ANNUAL FINANCIAL REPORT 2017

El. En. Group

EL.EN. S.p.A.

ANNUAL FINANCIAL REPORT
as of December 31st 2017

El.En. S.p.A.
Headquarters in Calenzano (Florence) – Via Baldanzese n. 17
Capital stock: underwritten and paid € 2.508.671,36
Company registered with the Registro delle Imprese di Firenze n. 03137680488

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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

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.

MANAGEMENT REPORT 2017

INTRODUCTION

To our shareholders,

The financial year 2017 closed with a consolidated sales volume of 306,5 million Euros and a net consolidated income for the Group of 15,6 million Euros net of income tax for 6,8 million and a net result for third parties of 4,8 million Euros. The management and the Company wish to express their great satisfaction for these results.

REGULATORY FRAMEWORK

In compliance with the *European Regulation* n. 1606 of July 19th 2002, the El.En. Group has formulated the consolidated financial statement as of December 31st 2017 in compliance with the international accounting standards approved by the European Commission.
In conformity with Legislative Decree 38/2005, starting in the financial year 2006 the annual financial statements of the parent company, El.En. S.p.A. (separate financial statement) has been drawn up according to the international accounting standards (IFRS); when reporting data related to the parent company we will refer to the above mentioned standards.

SIGNIFICANT EVENTS WHICH OCCURRED DURING THE FINANCIAL YEAR 2017

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

- 33.791.963,20 Euros as extraordinary reserve;
- for the shares in circulation on the date that coupon 1 came due, May 29th 2017 – in compliance with art. 2357-ter, second sub-section of the Civil Code – a dividend for the amount of 0,40 Euros gross for each share in circulation on the date of the resolution, for a total amount of 7.718.988,80 Euros.

The assembly also voted to approve the report on incentive remuneration, ex art. 123-ter T.U.F..

In the month of May, Cutlite Penta S.r.l. participated in the founding of Laser Emme S.r.l. and acquired a 19% equity for an amount of 7.600 euros.

At the end of the month of November, the minority shareholders of the subsidiary Cutlite do Brasil withdrew from the company. Because of the reduction in capital stock the percentage owned by the Parent Company El.En. SpA rose from 68,56% to 98,27%.

On December 18th 2017 El.En. Spa sold their equity in Imaginalis Srl to Epica International for an amount of 581 thousand Euros to be paid as follows: about 112 thousand Euros in cash and the rest by means of 493.458 newly issued shares.

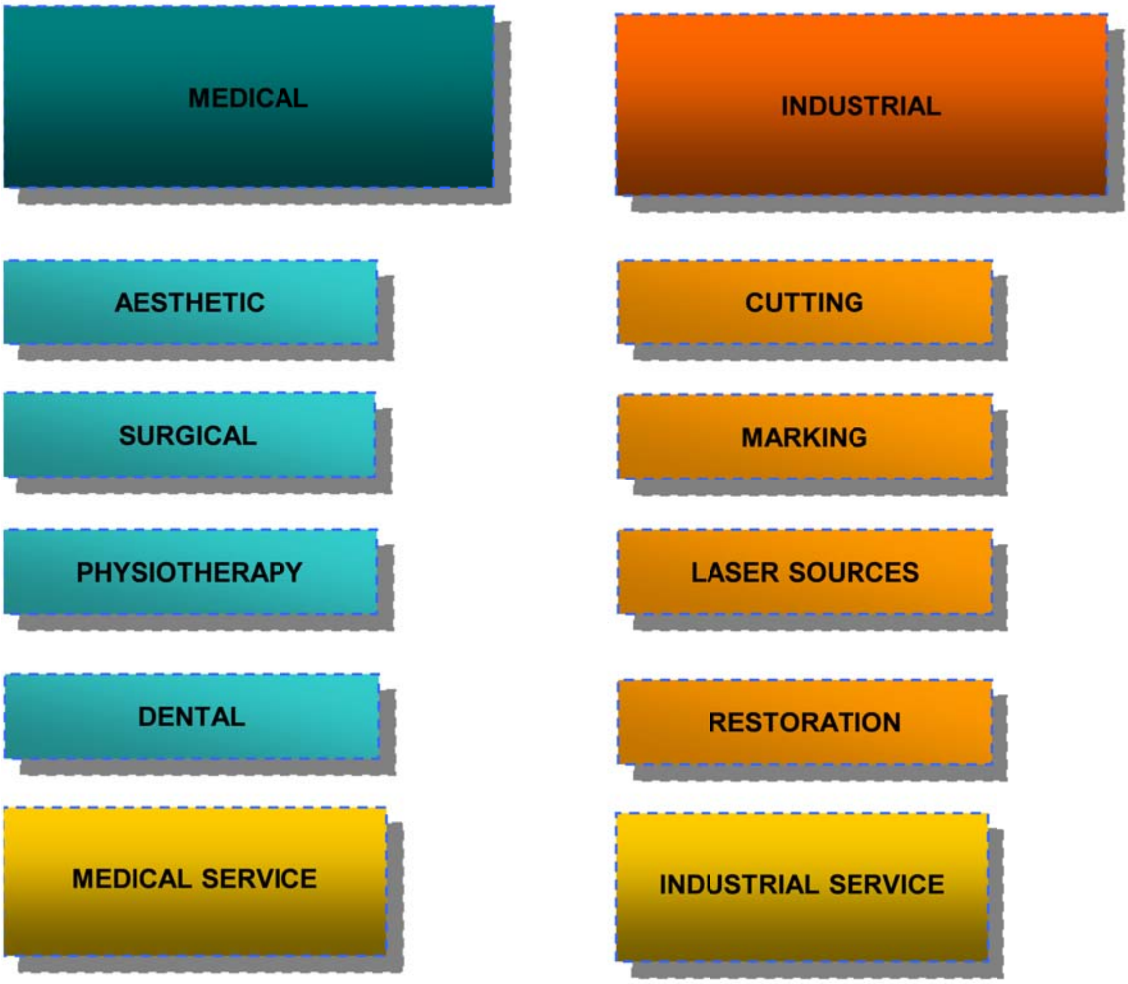
At the end of the financial year 2017, as part of a process of reorganization in the industrial sector of the Group, Cutlite Penta passed to a newly constituted company all of the activities related to laser cutting, with effect starting in January 2018. Moreover, Cutlite Penta was renamed Ot-las, and the name Cutlite Penta was given to the new company. This was done in order to maintain the correspondence between the name of the company and their respective brands since Ot-las kept the business of laser marking (which has always been sold under the name of Ot-las) while the Cutlite Penta brand has always been associated with systems for laser cutting.

DESCRIPTION OF THE ACTIVITIES OF THE GROUP

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

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

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



An integral part of the main company activity of selling laser systems, is that of the post-sales customer assistance service which is not only indispensable for the installation and maintenance of our laser systems but also a source of revenue from the sales of spare parts, consumables and technical assistance.
The division of the Group into numerous different companies also reflects the strategy for the distribution of the products and for the organization of the activities for research and development and marketing. El.En. is one of the most successful groups on our market, thanks to a series of acquisitions concluded over the years, in particular, in the medical sector (DEKA, Asclepion, Quanta System and Asa).
Following an approach that is unique and original for our sector, each company that has entered the Group has maintained its own special characteristics for the type and segment of the product, with brands and distribution networks that are independent from the other companies of the Group and represent a real business unit. Each one has been able to take advantage of the cross-fertilization which the individual research units has had on the others and has made their own elective technologies available to the other companies of the Group. Although this strategy makes management more complex, it is chiefly responsible for the growth of the Group which has become one of the most important companies in the field.
While we recognize the importance that the multi-brand and multi-R&D has had on the growth of the Group, at the same time we realize the need to increase the coordination between the activities of the different business units of the medical sector and promote the joint activities like distribution in Italy which, under the new brand name of "Renaissance" will unite into a single organization the pre-existing networks of Deka and Quanta System.
A better integration of the medical business units is, in fact, one of the objectives of the General Director of El.En. Spa, who took on this role, a new one for the company, on January 1st of 2017.

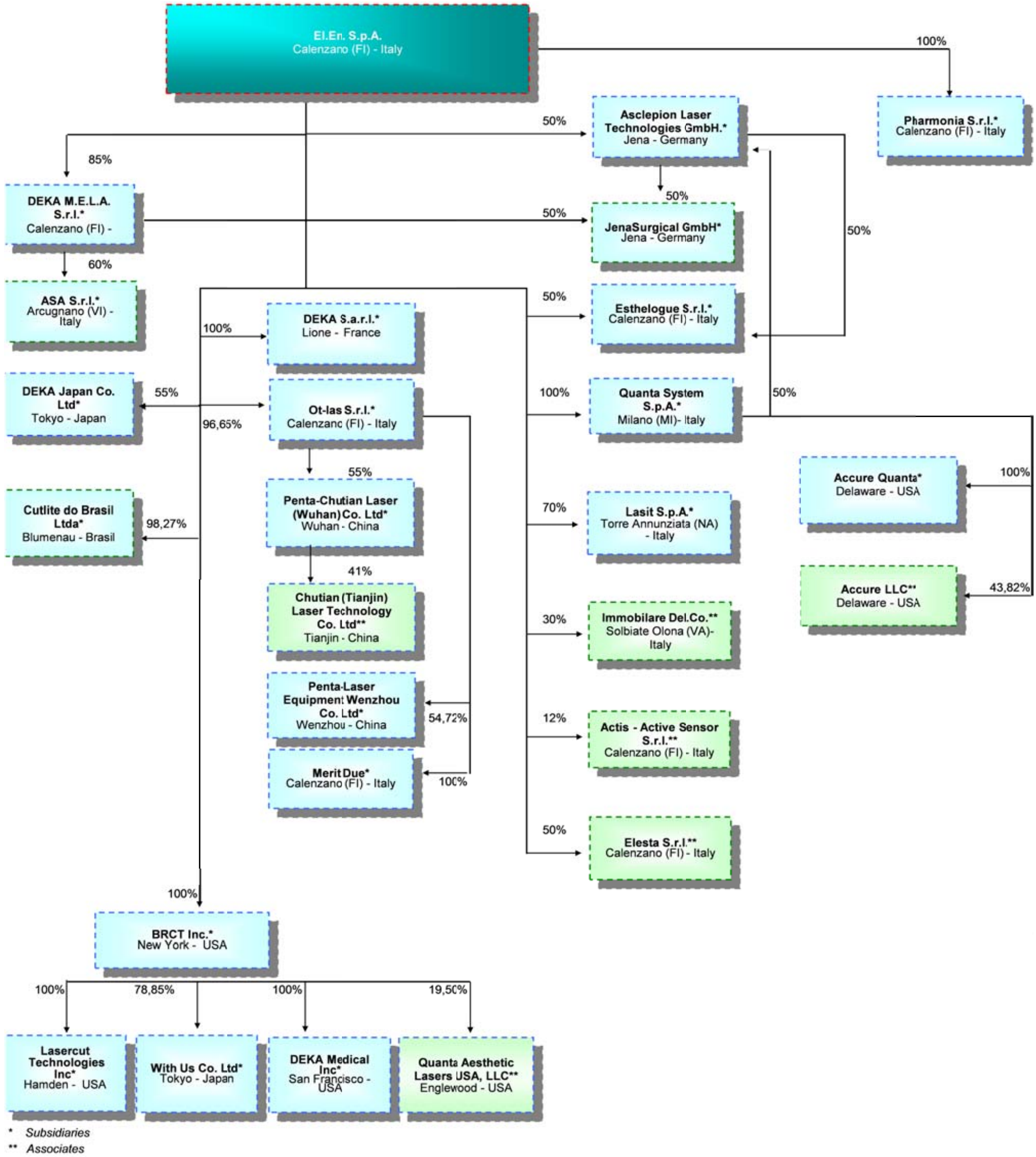
Although they both use laser technologies and share numerous strategic components and some activities at the R&D and production level, the Medical and Industrial sectors are active on two completely different kinds of markets. Their internal operations are organized in such a way as to satisfy the radically different needs of the clients of the two different sectors. Moreover, specific dynamics in the demand and expectations for growth that are connected to different key factors correspond to each of the two markets.
The outlook for growth is positive for both markets. In the medical sector, there is a constant increase in the demand for aesthetic and medical treatments by a population which, on the average, tends to age and wishes to limit as much as possible the effects of aging. There is also an increased demand for technologies that are able to minimize the duration of surgical operations and of post-operative recovery or to increase their effectiveness by reducing the impact on the patient (minimally invasive surgery) and the overall costs. For the industrial sector laser systems represent an increasingly indispensable tool for manufacturing since they offer flexible, innovative technologies to companies that are competing on the international market and wish to raise their qualitative standards and increase productivity. Although they continue to be used on the traditional market of manufacturing, laser systems represent a high-tech component of it which, thanks to the continued innovation of the laser product and processes that lasers allow, presents excellent prospects for growth.

