unequaled by any other on the market.

Growth in sales of systems for the removal of tattoos and pigmented lesions was even greater. In this segment the Group benefits from a great variety of highly innovative products: the traditional nano-second systems offered by Quanta System, Q-Plus C and Asset, Deka's QS4 and Asclepion's Tattoo-Star, since 2016 have been joined by Discovery Pico and then by Discovery Pico Plus, developed by Quanta System with pico-second technology. Using impulses that last only pico-seconds thanks to an ingenious and innovative technological solution, these systems make it possible to obtain a more effective treatment and are in a market category with high sales margins thanks to their innovative features.

Besides their popularity for the removal of tattoos, this type of system also can be used for an effective action of “*skin toning*”, an anti-aging treatment that is particularly successful in the Far East.

Sales for CO₂ systems for skin rejuvenation also showed a significant increase along with the erbium systems for ablation; the Group has been operating in this segment for almost twenty years and though it has stabilized, it still represents an important market.

Sales of the Group in the body-shaping segment are still modest as we wait for the discovery of an innovative technology that will allow us to be more competitive on this market which shows, at a world level, a high growth rate.

The trend in the physical therapy sector continues to be very positive and showed a growth of almost 17%. Asa of Vicenza conducts the activities of the Group in this sector and is gradually expanding their presence on the international market thanks to its capacity to develop highly effective systems and to supply a clinical and marking support which completes them. Making them both very attractive and at the same time, scientifically tested.

The decrease in sales for post-sale services and consumables, already registered in the first six months of the year, continued in this quarter. There are three main reasons for this drop: the decline in sales of upgrading on the aesthetic systems, an activity that hit its peak in 2016; the decline in sales of certain consumables like creams in the aesthetic sector and optical fibres for surgery and an exceptional amount of revenue from service contracts that had characterized 2016. The decrease was mainly derived from ordinary events which, however, were of an exceptional nature, which occurred in 2016 and consequently we are sure that revenue for after sales service will return to its normal level in 2018.

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

	30/09/2017	Inc %	30/09/2016	Inc %	Var. %
Cutting	73.370	77,72%	44.575	71,97%	64,60%
Marking	11.996	12,71%	9.468	15,29%	26,71%
Laser sources	2.382	2,52%	1.930	3,12%	23,40%
Conservation	156	0,16%	220	0,36%	-29,19%
Total industrial systems	87.903	93,11%	56.193	90,73%	56,43%
Industrial service	6.501	6,89%	5.743	9,27%	13,20%
Total industrial revenue	94.405	100,00%	61.936	100,00%	52,42%

Thanks to the tremendous growth of over 64% during the first 9 months of the year, the cutting segment has become the most important in the Group for sales volume and has exceeded that of the medical aesthetic sector.

In the introduction to this report we have already mentioned how the market for laser systems for cutting sheet metal is rapidly expanding thanks to a technological discontinuity which has multiplied the number of potential users and, at the same time, has reduced the technological gap perceived by the market on traditional technologies that the market leaders had created between themselves and their competitors, so that now even minor players have been able to take over portions of the market.

An exception from this point of view is represented by the Chinese market where El.En had already initiated a strategy of expansion for sheet metal cutting in 2007 by starting a joint venture in Wuhan intended to grasp the opportunities offered by the growing local market. The market position that was gained made it possible to completely take advantage of the change in technology and the consequent explosion of the market, in support of which a second, ultra-modern factory in Wenzhou was built in and which is now about to reach the saturation point of its production capacity.

The successes in the cutting segment, however, were not just limited to China; Cutlite Penta has designed a new line of systems which has made it possible for them also to register a rapid growth in the metal cutting segment and which joins the systems in which it has traditionally been a leader, those for the cutting of plastic and dies.

Sales in the marking segment were also very satisfactory and showed a growth of about 27%, which was achieved with the contribution of both the segments in which the Group is active, that for the marking of small surfaces for identification and small decorations, in which it operates with the Lasit company, and that for the decoration and enhancement of large surfaces for which Cutlite Penta offers the Ot-las brand. We have already commented on the excellent results obtained by Lasit which are close to 40% growth in the first nine months of the year, and how these results were obtained in many different geographical areas.