The extraordinary growth registered in the last two years and, particularly in 2017, in the industrial sector, which was far greater than the growth predicted by market researchers, can be attributed to the transformation of the market for laser systems for cutting sheet metal and special metals, the most important market for laser machining, and to our capacity to take advantage of this positive phase. The main reason for this transformation is the technological shift in which laser sources in fiber replaced and quickly made obsolete the high powered CO_2 laser sources which had been used up to that time for this type of work. Laser sources in fiber made it possible for the users to reduce the costs of running the system and offered greater ease of installation and maintenance, with the possibility of installing lasers with a level of power that had been unthinkable with CO_2. lasers. The purchase and management of high-powered systems (more than 4 kW) which, up until two years ago had been almost prohibitively expensive for most potential users, is now accessible to a growing number of users and can be set for power levels of up 10/12 kW. The high level of productivity for laser cutting systems equipped with high-powered optical fibers is reshaping the market and replacing traditional technologies for cutting metals like punches which for cutting and perforating require utensils that have no flexibility and wear out over time. Along with the amplification of the market, the superior performance of the systems that are now available have brought about the rapid obsolescence of the systems that were already in operation and this accelerated the market for replacements and up-dating of the vast number of systems that were installed.

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

DESCRIPTION OF THE GROUP

On December 31st 2017, the Group was composed as follows:



PERFORMANCE INDICATORS

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

	31/12/2017	31/12/2016
Profitability Ratios (*):		
ROE (Net Income / Own Shareholders' Equity)	8,9%	28,6%
ROI (EBIT / Total Asset)	9,1%	9,2%
ROS (EBIT / Sales)	9,9%	10,9%
Capital structural ratios:		
Investments Flexibility ratio (Current Asset / Total Asset)	0,80	0,78
Leverage ((Net Equity+ Loans) / Net Equity)	1,07	1,08
Current Ratio (Current Asset / Current Lability)	2,34	2,49
Current liability coverage ((Current receivables + Cash & cash equivalent + Investments) / Current liabilities)	1,76	1,84
Quick ratio ((Cash & cash equivalent + Investments) / Current liabilities)	0,86	1,03

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

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

ALTERNATIVE NON-GAAP MEASURES

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

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

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

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

In order to evaluate its capacity to meet its financial obligations the Group uses as alternative performance indicators:
- the **net financial position** which means: cash available + securities entered among current assets + current financial receivables – debts and non-current financial liabilities - current financial debts.

GROUP FINANCIAL HIGHLIGHTS

The consolidated sales volume grew 21,3% with respect to 2016 and exceeded the threshold of 300 million, establishing a new record for the Group and confirming the solid growth that has been registered in the past few years. The consolidated EBIT came close to 10% of the sales volume and reached 30,4 million showing a growth of 10,35% over 2016. Notwithstanding the growth in the EBIT, the net result decreased from 40,4 million in 2016 to 15,6 million in 2017. This decrease is due mostly to the sale of Cynosure shares in 2016 that had made it possible to enter among the non-operating income a capital gains of about 23 million Euros most of which is tax free because of the PEX exemption.

The EBIT are, once again, excellent, and show a significant improvement, even exceeding the guidance given early in the year and its up-dating showing an increase supplied after the second and third quarters. We knew that the net result would be lower because the huge capital gains earned in 2016 was clearly not going to be repeated.

The financial year 2017was characterized by a very rapid growth in the sales volume in the industrial sector which, by the end of the year had shown an extraordinary growth of 52,5%. Even though the medical sector had shown a good growth rate, the overwhelming rise in the industrial sector made it so that it represented 43% of the revenue of the Group (it had been 34% in 2016). By taking advantage of a favorable phase in the market, the factors of which will be discussed further on in this report, the companies in the industrial sector were able to manage the extremely rapid growth in the sales volume by controlling the overhead costs and achieving a leverage effect that considerably improved the revenue results and the contribution of the industrial sector to the overall revenue of the Group became determining. The operating structures of the Group in fact, were ready to deal with the important growth which they were able to achieve in 2017, and reached the critical mass necessary to achieve results which were comparable to those in the medical sector. The ground had already been laid in order to be able to take advantage of the opportunities offered by the rapidly expanding market by the investments made to acquire a significant position on certain markets, in particular the Chinese market for flat cutting sheet metal.

Although it showed a drop in revenue from one of its most representative products and on its most important market, the Mona Lisa Touch for vaginal atrophy in the United States, the excellent results shown by all the other segments of application and for Mona Lisa Touch outside of the United States, allowed the Group to register, again in 2017, an increase in revenue of 5% in the medical sector, with a trend that gradually improved during the year.

The improvement of the general economic conditions during the year had beneficial effects on our markets and re-enforced the generally positive tendency thanks also to factors that are independent of the economic cycle. Also in Italy where the growth in the GNP has demonstrated that we are now leaving the ten-year financial crisis behind us, long after the other European countries and the United States where the growth of the GNP has been much stronger that in Italy, the obstacles and the difficulties that were present in the years following 2008 have gradually disappeared. The credit that is necessary for the purchase of equipment is now sufficiently available and, above all, the confidence in the sustainability of the positive economic phase have created favorable conditions for the purchase of our systems. The trend in currency exchange has, unfortunately, not been favorable, with the Euro which became stronger all year long and, in particular, in December, rising from1,05 per dollar on December 31st 2016 to 1,19 on December 31st 2017, and then rising even more in the first months of 2018. The negative effects of the weakness of the dollar are reflected in the result of the financial management which felt the loss on its credits/debts in this currency and, in general, makes our competitors who have their cost base in US dollars more competitive in our regard.

In the section dedicated to research and development we will describe the main topics and show the crucial rol held by this activity in our strategy which is the first critical factor in our success. The presence of several different research and development directions for new products and applications is at the base of the effectiveness of our most important competitive weapon. Radical innovations in the past have made it possible to open new markets with rapid increases in sales volume combined with the high revenue that normally goes along with extremely innovative new products. On the other hand, gradual innovations which improve the performance, functioning or ergonomics and aesthetics of certain systems make it possible to maintain a competitive position in specific application sectors which constitute a stable market.
One should also take note of the multi-disciplinary nature of our research activity, on the product to the extent in which we make technological improvements on our systems, and on the process in which the innovative technologies and meticulous application studies make the implementation of new medical applications or industrial processes possible.

The table below shows the sub-division of the sales volume, as of December 31st 2017, between the activity sectors of the Group compared with those for 2016.

	31/12/2017	Inc %	31/12/2016	Inc %	Var. %
Medical	174.416	56,91%	166.056	65,73%	5,03%
Industrial	132.045	43,09%	86.590	34,27%	52,49%
Total revenue	**306.461**	**100,00%**	**252.646**	**100,00%**	**21,30%**

The chart below shows the trend in sales volume for the period divided by geographical area.

	31/12/2017	Inc %	31/12/2016	Inc %	Var. %
Italy	60.038	19,59%	46.983	18,60%	27,79%
Europe	52.839	17,24%	43.832	17,35%	20,55%
ROW	193.584	63,17%	161.831	64,05%	19,62%
Total revenue	**306.461**	**100,00%**	**252.646**	**100,00%**	**21,30%**

The growth of the sales volume is significant in all the geographical area analyzed; the Italian market shows the most significant growth, both in the medical sector and the industrial sector.

In the medical sector, the new sales organization of Deka and Quanta has encountered immediate success, with Deka conducting the distribution in Italy for the two ranges of products joined under the brand name of *Renaissance* and the growth of Esthelogue, specialized in the distribution of technologies for the professional aesthetics sector, was consolidated.
The industrial sector in Italy has returned to a significant volume and registered the best year since the beginning of the crisis. Favorable market conditions and products focused on the needs of the market were, in Italy and abroad, the determining factors for the good results. The Italia market has benefitted from the fiscal facilitations promoted by the government financial policy of 2017 with increased amounts of depreciation, especially for the goods which fall into the category called *Industria 4.0*. Excellent results were also shown by Ot-las S.r.l. (formerly Cutlite Penta S.r.l.) and Lasit, who showed that they were able to take advantage of the opportunities offered by the domestic market.

However, the volume of business also increased for exports. For example, even though Lasit received an undeniable benefit from the fiscal facilitations offered by *Industria 4.0*, for whose purposes the characteristics of an integrated marking system perfectly suit the cybernetic environment of a smart factory, at the same time the company more than doubled their exports, which rose from 24% to 41% of their sales volume and expanded independently from any fiscal facilitations, thanks to the quality of its products and the capacity to supply flexible, customized solutions to meet the specific needs of their clients.