In the segment of laser sources the growth remains solid thanks to the tendency which is gradually consolidating toward an increase use of the technology of mid-powered CO₂ laser sources excited by radio frequency for applications which are now going through a phase of great success like that for packaging.

There was a decrease in the sales volume for restoration systems from which the Group earns some revenue but mostly contributes to the preservation of the artistic heritage on a global level. These systems are a homage to the location of our company in one of the world cradles of artistic production, to which we dedicate our technologies and in this way acquire high visibility which is sometimes augmented by collaboration and donations to important institutions like the *Angeli del Bello* of Florence.

The sales volume for assistance and after sales service increase tank to the rapid increase in the number of systems installed. The technological evolution of the laser sources installed brought about a significant rise in the sales of systems also with the promise of reducing the maintenance costs and consequently the revenue from service may register a decrease in the future.

The gross margin was 90.899 thousand Euros, an increase of 15,6% with respect to the 78.623 thousand Euros registered on September 30th 2016, thanks to the increase in the sales volume.

The decrease in the sales margins to 41,6% from 43,8% during the first nine months of 2017 was mainly due to the change in the sales mix. In fact, the percentage of sales volume in the industrial sector increased, in particular on the Chinese market where the average margin on sales remains lower than that in the medical sector notwithstanding its improvement; margins in the medical sector decreased slightly, again on account of the mix and the sales policy followed during this period, which had a positive effect on the overall volume but comported a slight decrease in the margins.

Costs for operating services and charges were 25.887 thousand Euros and showed an increase of 13,2% with respect to the 22.875 thousand Euros shown on September 30th 2016; their incidence on the sales volume decreased from 12,7% in the preceding period to 11,9%.

Costs for personnel was 38.464 thousand Euros, showing an increase of 17,3% with respect to the 32.785 thousand Euros for the same period last year, while the incidence on the sales volume decreased from 18,3% on September 30th 2016 to 17,6% on September 30th 2017.

As of September 30th 2017 the employees in the Group were 1.231, an increase with respect to the 1.060 on September 30th 2016 and the 1.093 on December 31st 2016. Most of the new hiring was done by the Chinese subsidiary Penta Laser Equipment (Wenzhou), now in rapid expansion.

A large portion of the personnel expenses is directed towards research and development costs, for which the Group receives grants and reimbursements in relation to specific contracts underwritten by the institutions created for this purpose. As of September 30th 2017 the grants received amounted to 285 thousand Euros, a decrease with respect to the 1.138 thousand Euros registered for the same period in 2016.

Consequently the EBITDA was 26.548 thousand Euros, an increase over the 22.962 thousand Euros shown on September 30th 2016. The slight drop in the incidence on the sales volume which decreased from 12,8% to 12,2% is mainly due to the reduction in the sales margins: the strict control of the personnel costs and overhead comported an increase in productivity and, consequently, an effective leverage which brought the growth in the EBITDA. Thanks to the high sales volume and the increased leverage, in the third quarter the EBITDA registered 14,7% on the sales volume.

The costs for amortizations, depreciations and accruals showed an increase from 3.193 thousand Euros on September 30th 2016 to 4.387 thousand Euros on September 30th 2017, with an incidence on the sales volume which rose from 1,8% to 2,0% on September 30th 2017. In this regard, it should be noted that the bad debts reserve for the Chinese companies was adjusted.

Consequently, the EBIT amounted to 22.160 thousand Euros, an increase with respect to the 19.769 thousand Euros registered on September 30th 2016. The incidence on the sales volume was 10,1% and showed a decrease with respect to the 11% for the preceding year; this represents an evolution which is analogous to that of the EBITDA, including the significant improvement in the third quarter.

Financial charges amounted to 3.041 thousand Euros with respect to the 675 thousand Euros registered for the same period last year. The exchange losses, particularly that of the US dollar, determined the negative result for this period.

The pre-tax income amounted to 19.108 thousand Euros, which decreased with respect to the 42.027 thousand Euros shown on September 30th 2016. It should be recalled that last year, to the pre-tax income we added the amount from "other non-operative income and charges" for 23.019 thousand Euros thanks to the capital gains earned from the sale by

the Parent Company El.En. of 998.628 shares in Cynosure Inc. (Nasdaq CYNO), at an average price of about 45,10 US dollars per share net of sales commissions, for a total of about 45 million US dollars.