For the sector of the medical and aesthetic systems, which in 2017 represented about 57% of the sales volume of the Group, the sales are shown on the chart below:

	31/12/2017	Inc %	31/12/2016	Inc %	Var. %
Aesthetic	100.002	57,34%	83.984	50,58%	19,07%
Surgical	34.528	19,80%	37.233	22,42%	-7,27%
Physiotherapy	9.432	5,41%	8.491	5,11%	11,07%
Dental	406	0,23%	346	0,21%	17,39%
Others	193	0,11%	306	0,18%	-36,92%
Total medical systems	**144.561**	**82,88%**	**130.361**	**78,50%**	**10,89%**
Medical service	29.855	17,12%	35.696	21,50%	-16,36%
Total medical revenue	**174.416**	**100,00%**	**166.056**	**100,00%**	**5,03%**

The sales volume for medical system grew increasingly throughout the year and by the end of the year had reached a growth rate of over 10%.

The overall picture therefore, is favorable, and has been driven by the aesthetic sector where the Group's sales volume exceeded 100 million Euros showing a growth of over 19%. The dental and therapy segments also showed two-figure growth. Further on we will examine in detail the reasons and motivation for the drop in the segments of surgery and service which limited to just 5% the annual growth in the sector but which were mostly expected and included in the forecasts that the company communicated to the market already at the beginning of 2017.

The record sales volume in the aesthetic segment was reached thanks to the contribution of all the main areas of application in which the Group operates: hair removal, removal of tattoos and pigmented lesions, and skin rejuvenation and all three of the business units which, independently ma coordinated within the Group, operate in his sector: Deka, Quanta e Asclepion.

Thanks to the continual introduction of new technologies we have continued to grow in the hair removal segment. The market is expanding and we are drivers in its growth thanks to innovative systems which improve the effectiveness and lower the price of the treatments, thus augmenting the number of potential clients. Deka's Motus AX system, with its particular features which make alexandrite lasers more accessible and less painful, closed its second year on the market on the rise. The new and more powerful versions of Mediostar (produced by Asclepion in the Next, Pro and Light versions) have consolidated its position as a standard of reference in Italy in the professional aesthetic sector where it is sold by our direct distribution network which operates under the brand name of Esthelogue. With Thunder MT Quanta has launched the most powerful hair removal laser available on the market and renewed its tradition as leader for specific technologies for this kind of equipment.
Also for systems for the removal of tattoos and pigmented lesions, which is the second in the Group for volume of business, the results were excellent. This is the main result thanks to the consolidation of the success of the picoseconds systems of Quanta System, the Discovery Pico and il Discovery Pico plus, which are also sold through some of the agents in Deka's network, for example, in Italy. By using impulses with a duration in picoseconds obtained thanks to an innovative and ingenious technological solution., these systems make it possible to increase the effectiveness of the treatment and are positioned on the market at a level where its innovation allows for a considerable sales margin. The range of systems with traditional technology using impulses in nano-seconds which includes Quanta's Q-Plus C and Asset, the QS4 by Quanta and the Tattoo-Star by Asclepion have also registered excellent results. The geographical distribution of sales of these systems corresponds to different application areas of the technology which are more popular in some regions than others. In the western world, the vast and growing popularity of tattoos also comports a demand for their removal when they are no longer desired. In eastern countries the technology makes it possible to lighten the skin color and remove pigmented lesions which appear with age on the skin of Orientals and for this reason the treatment is referred to as skin toning or anti-aging.

There was a marked increase in the sale of CO_2 systems for skin rejuvenation along with the erbium systems for ablation; this is a segment, like that for hair removal, in which the Group has been active for more than twenty years but which continues to represent an important market. Clearly, the technologies that are offered now have little in common with those of twenty years ago since they have exceeded them in effectiveness, ease of use, reliability and low cost and for these reasons the market has continued to expand.

Sales of the Group's body shaping lasers are still of a limited volume, however, we are about to launch the product which, during 2017 we announced would be available in the second quarter of 2018. The sales volume for 2017 grew but up to now only thanks to the technologies developed by third parties and distributed by our network.

There are three main areas in which the Group offers solutions for laser surgery. Urology with its applications for lithotripsy and the treatment of benign hypertrophy of the prostate (BPH), otorhinolaryngology with solutions for ear and larynx surgery and gynecology with its Mona Lisa Touch system for the treatment of vaginal atrophy and other gynecological pathologies. The distribution of the Group's products, just as occurs in the aesthetic sector, takes place through a network of direct distribution in Italy and Germany by means of some important OEM clients and through distributors. The sales volume for Monna Lisa Touch in the United States (where it is spelled Mona Lisa Touch – MLT) is considerable thanks to the efficient distribution system organized by Cynosure which has made MLT an absolute leader on the market. The decrease in the sales volume in the surgery sector is due exclusively to the drop registered for sales in the United States. This result was not unexpected because of the stabilization of the market and the scheduled reduction of inventory by our exclusive distributor; in any case, although the decrease was attenuated in the third and fourth quarters due to a substantial volume of purchase by Cynosure/Hologic, it is still significant. Cynosure is now a division of its Parent Company Hologic and this is a change which is potentially very positive for the development of the market since Hologic is a strong and consolidated partner in the specific sector of gynecology and better able to deal with the market, both for the commercial distribution of the product as well as for the clinical experimentation which is needed to confirm the leadership of the product and amplify the range of its elective applications. Hologic has admitted that they had to face a series of unexpected difficulties in the new division and have started a profound re-organization that will mean the postponement until next year of the acceleration in sales that the significant investment made in Cynosure (1.6 billion US dollars) comports. In the rest of the world the sales volume for MLT showed a further increase with respect to 2016.

The other applicative segments for surgery showed good results with considerable growth and consolidated their positions both in the distribution of the products with the brand names of the Group (which in this sector are Quanta, Jena Surgical and Deka), as well as for the products introduced on the market thanks to OEM agreements with leading companies in the sector.

The trend in the physical therapy sector, with a growth of over 10%, remains very good. This business is conducted for the Group by Asa in Vicenza which, by carefully balancing investments in structures, products and marketing has gradually amplified their International presence. The activity which supplies clinical support and training in the use of laser technologies for physical therapy is at the base of the success of the company. Along with the sales, they supply qualified training programs which instruct the clientele in the use of the correct doses of energy to be used for the specific applications that our technologies make possible and to follow the scientifically tested procedures. In this way ASA makes the benefits of this highly effective laser application generally available.

The drop in after-sales services and sales of consumables has been confirmed also on an annual basis. There are three reasons for this drop: a decrease in sales of up-grades on aesthetic systems, an activity which had reached its peak in 2016; a fall in the sales of certain consumables like creams for the aesthetic sector and optical fibers for surgery, and thirdly, the exceptional revenue that was received as part of a service contract which had characterized 2016. The drop was derived mostly from ordinary events but of an exceptional nature which occurred in 2016 and therefore we are confident that the revenue from after-sales service will resume their normal growth level in 2018.

For the sector of industrial applications, the chart below shows the break-down of the sales volume divided by the market segment in which the Group operates.

	31/12/2017	Inc %	31/12/2016	Inc %	Var. %
Cutting	102.897	77,93%	61.677	71,23%	66,83%
Marking	17.300	13,10%	13.548	15,65%	27,70%
Laser sources	3.363	2,55%	2.712	3,13%	23,98%
Conservation	173	0,13%	383	0,44%	-54,73%
Total industrial systems	**123.733**	**93,71%**	**78.320**	**90,45%**	**57,98%**
Industrial service	8.312	6,29%	8.270	9,55%	0,51%
Total industrial revenue	**132.045**	**100,00%**	**86.590**	**100,00%**	**52,49%**

In 2017 with a sales volume of 103 million the laser cutting segment exceeded the medical and aesthetic segment, became the most important segment in the Group for sales volume.

In the introduction we commented that the market for laser systems for cutting sheet metal is going through a phase of rapid expansion due to a technological discontinuity which has multiplied the number of potential users and, at the same time, has reduced the technological gap which existed in the traditional technology between the market leaders and their competitors, which made it possible for even minor players to acquire portions of the market.

The chief driver in this transformation and acceleration has been the Chinese market. In China, El.En. had applied an expansion strategy for metal cutting starting in 2007 by creating a joint venture in Wuhan for the purpose of taking advantage of the opportunities on the local market which is the most important market in the world for manufacturing activities. The market position they achieved made it possible to fully take advantage of the technological change and the consequent market explosion In order to sustain this latter, the Group started a second, very modern factory in Wenzhou, which is now about to reach the saturation point in its production capacity.

However, the successes in the cutting segment are not just confined to China: Ot-las S.r.l. (formerly Cutlite Penta S.r.l.) has designed a new line of systems which have allowed it to grow rapidly also in the segment of metal cutting, which joins that of their traditional leadership, cutting plastic and dies. The growth of Ot-las S.r.l. (formerly Cutlite Penta S.r.l.) in 2017 was 25%.

Results in the marking segment were also very satisfactory, with a growth of about 28%, achieved with the contribution of both segments in which the Group is active: in the first place, that for marking small surfaces for identification and decoration in which Lasit operates and that for the decoration and enhancement of large surfaces in which Ot-las S.r.l. (formerly Cutlite Penta S.r.l.) offers Ot-las brand systems. We have previously commented on the excellent resuls of Lasit, which exceeded a growth of 35% obtained at an international level.

The annual growth was excellent in the segment of laser sources in which our CO_2, technology, which is no longer used for metal cutting that requires high-powered sources is, however, the preferred source for mid-power lasers for applications that are now going through a phase of great success, like packaging or special applications in the textile sector.

There was a decrease in the sales volume in the restoration sector, an area where the Group receives some revenue but above all, contributes to the conservation of the world's artistic heritage. The activity of the Group in this sector represents a homage paid to our location in one of the cradles of the world's greatest art, and is an activity to which we dedicate our technologies and receive a certain amount of visibility, especially through collaboration and donations to important institutions like the Getty Museum in Malibu, California, and, recently, the Angeli del Bello Association in Florence.

The sales volume for service and after-sales assistance registered a small increase which is derived chiefly from the increase in the number of systems installed. The technological evolution of the sources already installed created a large increase in the sales of systems also in view of a presumed reduction in the maintenance costs which, in the future may also comport a reduction in revenue for service.

CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 31st 2017

The chart below shows the consolidated income statement for the year ending December 31st 2017 compared with that for 2016.

Income Statement	**31/12/2017**	**Inc %**	**31/12/2016**	**Inc %**	**Var. %**
Revenues	306.461	100,0%	252.646	100,0%	21,30%
Change in inventory of finished goods and WIP	5.452	1,8%	3.401	1,3%	60,29%
Other revenues and income	4.264	1,4%	3.224	1,3%	32,27%
Value of production	**316.178**	**103,2%**	**259.272**	**102,6%**	**21,95%**
Purchase of raw materials	166.694	54,4%	129.636	51,3%	28,59%
Change in inventory of raw material	(419)	-0,1%	(1.587)	-0,6%	-73,60%
Other direct services	22.618	7,4%	20.689	8,2%	9,32%
Gross margin	**127.284**	**41,5%**	**110.533**	**43,8%**	**15,15%**
Other operating services and charges	37.068	12,1%	32.030	12,7%	15,73%
Added value	**90.216**	**29,4%**	**78.503**	**31,1%**	**14,92%**
Staff cost	54.091	17,7%	46.116	18,3%	17,29%
EBITDA	**36.125**	**11,8%**	**32.388**	**12,8%**	**11,54%**
Depreciation, amortization and other accruals	5.676	1,9%	4.794	1,9%	18,40%
EBIT	**30.449**	**9,9%**	**27.594**	**10,9%**	**10,35%**
Net financial income (charges)	(3.365)	-1,1%	1.933	0,8%	
Share of profit of associated companies	(430)	-0,1%	186	0,1%	
Other non-operating income (charges)	564	0,2%	23.009	9,1%	-97,55%
Income (loss) before taxes	**27.217**	**8,9%**	**52.721**	**20,9%**	**-48,37%**
Income taxes	6.807	2,2%	9.728	3,9%	-30,03%
Income (loss) for the financial period	**20.410**	**6,7%**	**42.993**	**17,0%**	**-52,53%**
Net profit (loss) of minority interest	4.776	1,6%	2.586	1,0%	84,71%
Net income (loss)	**15.634**	**5,1%**	**40.408**	**16,0%**	**-61,31%**

The gross margin was 127.284 thousand Euros, an increase of 15,1% with respect to the 110.533 thousand Euros for 2016 thanks to the increase in the sales volume.

The decrease in sales margins from 43,8% to 41,5% in 2017 was due mainly to the variation in the sales mix. In fact, the quota of sales in the industrial sector increased, in particular on the Chinese market where the sales margins are lower than those in the medical sector, notwithstanding an improvement shown as the year progressed. The margins in the medical sector also decreased slightly, in this case due to the effects of the mix and the sales policy pursued during the period which had a positive effect on the overall volume but comported a slight reduction on the margins.

The costs for operating services and charges were 37.068 thousand Euros, showing an increase of 15,7% with respect to the 32.030 thousand Euros registered in 2016; their incidence on the sales volume remains practically unchanged, falling to12,1% from 12,7% for last year.

The costs for personnel were 54.091 thousand Euros, showing an increase of 17,3% with respect to the 46.116 thousand Euros for last year, while the incidence on the sales volume decreased from 18,3% in 2016 to 17,7% in 2017.

As of December 31st 2017 there were 1.212 employees in the Group, an increase with respect to the 1.093 registered on December 31st 2016. Most of the new hiring was made by the Chinese subsidiary, Penta Laser Equipment (Wenzhou) which is now in rapid expansion.

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

The grants that had been received by December 31st 2017 amounted to 298 thousand Euros, a decrease with respect to the 1.257 thousand Euros registered for last year. After the assignment of stock options/stock based compensation to employees and collaborators, the income statement includes among the personnel epenses the figurative cost calculated for the these plans: for 2017 the overall cost was 1,4 million Euros with respect to the 0,2 million Euros for last year.

The EBITDA amounted to 36.125 thousand Euros, an increase with respect to the 32.388 thousand Euros shown for 2016. The slight decrease in the incidence on the sales volume which dropped from 12,8% to 11,8% is mainly due to the reduction in the sales margins: the stringent control of the personnel and overhead costs comported an increase in productivity and consequently an effective operative leverage, at the base of the of the total value of the EBITDA.

The costs for amortizations, depreciations and accruals showed an increase from 4.794 thousand Euros on December 31st 2016 to 5.676 thousand Euros on December 31st 2017, with an incidence on the sales volume which is unchanged at 1,9%. In this regard, the increase in the bad debt reserve for the Chinese companies should be noted.

The EBIT, therefore, showed a positive amount of 30.449 thousand Euros, an increase with respect to the 27.594 thousand Euros on December 31st 2016. The incidence on the sales volume was close to 10% and showed a decrease with respect to the 10,9% for last year. For the EBIT which increased in value but not in incidence on the sales volume we may make the same considerations as those made for the EBITDA.

The financial charges amounted to 3.365 thousand Euros with respect to the financial income of 1.933 thousand Euros registered last year. The differences in exchange rates and, in particular, that with the US dollar determined the cost for the period.

It should be recalled that the amount shown under the heading of “Other non-operating income and charges” for an amount of 23.009 thousand Euros on December 31st 2016, was made up of the capital gains earned from the sale by El.En. SpA of the last shares held in Cynosure Inc.

The costs for income current and deferred taxes this year was 6.807 thousand Euros: the overall tax rate was 26%. For the details related to taxes and tax rates, please consult the chart in the Explanatory Notes. It should be remembered that the capital gains entered in the income statement for the sale of the Cynosure shares in 2016 was subject to a partial regime of fiscal exemption called PEX and therefore had determined an average tax rate that was very low.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL POSITION AS OF DECEMBER 31st 2017

The statement of financial position below shows a comparison between this year's results and those of last year.

Statement of financial position	31/12/2017	31/12/2016	Variation
Intangible assets	4.259	3.896	363
Tangible assets	39.178	39.616	-439
Equity investments	3.587	3.818	-230
Deferred tax assets	6.269	6.526	-257
Other non-current assets	12.371	10.881	1.490
Total non current assets	**65.664**	**64.737**	**927**
Inventories	66.567	62.138	4.429
Accounts receivable	80.445	62.446	17.999
Tax receivables	8.942	5.213	3.729
Other receivables	13.939	8.564	5.375
Financial instruments	2.036	0	2.036
Cash and cash equivalents	97.351	97.589	-238
Total current assets	**269.281**	**235.950**	**33.331**
Total Assets	**334.945**	**300.687**	**34.258**
Share capital	2.509	2.509	0
Additional paid in capital	38.594	38.594	0
Other reserves	98.411	64.137	34.274
Retained earnings / (accumulated deficit)	35.173	36.188	-1.015
Net income / (loss)	15.634	40.408	-24.773
Group shareholders' equity	**190.321**	**181.835**	**8.486**
Minority interest	13.975	10.864	3.111
Total shareholders' equity	**204.296**	**192.699**	**11.597**
Severance indemnity	4.217	3.861	356
Deferred tax liabilities	1.483	1.607	-124
Reserve for risks and charges	3.797	3.514	282
Financial debts and liabilities	5.875	4.342	1.533
Total non current liabilities	**15.371**	**13.324**	**2.047**
Financial liabilities	9.161	10.613	-1.451
Accounts payable	63.257	44.694	18.563
Income tax payables	1.654	4.285	-2.631
Other current payables	41.205	35.072	6.133
Total current liabilities	**115.278**	**94.664**	**20.614**
Total Liabilities and Shareholders' equity	**334.945**	**300.687**	**34.258**

In compliance with the Consob communication of July 28th 2006 and in conformity with the CESR recommendations of February 10th 2005 "Recommendations for the uniform implementation of the regulations of the European Commission on information charts", the net financial position of the El.En. Group on December 31st 2017 is the following:

Net financial position	**31/12/2017**	**31/12/2016**
Cash and bank	97.351	97.589
Financial instruments	2.036	0
Cash and cash equivalents	**99.388**	**97.589**
Current financial receivables	**155**	**150**
Bank short term loan	(8.230)	(7.991)
Part of financial long term liabilities due within 12 months	(932)	(2.621)
Financial short term liabilities	**(9.161)**	**(10.613)**
Net current financial position	**90.381**	**87.127**
Bank long term loan	(3.525)	(1.231)
Other long term financial liabilities	(2.350)	(3.111)
Financial long term liabilities	**(5.875)**	**(4.342)**
Net financial position	**84.506**	**82.784**

The net financial position of the Group increased by 2 million Euros with respect to the end of 2016.

The operative cash flow generated during 2017 amounted to about 17 million Euro. The main cash outings and investments in 2017 were the increase in working capital, dividends paid to third parties for a total of 9,4 million Euros, and investments in tangible and intangible assets for an amount of 5 million Euros.
The internal growth of the company represents a strategic option which the Group is pursuing at this time with the current expenses for research and development and commercial promotions that are entered in the income statement and temporarily reduce the operating profitability and the technical investments for the production facilities; the increase in working capital is the other significant entry among the investments sustaining growth.

It should also be recalled that 11,5 million Euros in cash, of which one million this year, has been invested in financial instruments of an insurance type which for their particular nature require that they be entered among the non-current financial assets; even though they represent a use of cash, this amount is not included in the net financial position.

RECONCILIATION CHART COMPARING THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION WITH THE STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

	31/12/2017 Capital and reserves	**31/12/2017 Income statement**	**31/12/2016 Capital and reserves**	**31/12/2016 Income statement**
Balance per parent company statement	**138.988**	**41**	**145.817**	**41.511**
Elimination of investments in subsidiary companies:				
- share of profit (loss) of subsidiary companies		20.019		12.747
- share of profit (loss) of associated companies		(432)		183
- elimination of rectification of value of equities		0		425
- elimination of dividends		(3.439)		(1.472)
- value adjustment of the Cynosure equity and rectification of the capital gains		0		(13.493)
- other (charges) income		(975)		250
Total contribution of subsidiary companies	53.547	15.172	38.659	(1.360)
Elimination of intercompany profits on inventory	(2.014)	280	(2.298)	160
Elimination of intercompany profits from sales of fixed assets	(200)	141	(343)	97
Balance as per consolidated statement – Group quota	**190.321**	**15.634**	**181.835**	**40.408**
Balance as per consolidated statement – Third party quota	**13.975**	**4.776**	**10.864**	**2.586**
Balance as per consolidated statement	**204.296**	**20.410**	**192.699**	**42.993**

RESULTS OF THE PARENT COMPANY EL.EN. S.p.A.

Financial highlights

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

In following a policy of continued expansion over the years, El.En. SpA has founded or acquired numerous companies which operate in specific sectors or geographic areas, the activities of which are coordinated through the definition of the supply channels, the selection and control of the management, the partnerships in research and development activities and financing both on capital account and financing with interest or through the granting of credit on sales.
The importance of this coordinating activity continues to be very evident, since most of the sales volume of the company is absorbed by the subsidiaries and determines the allocation of important managerial resources; also from a financial point of view, a large part of the resources of the company are allocated to sustain the activities of the Group and of El,En. itself.
As in earlier years, the activities of El.En. SpA, take place at the headquarters in Calenzano (Florence) and in the local branch in Castellammare di Stabia (Naples).

The chart below shows the results of the sales in the sectors mentioned above shown in comparative form with those of last year.