Financial position and investments

Comments on the net financial position

The net financial position of the Group decreased by about 7 million with respect to the end of 2016.

The use of cash during this period was determined mainly by the increase in working capital which grew in order to sustain the rapid growth of the Group. In fact, the increase in working capital, an investment which was necessary in order to sustain the development of the activity, can be attributed to the industrial sector in China which doubled with respect to the first half of last year.

Internal growth is the strategic option that the Group is now following with current expenses for research and development and marketing promotions that are entered in the income statement and temporarily reduce EBIT, and technical investments for the manufacturing facilities, the increase in working capital is the other significant entry among the investments made to sustain the growth.

During this year dividends were paid to third parties for a total amount of 8,5 million Euros circa, mostly by the Parent Company that paid dividends for a total of about 7,7 million Euros.

It should also be recalled that 11,5 million Euros, of which 1 million during this year, was invested in financial instruments of the insurance type which, due to their particular nature must be entered among the non-current financial assets; although these represent a use of cash, this amount is not part of the net financial position.

Gross investments made this quarter

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

	30/09/2017	30/09/16
Intangible assets	444	282
Tangible assets	2.171	9.271
Financial fixed assets	8	10
Total	2.623	9.562

3 months	30/09/2017	30/09/16
Intangible assets	52	63
Tangible assets	927	4.978
Financial fixed assets	0	0
Total	979	5.042

The expenses shown in the chart represent ordinary investments for sustaining the current activities; no single expenses are worthy of note.

Research and Development activities

During the first nine months of 2017 the Group conducted an intense research and development activity for the purpose of discovering new laser applications and different light sources for both the medical and the industrial sectors and to place innovative products on the market. In general, for highly technological products in particular, the global market requires that the competition be met by rapidly and continually placing on the market completely new products and innovative versions of old products with new applications or improved performance which use the most recent technologies and components. For this reason extensive and intense research and development programs must be conducted and organized according to brief and mid- to long-term schedules.

In our laboratories we conduct research on new or unsolved problems in medicine and industry and we try to find solutions on the basis of the experience and know-how that we have developed on the interaction between laser light and biological and inert materials. As far as laser lights are concerned, we develop the sources on one hand by making a selection of its spectral content, the methods for generating it and the optimal level of power and, on the other hand, we program its management over time in relation to the laws governing its disbursement and in space as far as the shape and movement of the light beam is concerned.

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

Research which is dedicated to achieving results according to a short-term schedule is concentrated on subjects for which all the preliminary feasibility studies have been completed. For these subjects a choice has already been made regarding the main functional characteristics and performance specifications. The elements for this activity are determined on the basis of information obtained from the work of specialists employed by the company and also as a result of activities of the public and private structures which acted as consultants in the phase of preliminary study and some in the phase of field verification. This mechanism concerns the sector of laser light applications to medicine but also to industry and to the conservation of our cultural and artistic heritage.

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

The El.En. Group is currently the only corporation in the world that produces such a vast range of laser sources, in terms of the different types of active means (liquid, solid, with semiconductor, gas) each one with different wave lengths, various power versions in some cases, and using various manufacturing technologies. Consequently, research and development activity has been directed to many different systems and subsystems and accessories. Without going into excessive detail, a description of the numerous sectors in which the research activities of the Parent Company and some of the subsidiary companies have been involved is given below.

Systems and applications for lasers in medicine

The Parent Company, El.En., in collaboration with the subsidiary DEKA, has been active in research on biological samples and cell cultures in the laboratory for surgical applications of the devices and sub-systems for the SMARTXIDE² family of products (the product name is pronounced "Smartxide quadro" to highlight the Italian origin of the devices belonging to this family, considering the characteristics and performance that are particularly appreciated by the clientele), placed on the market for different applications in surgery, gynecology, for cutaneous ulcers and for aesthetic medicine. For this purpose we are now working on further technological innovations contained in scanning systems characterized by optical systems and newly developed electronic controls, which make it possible to perform surgical operations on various parts of the anatomy with extreme precision.

An application that is extremely important and has already obtained considerable commercial success, is related to urogynecology and urology. We have continued the experimentation activities with the Monna Lisa treatment (or Mona Lisa, depending on the country), our treatment to reduce the effects of the atrophy of vaginal mucous. Moreover, at several centers that operate in university structures or highly prestigious private clinics in Italy or other countries (particularly in the USA) we are conducting important research to increase our knowledge of the acting mechanisms and obtain new applications from further scientific advancements. The fundamental clinical studies conducted on laser treatment of the atrophy of vaginal mucous have confirmed that it is effective, safe and has no negative collateral effects. It can be stated that this is an extremely important innovation for medicine which will always remain among the basic requirements for the specific therapy. It is our precise intention to remain at the top of the global development of this new therapeutic sector and we will direct and re-enforce the scientific and technological developments in order to maintain our pre-eminent position. The atrophy of the vaginal mucous is a very common and incapacitating condition which interacts with other pathologies and affects a high percentage of women in menopause and young women with tumors for whom therapies that alter the hormone balance and provoke a sort of premature menopause are indicated. Moreover, we are

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

For surgical applications we are now obtaining interesting results for the treatment for diabetic feet. In this sector we have introduced the possibility of cleaning (debridement) and removal of the necrotic tissue and the lesions with a laser which leaves the treated portion practically sterile and with the additional advantage of reducing the pain suffered by the patient during the treatment. In fact, the laser light works without mechanical contact with the various parts of the ulcer and vaporizes or cuts the parts to be eliminated with extreme precision; when, on the other hand, for this kind of treatment, scalpels or other contact instruments are used, more nerve endings are involved by the mechanical pressure applied by the scraping or cutting which necessarily comports a tearing effect which involves a volume of material which includes the area surrounding the portions to be eliminated both on the sides and underneath it. Moreover, the laser energy is emitted in impulses of extremely short duration which instantaneously vaporize the nerve endings which may be present only in a small superficial layer of biological material to be eliminated; in fact, due to the brevity of the impulses, the heat does not affect the layers below it. The healing of chronic ulcers by means of laser treatments is based on the above characteristics of the laser beam opportunely designed by us to be used in the clearing phase of the lesion but also on the capacity for bio-stimulation operated by the laser light, our cultural heritage because of the numerous experiments and research that we have conducted over the years. The equipment and the specific treatment we have called “Giotto Touch”; the name of Giotto is related to the great painter who was the first artist to study perspective in painting and which, up to that time had been purely instinctive, and drew figures that were three-dimensional. This important feature recalls the effect generated by our laser equipment which returns the third dimension and structure to the ulcerated tissues and causes them to heal. We have very recently installed Giotto Touch equipment in an important hospital in China after making an agreement with the National Chinese Society for ulcers that are difficult to heal, for the clinical experimentation on healing ulcers. We have applied for a patent for this method and for the treatment of cutaneous ulcers also based on other patents that we have for the regeneration of tissue stimulated by high-powered lasers.

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

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

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

In collaboration with Elesta, we are working on the development of a device for the percutaneous laser ablation of breast tumors, with delivery of energy from a diffusing tip which is cooled by closed forced circulation of biocompatible sterile liquid.

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

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

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

At DEKA they have begun research on the use of lasers for the stimulation of nano-particles in collaboration with various partners including Colorobbia (Bitossi Group) which is active in the development and manufacture of nano-particles; this activity is part of the INSIDE project (“sviluppo di targeting diagenostici e terapeutici basati su nanosistemi e/o linfociti ingegnerizzati per l’individuazione precoce e il trattamento del melanoma e della sclerosi multipla”) (Regione Toscana – POR FESR 2014-2020, Bando 1: Strategic Research and Development Projects).

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

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

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

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

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

They have developed automatic vessel recognition for vascular treatments by camera and experimentation has started.