	31/12/2017	Inc %	31/12/2016	Inc %	Var. %
Medical	43.111	79,75%	46.936	81,92%	-8,15%
Industrial	10.949	20,25%	10.356	18,08%	5,73%
Total revenue	**54.061**	**100,00%**	**57.291**	**100,00%**	**-5,64%**

The company registered a sales volume of 54 million Euros, a decrease of 5,6% with respect to 2016.

As can be seen on the chart, the reduction in sales volume was related only to the medical sector. In this sector, the surgical segment set the pace with respect to 2016, for the reasons explained in the comments on the evolution of the consolidated sales volume. In fact, El.En. Spa is the manufacturer of the Mona Lisa Touch and they are the ones that were directly affected by the drop in sales volume by the American distributor Cynosure/Hologic, which we described above in detail. The results in the other segments of the medical sector, however, were positive. Results were satisfactory also in the industrial sector, where El.En. had to stop the production of high-powered CO_2 laser sources (above 2kW), while the production for mid-powered sources (from 150 W to 1,5 kW) gradually increased.

Income statement as of December 31st 2017

Income Statement	31/12/2017	Inc %	31/12/2016	Inc %	Var. %
Revenues	54.061	100,0%	57.291	100,0%	-5,64%
Change in inventory of finished goods and WIP	539	1,0%	(451)	-0,8%	
Other revenues and income	814	1,5%	1.511	2,6%	-46,09%
Value of production	**55.415**	**102,5%**	**58.351**	**101,9%**	**-5,03%**
Purchase of raw materials	27.438	50,8%	27.251	47,6%	0,69%
Change in inventory of raw material	1.179	2,2%	2.193	3,8%	-46,21%
Other direct services	4.070	7,5%	4.239	7,4%	-4,00%
Gross margin	**22.727**	**42,0%**	**24.669**	**43,1%**	**-7,87%**
Other operating services and charges	6.925	12,8%	6.175	10,8%	12,15%
Added value	**15.802**	**29,2%**	**18.494**	**32,3%**	**-14,55%**
Staff cost	15.519	28,7%	13.121	22,9%	18,28%
EBITDA	**283**	**0,5%**	**5.373**	**9,4%**	**-94,73%**
Depreciation, amortization and other accruals	1.263	2,3%	1.358	2,4%	-6,97%
EBIT	**(980)**	**-1,8%**	**4.015**	**7,0%**	
Net financial income (charges)	(140)	-0,3%	3.899	6,8%	
Other non-operating income (charges)	464	0,9%	36.079	63,0%	-98,71%
Income (loss) before taxes	**(656)**	**-1,2%**	**43.993**	**76,8%**	
Income taxes	(698)	-1,3%	2.482	4,3%	
Net income (loss)	**41**	**0,1%**	**41.511**	**72,5%**	**-99,90%**

2017 was a year of transition for El.En. S.p.a with important organizational and structural changes.
In January 2017 the company hired a General Director, whose intervention made it possible to improve the organization of the company's activities and also those of the Group from many points of view. A visit to our factories will give a good idea of the profound transformation worked on the manufacturing system of the company, while a series of changes which were needed to re-enforce the key company functions, like medical research and development in the regulatory area, a fundamental task aimed at accelerating growt in the future, are not so evident. The drop in sales volume and margins tha occurred this year also on account of extraordinary causes and not depending on the actions of the company, made the economic effects of the reorganization even more evident and determined an operating loss.

The gross margin was 22.727 thousand Euros, a decrease of 7,9% with respect to the 24.669 thousand Euros for last year; the percentage incidence of the margin on the sales volume dropped to 42,0% from 43,1% on December 31st 2016 also due to the decrease in grants for research. The fall in sales of the Mona Lisa Touch systems for the treatment of vaginal atrophy by the American distributor Cynosure, purchased in 2017 by Hologic, had a decisive impact on the decrease in the sales volume and the margins.

The cost for operating services and charges was 6.925 thousand Euros, an increase over the 6.175 thousand Euros registered last year and with an incidence on the sales volume which rose from 10,8% on December 31st 2016 to 12,8% for this year.

The staff cost was 15.519 thousand Euros and shows an increase of 18,3% with respect to the 13.121 thousand Euros for last year and with an incidence on the sales volume which rose from 22,9% in 2016 to 28,7% for this year. On December 31st 2017 there were 234 employees in the company, an increase with respect to the 215 registered on December 31st 2016. The increase in the costs for personnel reflects certain events of non-repeatable nature which caused costs for operative and logistic re-organization, as described above.

A large portion of the personnel expenses is directed towards research and development, for which El.En. S.p.A. receives grants and reimbursements in relation to specific contracts underwritten by the institutions created for this purpose. The grants entered into accounts as of December 31st 2017 amounted to 148 thousand Euros, whereas last year they amounted to 956 thousand Euros.

For the reasons explained above, the EBITDA was 283 thousand Euros, a decrease with respect to the 5.373 thousand Euros for the preceding year, with an incidence on the sales volume which decreased from 9,4% on December 31st 2016 to 0,5% for this year.

The costs for amortizations, depreciations and accruals were 1.263 thousand Euros, showing a slight drop with respect to the 1.358 thousand Euros registered on December 31st 2016.

The EBIT therefore dropped from 4.105 thousand Euros on December 31st 2016 to -980 thousand Euros for this year, a decrease which reflects the drop in sales volume and a worse mix of products sold in terms of sales margins while maintaining a high level of costs, in particular for research and development and marketing.

The financial charges amounted to 140 thousand Euros, with respect to the financial income of 3.899 thousand Euros for the year ending December 31st 2016. The dividends received were almost double those of last year 1,86 million as opposed to 950 thousand Euros in 2016, but the exchange rate differences fell from a gain of 2,3 million in 2016 to a loss of 2,6 million in 2017, mainly due to the significant fall in value of the US dollar.

It should be recalled that in 2016 among the other non-operating income and charges we registered an income due to the capital gains of 36.507 thousand Euros earned as a result of the sale of 998.628 Cynosure Inc. shares, an event which is clearly non-repeatable.

The pre-tax income therefore shows a negative result of 656 thousand Euros, with respect to the positive amount of 43.993 thousand Euros for last year. Thanks to the entry in the income taxes of a revenue of 698 thousand Euros on account of the application of the fiscal consolidation, the net income was 41 thousand Euros.

STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL POSITION AS OF DECEMBER 31st 2017

Statement of financial position	31/12/2017	31/12/2016	Variation
Intangible assets	223	217	6
Tangible assets	13.239	12.679	561
Equity investments	17.179	16.535	643
Deferred tax assets	2.532	2.737	-205
Other non-current assets	12.059	10.849	1.209
Total non current assets	**45.232**	**43.017**	**2.215**
Inventories	21.415	22.178	-762
Accounts receivable	36.552	33.592	2.960
Tax receivables	4.010	2.489	1.520
Other receivables	6.500	6.380	119
Financial instruments	2.036	0	2.036
Cash and cash equivalents	43.373	57.213	-13.840
Total current assets	**113.886**	**121.852**	**-7.966**
Total Assets	**159.118**	**164.869**	**-5.751**
Share capital	2.509	2.509	
Additional paid in capital	38.594	38.594	
Other reserves	98.829	64.188	34.641
Retained earnings / (accumulated deficit)	-984	-984	
Net income / (loss)	41	41.511	-41.470
Total shareholders' equity	**138.988**	**145.817**	**-6.829**
Severance indemnity	889	945	-57
Deferred tax liabilities	476	685	-209
Reserve for risks and charges	578	489	89
Financial debts and liabilities	488	488	
Total non current liabilities	**2.431**	**2.607**	**-176**
Accounts payable	13.377	11.750	1.627
Income tax payables	0	649	-649
Other current payables	4.322	4.046	277
Total current liabilities	**17.699**	**16.445**	**1.254**
Total Liabilities and Shareholders' equity	**159.118**	**164.869**	**-5.751**

Net financial position	31/12/2017	31/12/2016
Cash and bank	43.373	57.213
Financial instruments	2.036	0
Cash and cash equivalents	**45.410**	**57.213**
Current financial receivables	**130**	**63**
Financial short term liabilities	**0**	**(0)**
Net current financial position	**45.540**	**57.277**
Other long term financial liabilities	(488)	(488)
Financial long term liabilities	**(488)**	**(488)**
Net financial position	**45.052**	**56.788**

For the analysis of the net financial position, please consult the Notes in the separate financial statement of El.En. S.p.A

SUBSIDIARY RESULTS

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

The chart below contains a summary of the results of the companies belonging to the Group that are included in the area of consolidation. Following the chart there is a series of brief explanatory notes describing the activities of each company and commenting on the results for the financial year 2017.

	Revenues 31/12/2017	Revenues 31/12/2016	Variation	EBIT 31/12/2017	EBIT 31/12/2016	Income (loss) for the financial period 31/12/2017	Income (loss) for the financial period 31/12/2016
Ot-las S.r.l. (formerly Cutlite Penta S.r.l.)	30.142	24.032	25,42%	2.268	677	2.610	449
Deka Mela S.r.l.	40.693	36.075	12,80%	2.293	2.019	2.083	1.769
Esthelogue S.r.l.	10.418	9.285	12,20%	641	649	446	389
Deka Sarl	3.856	3.884	-0,72%	(125)	(4)	(125)	(4)
Lasit S.p.A.	13.843	10.224	35,40%	2.555	987	1.847	623
Quanta System S.p.A.	50.075	43.551	14,98%	9.015	7.347	6.610	4.962
Asclepion GmbH	37.923	34.222	10,81%	3.904	3.012	2.606	1.997
ASA S.r.l.	9.962	8.790	13,33%	2.312	2.010	1.873	1.532
BRCT Inc.	-	-	0,00%	23	(17)	3	95
With Us Co., Ltd	19.528	22.308	-12,46%	(134)	3.102	79	1.747
Penta-Chutian Laser (Wuhan) Co., Ltd	29.312	27.136	8,02%	2.362	1.467	1.643	870
Cutlite do Brasil Ltda	1.306	1.879	-30,49%	(593)	(936)	(610)	(781)
Lasercut Technologies Inc.	-	1	-100,00%	681	7	681	2
Pharmonia S.r.l.	428	362	18,23%	12	14	9	11
Deka Medical Inc.	14	99	-85,86%	-	16	(12)	4
Deka Japan Co., Ltd	2.342	2.246	4,27%	299	69	200	68
Penta-Laser Equipment Wenzhou Co., Ltd	67.452	38.412	75,60%	5.657	2.310	4.644	1.604
JenaSurgical GmbH	2.827	1.792	57,76%	(49)	2	(52)	3
Accure Quanta, Inc.	-	-	0,00%	(6)	(2)	292	(2)
Merit Due S.r.l.	58	58	0,00%	31	30	21	19

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

Deka M.E.L.A. represents the main distribution channel for the range of medical laser systems developed in the El.En factory in Calenzano, which are sold under the brand name of DEKA**.** The company was founded by El.En. in the early 1990s and has gradually consolidated their position on the market, first in Italy and then internationally. Deka operates in the sectors of dermatology, aesthetics and surgery and uses a network of agents for direct distribution in Italy and, for export, a network of highly qualified distributors that have been selected over a period of time. After the launching of the Monna Lisa Touch laser system for the treatment of vaginal atrophy, Deka has reappeared successfully in the gynecology field in which it had previously operated with CO_2 laser systems during its first years of activity.
In 2017 the company showed a growth of 13%, thanks mainly to the sales of alexandrite systems for hair removal and CO_2 laser systems like Monna Lisa Touch for vaginal atrophy and the Smartxide range for photo-rejuvenation.

For the second consecutive year of the rapid growth, the revenue results have benefitted and improved at the operative level thanks to a slight increase in the sales margins and despite the increase in the overheads and cost for personnel, thanks also to the increased importance of distribution in Italy. In fact, sales in Italy have shown a great acceleration, in part due to the reorganization which, with the Renaissance brand products, has also concentrated the distribution for the associated company, Quanta System in DEKA.

The DEKA organization, both in Italy and in the international network, has a presence that is recognized for the innovation of the products, the professional quality of the offer, and the excellent performance of the laser systems that they sell. This has been a goal of the company in the last few years but is also a condition on which, the Group counts on creating further growth thanks to their capacity to move new products through a consolidated and effective distribution network.

Ot-las S.r.l. (formerly Cutlite Penta S.r.l.)
Cutlite Penta which has its Headquarters in Calenzano, produces laser systems for the industrial cutting applications and on X-Y movements controller by CNC installs laser power sources manufactured by El.En. S.p.A. In 2013, after the merger with Ot-las S.r.l., they added the new business of laser marking for large surfaces with galvanometric movement of the beam.

At the end of 2017, as part of the process of re-organization of the industrial sector of the Group, Cutlite Penta conferred to a newly created S.r.l. company which was to become effective in January of 2018, all of the activities related to systems for laser cutting. Moreover, Cutlite Penta was renamed Ot-las, and the name Cutlite Penta was given to the new company. This was done in order to maintain the correspondence between the name of the company and the brand names they produced, since Ot-las kept the business of laser systems for marking which had always been sold under the brand name Ot-las, while Cutlite Penta has always been associated with systems for laser cutting.
This re-organization, which brings the two companies back to the state in which they were before the merger in 2013, was conducted in order to increase the focus on the activities and facilitate the synergy with the other companies of the Group; it took place at the closing of a year in which the company, which was still being managed as a single unit, had registered record results: the sales volume had exceeded 30 million with a growth of 25%, the EBIT of 2.268 thousand Euros brought the company to a level which had never before been reached.

The relationship with the Parent Company El.En. S.p.A., remains fundamental for the supply of laser sources and for collaboration on projects for new systems and new accessories, in particular concerning beam delivery. In the last few years Ot-las S.r.l. (formerly Cutlite Penta S.r.l.) has progressively become equipped with structures and personnel that are increasingly evolved in this regard and, by selecting alternative partners, has also dealt with the technological shift which has marginalized the use of CO_2 laser sources (an important El.En. product) from power cutting applications. In this regard, the use of fiber sources, which the company acquires from third parties, has turned out to be of great effectiveness.
El.En.'s contribution of RF sources, on the other hand, remains decisive for mid-powered applications and marking systems. Moreover, the financial support of the Parent Company remains essential, even for mid-term projects like the expansion on the Chinese market through the subsidiaries **Penta Chutian Laser (Wuhan)** and **Penta Laser Equipment (Wenzhou).**

The first of the two Chinese companies just celebrated ten years since its founding and allowed the Group to expand by making use of the local manufacturing facilities, which are the most important in the world for manufacturing. In these ten years it has become one of the most important companies on the Chinese market and has acquired a significant position thanks to its aggressive pricing policy which has allowed it to insert itself among the local competitors, typically very low cost, and the more renowned international competition which is qualified but often too expensive for the Chinese client.
Penta Chutian of Wuhan now operates jointly with Penta Laser (Wenzhou), which was created three years ago thanks to the support guaranteed by the municipality of Wenzhou for the new high-tech factory which began operations in the Summer of 2016. The new factory has more than doubled the production capacity in an environment that was designed specifically to house our production. It has been of fundamental importance for sustaining the extraordinary growth of the market: thanks to the new factory it has been possible to manage an increase of 80% of the sales volume which is due to the growing demand for laser systems for cutting sheet metal. This market has been opened to new and vaster dimensions by the new technology for fiber lasers thanks to its greater productivity and maintainability. The demand and the outlook remain solid for 2018.

Quanta System S.p.A.
Quanta was founded as a specialized research center for the manufacture of scientific lasers and has maintained its superior capacity to make technologically advanced lasers in the medical sector to which it has almost completely dedicated all of its activity.
The rapid growth trend of the company was confirmed again in 2017. In 2016 it exceeded the threshold of 40 million Euros in sales volume and in 2017 it reached 50 million and further improved their EBIT (about 9 million) and net income (about 7 million).
There are several factors which have contributed to this brilliant out come. The main one is the company's ability to offer innovative products to the market and to distinguish itself for technological solutions which make certain laser treatments more effective. Along with the lively dynamics of the sales, the investments made in the new high-tech

factory in Samarate have given a concrete support thanks to the gradual increase in the production capacity which has demonstrated that they are able to manage a high demand.

Among the main activities conducted in 2017, we may note the consolidation of their position in the segment of lasers for removing tattoos and pigmented lesions using pico-second technology and the start-up in Italy of a joint distribution network with the products of DEKA, under the brand name Renaissance using the distribution network managed by DEKA.
The favorable trend on the market and some new products which will be available for sale both in the aesthetic sector and the surgical sector let us hope that in 2018 they will be able to break the record set in 2017.

Lasit S.p.A. is specialized in the manufacture of systems for marking small surfaces and conducts the production and development activity of their products in their factory in Torre Annunziata (NA); their mechanical workshop is fitted with the most technologically advanced equipment, including laser cutting machines which allows them to do machining work also for the other companies of the Group and maintain a high degree of flexibility in the customization of systems for their clientele, a service which makes them unique on the market. In fact, their focus on the needs of the clients as well as their offering of custom systems and services have allowed Lasit to consolidate their position on the market. Lasit is now enjoying the benefits of a rapidly expanding market thanks to the growing need for traceability and identification in the manufacturing process. These needs can be met by laser marking systems which can easily and effectively be added to every production process. Consequently, the company showed excellent results in 2017 with a sales volume of 13,8 million Euros and an EBIT which reached the extraordinary level of 18,5% on the sales volume.

Asclepion Laser Technologies GmbH
Asclepion was purchased in 2003 from Carl Zeiss Meditec, and is now one of the most important companies of the Group and one of the three business units with which the Group operates on the market of laser systems for medical applications. Thanks to its geographical location in Jena, the global cradle of the electro-optical industry and its capacity to associate its image with the highly prestigious consideration which the German high-tech products enjoy throughout the world, in the last few years, Asclepion has acquired high standing on the international markets.
The most successful product, which was the driver in the growth registered in the last few years, continues to be the Mediostar for hair removal with various models with different levels of performance and different price ranges that cover the various niches of the market. Along with Mediostar the company produces the more traditional line of Asclepion products, the erbium lasers for dermatology of which the company has thousands of installations in particular in Germany; the potential range of applications of the system has been amplified thanks to the accessories specifically designed for photo-rejuvenation and, more recently, gynaecological applications, which have met with considerable success on the market. In this latter sector, the Juliet system for vaginal treatments using erbium technology has become a point of reference and has recently been offered with success also in the United States.

In 2015 Asclepion started **Jena Surgical GmbH,** a specific division for the promotion and distribution of systems for surgical applications on the International markets and an entity that, looking to the future, represents one of Asclepion's most important clients and one of its most significant directives for development. In 2017 Jena Surgical was showing strong growth and came close to 3 million in sales volume.
Asclepion also had a record year in 2017, with a sales volume of close to 38 million and an EBIT of just under 4 million Euros. The good position of the range of products offered and the favorable conditions of the market promise well for another good year in 2018.

With Us Co Ltd
With us Co. has achieved an important market position in the field of aesthetics in Japan, by proposing the systems produced by the Group and offering all-inclusive maintenance service for the growing number of systems already installed. After a record year in 2016, the company showed a drop in revenue and sales volume and they were unable to break even for the EBIT. This circumstance is derived also from the need to up-date the range of products specifically made for the Japanese market. Activity is now being intensified in order to be able to propose innovative solutions for this market and the trend for 2018 is expected to be stable.

ASA S.r.l.
This company, located in Vicenza, is a subsidiary of Deka M.E.L.A. S.r.l., and operates in the sector of physical therapy, for which it develops and manufactures its own line of low-powered semiconductor laser equipment; it also is active in the distribution and marketing of some of the equipment produced by the Parent Company El.En. S.p.A.
The therapeutic effectiveness and the validity of the clinical support have allowed Asa to continue to grow in the past few years and in 2017 they almost reached a sales volume of 10 million, with an excellent level of profitability. The innovative nature of the products makes it possible to maintain a good sales margin which, in turn, makes it possible to invest in development and promotional activities – a virtuous cycle which we are confident will continue next year. Among other things, in 2018 Asa will be building a new factory which will give the company a logistic and operative structure that is able to sustain their ambitious development plans.

Other companies, medical sector

Deka Sarl distributes Deka brand medical systems in France. Its presence represents an important outpost which is valuable for maintaining the position of the brand on the French market and those of the French speaking countries of North Africa. The sales volume reached in 2017 was substantially the same as that for the preceding year but not enough to allow the company to break even due to the increase in personnel costs which had been made to favor the rapid development of the company.

Deka Japan, which distributes the Deka brand medical systems in Japan, in 2017 was going through a year of transition because, starting in 2018, it will conduct its activities through a distributor, DKSH. From the collaboration with this experienced company, the oldest foreign company in Japan, and from the authorization to sell certain products in Japan, we are confident that we can achieve an improvement in the volume of business and operating profitability.

Deka Medical Inc. ceased their distribution activity in the US for the medical/ aesthetic and surgical sector and this activity has been assigned to third party distributors.