Laser systems and applications for industry

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

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

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

We have concluded the development activity for a new laser source with planar symmetry equipped with a power of over 1kW, for which we have completed an optical resonator and the conditioning system of the beam and application trials are now being conducted. For the development of the new source with respect to those now in production, we have focused on the mechanical and thermo-mechanical stability of the supporting structure and of the electrodes using simulations on the finished elements of the critical part of the system. For the new source we have begun and are now conducting the development of a radio frequency feeding system with a power suitable for the discharge surface by combining the exits of several amplifiers on a single feeding point.

Important resources have been dedicated to the improvement of the performance of the repeatability/mid-long term drift of the galvanometers used for the scanning heads for high-speed applications in the so-called sector of digital converting and we are now conducting experimental tests and characterization of the devices. Besides this, we have conducted minor research on focalization systems of laser sources both the carbon dioxide type we manufacture and the solid state type in optical fiber.

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

We have developed and started production of laser systems for metal cutting equipped with high-powered laser sources in fiber with sources up to 12 kW installed for high-speed cutting of sheet metal even of considerable thickness. For these systems we have developed focalizing heads with specific technical features which make them suitable for managing very high- powered laser beams.

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

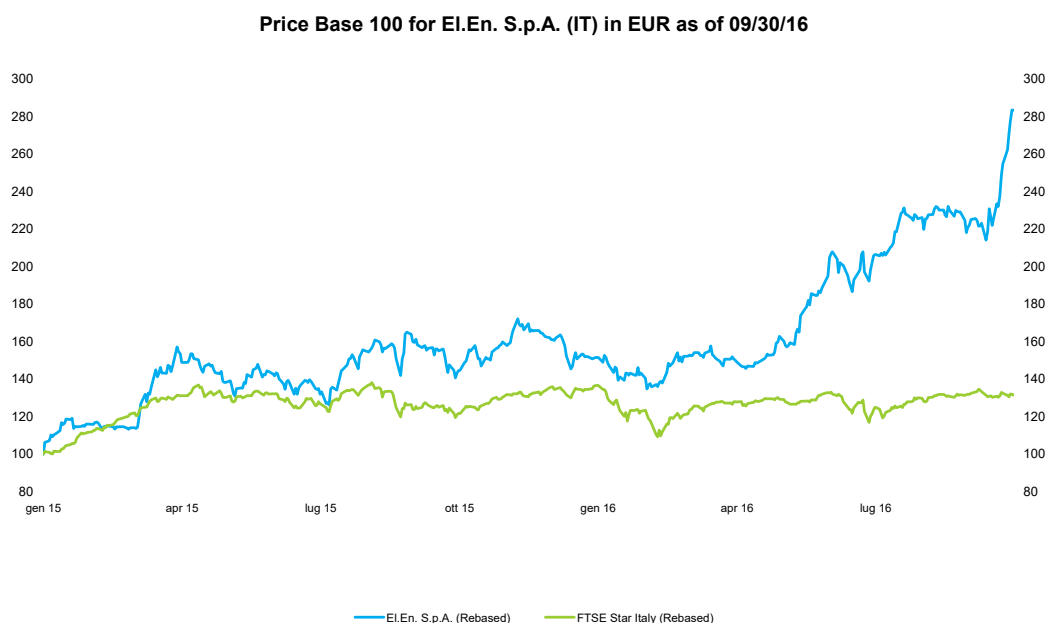
Thousands of Euros	30/09/2017	30/09/2016
Staff costs and general expenses	5.611	5.277
Equipment	126	178
Costs for testing and prototypes	2.431	1.389
Consultancy fees	377	516
Other services	36	43
Total	8.581	7.403

Following the usual company policy, the expense shown in the chart have all been entered in the operating costs.

The amount of expenses sustained corresponds to about 4% of the consolidated sales volume of the Group. The expenses are mostly sustained by El.En. S.p.A., and amount to 8% of its sales volume.

Trend of El.En. stock

The graph below shows the performance of the stock:



Other information

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

Significant events which occurred during this quarter

No significant events occurred during this quarter.

Subsequent events

No significant events occurred after the closure of the quarter.

Current outlook

Thanks to an excellent third quarter, the sales volume and EBIT for the first nine months of 2017 have exceeded those achieved in 2016 and the forecasts that had been given for 2017.