Esthelogue S.r.l. distributes the laser systems of the Group in the aesthetic sector in Italy and in this context has acquired an increasingly important role for particular hair removal applications The Mediostar Next laser systems with its evolutions, Mediostar Pro and XL represent the technological competitive advantage for Esthelogue. Mediostar, is an effective and reliable product made by Asclepion in Jena. The other factor in the success of Esthelogue, which is equally important, is the assiduous and qualified training and assistance they offer their clients which transfers value and know-how to the users of our technologies. Since their presence is increasingly widespread and consolidated, the Group is confident that they can take advantage on a mid-term basis of the Esthelogue structure and the trust that the clients have in the company's technologies, also for moving new and different applicative technologies on this interesting market.

Pharmonia S.r.l. has terminated its activity of distribution of aesthetic systems specifically designed and produced for use in pharmacies and now conducts a sporadic activity in the marketing of some products on specific international markets.

Other companies, industrial sector

Lasercut Technologies Inc. terminated its after-sales service activity for some industrial systems on the USA.; **BRCT Inc.** acts as a financial sub-holding, a role that has been intensified since the acquisition in 2014 of the equity in Quanta USA LLC.

Cutlite do Brasil Ltda has a factory in Blumenau in the state of Santa Catarina and has about twenty employees. They produce laser systems for industrial applications and, to a lesser degree, attends to the distribution of laser systems produced by the Italian companies of the Group. 2017 confirmed the critical situation of the company which registered losses that even eroded its capital.

Research and Development activities

During 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 SMARTXIDE^2 family of products (the product name is pronounced "Smartxide quadro" to highlight the Italian origin of the devices belonging to this family, considering the characteristics and performance that are particularly appreciated by the clientele) which has recently been developed and placed on the market for different applications in surgery, in gynecology, for cutaneous ulcers and for aesthetic medicine. We are now adding further technological innovations which will make it possible to conduct 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 urogynecoloy 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 CO_2 lasers supplies to soft tissues in the various anatomic areas being treated.
We are accumulating important scientific papers published in international reviews on the effectiveness of the treatment on women who have had breast tumors and have been forced to use pharmaceuticals that induce premature menopause in order to avoid recurrence.
For surgical applications we are now obtaining interesting results for the treatment for diabetic feet. In this sector we have introduced the possibility of cleaning (debridement) and removal of the necrotic tissue and the lesions with a laser which leaves the treated portion practically sterile and with the additional advantage of reducing the pain suffered by the patient during the treatment; in fact, the laser light works without mechanical contact with the various parts of the ulcer and vaporizes or cuts the parts to be eliminated with extreme precision; when, on the other hand, for this kind of treatment, scalpels or other contact instruments are used, more nerve endings are involved by the mechanical pressure applied by the scraping or cutting which necessarily comports a tearing effect which involves a volume of material which includes the area surrounding the portions to be eliminated both on the sides and underneath it.
Moreover, the laser energy is emitted in impulses of extremely short duration which instantaneously vaporize the nerve endings which may be present only in a small superficial layer of biological material to be eliminated; in fact, due to the brevity of the impulses, the heat does not affect the layers below it. The healing of chronic ulcers by means of laser treatments is based on the above characteristics of the laser beam opportunely designed by us to be used in the clearing phase of the lesion but also on the capacity for bio-stimulation operated by the laser light, our cultural heritage because of the numerous experiments and research that we have conducted over the years.
We have given the name "Giotto Touch" to the device and the treatment; the name of Giotto is related to the great erit of the painter who was the first one to study perspective in painting which, up to that time had been purely instinctive, and gave three-dimensionality to his figures. This important characteristic recalls the effect generated by our laser device which makes it possible to restore three-dimensionality and structure to the ulcerated portions of the body once they have been cured. We have recently installed a Giotto Touch device in an important hospital in China on the basis of an agreement with the National Chinese Society for treating ulcers that are difficult to cure, for clinical trials on the treatment of ulcers.

For the regeneration of tissues 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.
In 2018 we began selling the systems and the great interest in them has been confirmed by the various ceters where the device is being experimented.
As part of the FOMEMI Project, with El.En leading the project, which has recently received approval for funding on the basis of the Regione Toscana contest for European Funds, we are conducting research activities for the characterization of the components present in the ulcers of diabetic feet, using visible light and near infrared; we have also scheduled research on the tissue/air interface using the analysis of the radio-frequency version of the ultrasound echo signal. We are also conducting research on a static illuminator for laser bio-stimulation in collaboration with some of the partners in the FOMEMI research project.
In collaboration with Elesta, we are now concluding the development of a device for the percutaneous laser ablation of breast tumors, with delivery of energy from a diffusing tip which is cooled by closed forced circulation of biocompatible sterile liquid.
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), called Onda, based on the use of a new form of energy that is able to provoke a reduction of the adipocites 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.
The device has been equipped with innovative applicators which have the intrinsic safety of not transferring energy when they are not in contact with the skin; moreover, they have been designed in such a way as to launch the energy through a cooled contact with the normal electrical field of the skin itself and the underlying structures; in this way, the sub-cutaneous fat and the muscle below it are aligned in the chain of tissues which absorb the energy and most of the energy is absorbed by the fat, as planned, so that this gives an extra protection to guarantee that the muscle layers below the fat are not subjected to excessive heat. We plan to place the product on the market in the Spring of 2018.
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 PHOTOBIOLAB 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.

We have developed a new compact feeding system which is mounted on the body of the Blade RF88 to be used on medical systems.
Knowledge of oscillators was applied for the development of an induction heating system of nano-particles of iron oxide, as part of a collaboration in a pilot project for medical applications.
They have begun research on the use of lasers for stimulating 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 diagNostici e teranoStici basati su nanosIstemi e/o linfociti ingegnerizzati per l'indiviDuazione precoce e il trattamento del mElanoma e della sclerosi multipla*") (Regione Toscana – POR FESR 2014-2020, Bando 1: Strategic Research and Development Projects).

At **Quanta System** they are conducting intense research on the development of laser instruments intended for aesthetic medicine and medical therapies in urology. As part of this project they have developed a prototype for a new single-use morcellator whose experimental phase has just been completed. The product will be presented at the International European Urology Congress which will be held in the next few days.

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 just started the clinical trials on the advanced potential for hair removal.

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. In the surgery sector they have completed the development of special beam delivery accessories for laser applications for the treatment of benign hypertrophy of the prostate (BHP); and they have completed the 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.

Also in the field of lithotripsy, for the Holmium laser, they have developed the technique called Vapor Tunnel by Quanta System which offers considerable advantages in the stabilization and effectiveness of the shattering of the stones in the upper excretion tubes.
They have conducted experiments on innovative applications in the field of gastro-enterology. The evaluation of the effects of the Thulium Laser on the gastric mucous which was undertaken in 2015 gave positive results which made it possible to move on to the study phase on animal models and application on humans. The interest and the study of the results obtained determined the extension of the experiments on the ablation of superficial, the debulking of tumors in the gastro-intestinal tract and the coagulation of bleeding in the rectal tract due to gastric lesions caused by reflux.
Research on laser applications in the dermatological field produced the development of pico-second laser which emit, in the red range; special wave length converters were studied for operating in the field between 680nm and 770nm, based on extremely compact parametric oscillators on OPO (Optical Parametric Oscillators) and OPA (Optical Parametric Amplifier). The study focused on an extremely compact structure that can be house in a handpiece; this placement required the development of an articulated transporting arm for the laser beam which could maintain the polarization constant along the pathway.
They also developed the armored Thunder Compact system for restoration of the cultural heritage, which is easy to carry and suited to the rugged conditions of some restoration sites.

At **Asclepion** they have continued an updating strategy of all the systems: a new philosophy of user interface, new electronics and new design.
They have developed an automatic recognition system for blood vessels for vascular treatments using a camera, and started experimentation.
They are now developing the new Mediostar 4.0 with substantial technical and aesthetic innovations. They have started development for the integration of other modules for Mediostar and the relative clinical trials.
New versions of the morcellator to be used with the Holmium systems for the treatment of benign hypertrophy of the prostate have been completed in order to meet the needs for innovation and adaptation in certain geographic areas.
The mass production of Tattoostar Pico was started. This system for the removal of pigmented lesions and tattoos was first presented at the Medica fair in November of 2017.
In the field of dermatology they have completed the first development phase of the new product, Quadrostar for treating psoriasis and vitiliga and of the system for removing tattoos and pigmented lesions, Tattoostar Ruby.

Laser systems and applications for industry

For the carbon dioxide *(CO_2)* sources with planar discharging, we have designed, developed and tested a new system for the treatment of the beam with a strengthened spatial filter for use with sources with increased power; we have designed and tested techniques for optical filtering inside the resonator for the selection of the wave length and the fundamental mode of the stable branch. The aim is to improve the stability of the focal spot and to increase the speed of the phases needed for start-up and testing. We are now conducting verification trials.

For the new source we are now developing a radio-frequency feeding system with a power level adapted to the discharging surface by combining the outlets of several amplifiers into a single feeding point.
We have run stability tests over time on carbon monoxide (CO) sources in order to learn about the behavior f the gas mixture and estimate its deterioration during functioning. Moreover, we have designed control systems for the cutting heads of 5-axis machines, process sensors for flat cutting machines, and systems for the focalization and homogenization of laser beams for industrial and medical applications.

At El.En., in collaboration with the subsidiary Ot-las S.r.l. (ex Cutlite Penta S.r.l.), we have continued research on innovative processes for pre-cutting and micro-perforation of labels in a machine and on systems for applications in the field of cutting and welding plastic products, in the soft drink sector, for prolonging the shelf life of food products.
We continued our development of software and algorithms for high-speed advanced coding in the field of digital converting.
We are conducting intense activity aimed at increasing the maximum power of sources in the RF range by improving and increasing the power of the emissions and laser sources while maintaining a high quality and modulability of the beam in order to make innovative applications possible like the micro-piercing of panels and special applications in the field of digital converting and the cutting of rigid modular wooden packing materials in MDF (Medium Density Fibreboard).
In the sector of remote high-speed machining significant resources have been dedicated to the improvement of the mid- to long term repeatability/drift performance. For this purpose we have developed optical sensors that are able to generate lower drift levels over time with respect to the capacitive type in the performance of the galvanometers used in scansion heads for applications in the 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.
We have conducted a study aimed at improving the performance of the Blade RF888 sources for marking textiles, with reference to the wave length and the fluctuations of power during the transients.

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

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

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

Thousands of Euros	**31/12/2017**	**31/12/2016**
Staff costs and general expenses	8.058	7.194
Equipment	169	149
Costs for testing and prototypes	3.944	2.317
Consultancy fees	712	683
Other services	54	57
Total	**12.936**	**10.401**

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

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

RISK FACTORS AND PROCEDURES FOR THE MANAGEMENT OF FINANCIAL RISKS

Operating risks

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

The main financial instruments of the Group include checking accounts and short-term deposits, short and long-term financial liabilities, leasing, financial instruments and hedging derivatives contracts.
Besides these, the Group also has payables and receivables derived from its activity.
The main financial risks to which the Group is exposed are those related to currency exchange, credit, cash and interest rates.