In particular, the increase in sales volume which was over 20% made it possible to benefit from the operating leverage that significantly improved the EBIT.

In consideration of the current favorable conditions of our main markets, reaching the threshold of 300 million Euros in sales volume in 2017 which was unthinkable at the beginning of the year, now represents a concrete and accessible goal. With a sales volume of around 300 million the EBIT would amply exceed the guidance and stay above 10% of the sales volume.

For the Board of Directors

The managing director
Ing. Andrea Cangioli

Attachment “A”: List of consolidated companies as of September 30th 2017

Subsidiary companies

Company name	Headquarters	Currency	Share capital	Percentage held			Consolidated percentage
				Direct	Indirect	Total	
<u>Parent company</u>							
El.En. S.p.A.	Calenzano (ITA)	EUR	2.508.671				
<u>Subsidiary companies</u>							
Cutlite Penta S.r.l.	Calenzano (ITA)	EUR	154.621	96,65%		96,65%	96,65%
Deka Mela S.r.l.	Calenzano (ITA)	EUR	40.560	85,00%		85,00%	85,00%
Esthologue S.r.l.	Calenzano (ITA)	EUR	100.000	50,00%	50,00%	100,00%	100,00%
Deka Sarl	Lione (FRA)	EUR	155.668	100,00%		100,00%	100,00%
Lasit S.p.A.	Torre Annunziata (ITA)	EUR	1.154.000	70,00%		70,00%	70,00%
Quanta System S.p.A.	Milano (ITA)	EUR	1.500.000	100,00%		100,00%	100,00%
Asclepion GmbH	Jena (GER)	EUR	2.025.000	50,00%	50,00%	100,00%	100,00%
ASA S.r.l.	Arcugnano (ITA)	EUR	46.800		60,00%	60,00%	51,00%
BRCT Inc.	New York (USA)	USD	no par value	100,00%		100,00%	100,00%
With Us Co., Ltd	Tokyo (JAP)	JPY	100.000.000		78,85%	78,85%	78,85%
Deka Japan Co., Ltd	Tokyo (JAP)	JPY	10.000.000	55,00%		55,00%	55,00%
Penta-Chutian Laser (Wuhan) Co., Ltd	Wuhan (CHINA)	CNY	20.467.304		55,00%	55,00%	53,16%
Penta-Laser Equipment Wenzhou Co., Ltd	Wenzhou (CHINA)	CNY	31.369.325		55,00%	55,00%	53,16%
Cutlite do Brasil Ltda	Blumenau (BRAZIL)	BRL	11.666.678	68,56%		68,56%	68,56%
Lasercut Technologies Inc.	Hamden (USA)	USD	50.000		100,00%	100,00%	100,00%
Pharmonia S.r.l.	Calenzano (ITA)	EUR	50.000	100,00%		100,00%	100,00%
Deka Medical Inc.	San Francisco (USA)	USD	10		100,00%	100,00%	100,00%
JenaSurgical GmbH	Jena (GER)	EUR	200.000		100,00%	100,00%	92,50%
Accure Quanta, Inc.	Wilmington (USA)	USD	5		100,00%	100,00%	100,00%
Merit Due S.r.l.	Calenzano (ITA)	EUR	13.000		100,00%	100,00%	96,65%

Associated companies

Company name	Headquarters	Currency	Share capital	Percentage held			Consolidated percentage
				Direct	Indirect	Total	
Immobiliare Del.Co. S.r.l.	Solbiate Olona (ITA)	EUR	24.000	30,00%		30,00%	30,00%
Actis S.r.l.	Calenzano (ITA)	EUR	10.200	12,00%		12,00%	12,00%
Elesta S.r.l.	Calenzano (ITA)	EUR	110.000	50,00%		50,00%	50,00%
Chutian (Tiajin) Laser Technologies Co.,Ltd	Tianjin (CHINA)	CNY	2.000.000		41,00%	41,00%	21,79%
Quanta Aesthetic Lasers Usa, LLC	Englewood (USA)	USD	500.200		19,50%	19,50%	19,50%
Accure LLC	Delaware (USA)	USD	1.000		43,82%	43,82%	43,82%

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

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

Calenzano, November 14th 2017

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