Currency risk

The Group is exposed to the risk caused by fluctuations in the exchange rates of the currencies used for some of the commercial and financial transactions. These risks are monitored by the management which takes all the necessary measures to reduce them.
Since the Parent Company prepares its consolidated financial statements in Euros, the fluctuations in the Exchange rates used to convert the data in the statements of the subsidiaries originally expressed in foreign currency may negatively influence the results of the Group, the consolidated financial position and the consolidated shareholders' equity as expressed in Euros in the consolidated statements of the Group.

With Us Co. Ltd. in preceding years stipulated three derivatives of the type called "currency rate swap" in order to hedge the risk in currency exchange for purchases in Euro.

Operation	Notional value	*Fair value*
Currency swap	€ 350.000	€ 28.765
Currency swap	€ 750.000	-€ 678
Currency swap	€ 1.450.000	€ 63.296
Total	**€ 2.550.000**	**€ 91.383**

Credit risks

As far as the commercial transactions are concerned, the Group operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance. There are no significant concentrations of credit risks within the Group. The devaluation provision which is accrued at the end of the year represents about 8% of the total accounts receivable from third parties. For an analysis of the due dates on accounts receivable from third parties, please consult the relative note in the consolidated financial statement.

As far as guarantees granted to third parties are concerned:

the Parent Company El.En. S.p.A. has underwritten:
- in 2013, a bank guarantee for a maximum of 50 thousand Euros as a guarantee for customs duties as per ex art. 34 of the T.U.L.D., payable for temporary imports, with expiration date in June 2018 with possibility of extension annually.
-in 2014 a bank guarantee for a maximum of 253 thousand Euros as a guarantee for the restitution of the amount requested as a down payment on the "BI-TRE" research project, which was accepted for a grant in the Bando Regionale 2012 approved by the Regione Toscana with *Decreto Dirigenziale* n. 5160 on November 5th 2012, with expiration date in February 2018.
The subsidiary Deka M.E.L.A. S.r.l. in 2016 underwrote a bank guarantee for a maximum of 127.925 Euros as a guarantee for the final reimbursement of the amount require as a down payment for the project POR FESR 2014 – 2020 Strategic Research and Development project phase 2, admitted for contributions by the *Bando Unico* approved by the Region of Tuscany with Decree 3389 on July 30th 2014, with expiration date in May 2020.

The Chinese subsidiary Penta-Laser Equipment (Wenzhou) obtained two types of financing for the construction of the new factory and for the purchase of the equipment by taking out a mortgage for an overall amount of about 30 million RMB.

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

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

STOCK OPTIONS OFFERED TO ADMINISTRATORS, COLLABORATORS AND EMPLOYEES

The shareholders' meeting of the Parent Company, El.En. S.p.A. held on May 12th 2016 voted, among other things, in an ordinary session, to approve the stock option plan for 2016-2025 which is reserved for administrators, collaborators and employees of the company and its subsidiaries and, in an extraordinary session, to delegate the Board of Directors, in compliance with art. 2443, II co., c.c. to increase, upon payment, even in tranches, within five years of the date of the vote, the capital stock of 104.000,00 Euros by issuing new ordinary shares which can be underwritten by the beneficiaries of the 2016-2025 stock option plan.

The Board of Directors of El.En. S.p.A held on September 13th 2016, upon the recommendation of the Remuneration Committee, voted on the implementation of the stock option plan for 2016-2025 and, following the mandate assigned them by the shareholders assembly, proceeded to identify the beneficiaries of the plan, the amount of options assigned, the openings for picking up the options and the price for underwriting.
The Board also proceeded to assign entirely and for the exclusive use of the plan, the faculty conferred on them by the assembly, in compliance with art. 2443, sub-section II, Civil Code, to increase, upon payment, even in tranches, and with the exclusion of the option right in compliance with art. 2441, sub-section V, Civil Code, the capital stock of 104.000,00 Euros by issuing 800.000 ordinary shares which can be underwritten by the Board members, collaborators and employees of El.En. s.p.a. and of its subsidiaries that are the recipients of the options in the above mentioned plan.

The options can be picked up in conformity with the terms and conditions of the Plan definitively approved on September 13th by the beneficiaries in two equal tranches: the first starting on September 14th 2019 until December 31st 2025 and the second from September 14th 2020 until December 31st 2025.
The Plan will end on December 31st 2025 and the options that have not been picked up by that date will lapse definitively, the capital stock will be considered definitively increased by the amount that was actually underwritten and released on that date.

According to the Plan, the following individuals will be assigned stock option rights: the President of the Board of Directors, Gabriele Clementi, the two managing directors Andrea Cangioli and Barbara Bazzocchi, a manager with strategic responsibilities, the El.En. s.p.a. executives that have positions as executive administrators of subsidiary companies, other El.En. s.p.a. executives that have significant roles, executive administrators of subsidiary companies that are considered of strategic importance for the development of the Group, persons belonging to the categories of employees who, for their professional and personal characteristics and loyalty to the company have an important role, or may have one in the future.
The Plan is defined particularly relevant in reference to articles 114-bis, sub-section 3 T.U.F. and 84-bis, sub-section 2, *Regolamento Emittenti Consob* since some recipients that have been identified are those indicated in the above mentioned articles. For the exact names and quantities that have been assigned, please refer to the table contained in the information sheet drawn up in conformity with art. 84-bis of the *Regolamento Emittenti Consob* 11971/1999, deposited at company headquarters and published on the site www.elengroup.com in the section *Investor Relations/Governance/Documenti societari/Piano di Stock Option 2016-2025* as well as the market storage site www.emarkestorage.com.
The price, including the share premium which must be paid by all those who are picking up the option in compliance with the Stock Option Plan 2016-2025, has been set at 12,72 Euros by the Board of Directors.
The price was calculated by the Board of Directors on the basis of the arithmetical average of the official prices registered by the shares on the market during the six months prior to September 13th 2016. The criteria for determining

the price for the stock being issued for the Stock Option Plan was approved in compliance with articles 2441, sub-section VI of the Civil Code, and 158, sub-section II, T.U.F., issued by the Independent Auditors Deloitte & Touche s.p.a.. This favorable opinion was already published before the assembly and, in accordance with the law, is attached to the notary's statement, which is deposited with the Registry of Companies in Florence and can be consulted at company headquarters or at their site, www.elengroup.com in the section "*Investor Relations / Governance / Documenti Assembleari / 2016*" as well as on the authorized market storage site www.emarketstorage.com.

The Board of Directors also modified art. 6 of the relative by-law concerning capital stock to make it consistent with the described above resolutions.

TREASURY STOCK

The decision taken by the Shareholders' meeting of the Parent Company El.En. S.p.A on April 28th 2015 to authorize the Board of Directors to purchase treasury stock definitively expire in the month of October 2016 without any purchase having been made. Consequently, El.En. S.p.A. does not detain any treasury stock.

STAFF

As already mentioned, the staff of the Group rose from 1093 people on December 31st 2016 to 1212 on December 31st 2017. The division within the Group is as follows:

Company	2017 Average	31-dec-17	31-dec-16	Var.	Var.%
El.En. S.p.A.	224,50	234	215	19	8,84%
Ot-las Srl	57,50	63	52	11	21,15%
Deka M.E.L.A. Srl	18,50	20	17	3	17,65%
Esthelogue Srl	14,00	15	13	2	15,38%
Deka Sarl	10,50	10	11	-1	-9,09%
Lasit SpA	53,50	56	51	5	9,80%
Quanta System SpA	128,50	135	122	13	10,66%
Asclepion Laser T. GmbH	102,00	109	95	14	14,74%
Asa Srl	45,00	49	41	8	19,51%
BRCT Inc.	0,00	0	0	0	0,00%
With Us Co Ltd	45,50	46	45	1	2,22%
Penta-Chutian Laser (Wuhan) Co., Ltd	115,50	109	122	-13	-10,66%
Cutlite do Brasil Ltda	22,50	22	23	-1	-4,35%
Lasercut Technologies Inc	0,00	0	0	0	0,00%
Pharmonia S.r.l.	0,00	0	0	0	0,00%
Deka Medical Inc	0,00	0	0	0	0,00%
Deka Japan Ltd	3,00	0	6	-6	-100,00%
Penta-Laser Equipment Wenzhou Co. Ltd	309,50	340	279	61	21,86%
Jena Surgical GmbH	2,50	4	1	3	300,00%
Accure Quanta Inc.	0,00	0	0	0	0,00%
Merit Due S.r.l.	0,00	0	0	0	0,00%
Total	**1.152,50**	**1.212**	**1.093**	**119**	**10,89%**

CORPORATE GOVERNANCE AND OWNERSHIP IN COMPLIANCE WITH GOVERNMENT LEGISLATIVE DECREE 231/2001

In compliance with the laws and regulations now in force, El.En. S.p.A. has drawn up a report on their corporate governante ("*Relazione sul governo societario e gli assetti proprietari*") which has been deposited with the authorities and published in a separate section of this document. This report on corporate governance can also be consulted on internet on the site of the Group: www.elengroup.com – in the section "Investor relations/governance/corporate documents".

Since March 31st 2008 El.En. S.p.A. has used a model for the organization, management and control of the company in compliance with Legislative Decree no. 231/2001.

REPORT ON REMUNERATION ex art. 123-*ter* TUF e 84-*quater* Reg. CONSOB 11971/1999

In compliance with the laws and regulations,, El.En. S.p.A. has drawn up a "Report on Remuneration" which has been deposited and published as a separate report. The "Report on Remuneration" can be consulted on the site www.elengroup.com - "Investor relations/governance/company documents" section.

CONSOLIDATED NON-FINANCIAL STATEMENT (NFS)

In compliance with the laws and regulations,, El.En. S.p.A. has drawn up a consolidated Non-Financial Statement for 2017 which is deposited and published as a separate report in accordance with art. 5, sub-section 1 letter b of Legislative Decree 254 of 30 December 2016.
The consolidated Non-financial Statement for 2017 can also be consulted on the site www.elengroup.com - "Investor relations/financial documents/reports and statements" section.

INTER-GROUP RELATIONS AND WITH RELATED PARTIES

In compliance with Regolamento Consob dated March 12th 2010, n. 17221 and subsequent modifications, the Parent Company, El.En. SpA approved the rules disciplining relations with related parties ("*Regolamento per la disciplina delle operazioni con parti correlate")* which can be consulted on the internet site of the company www.elengroup.com *section. "Investor Relations/governance/corporate documents*".
These regulations represent an up-date of those approved in 2007 by the company as implementation of art. 2391-*bis* of the civil code, of the recommendations contained in art. 9 force in the past (and in particular the applicative criteria 9.C.1) of the Self Disciplining Code for Companies Listed on the Stock market (*Codice di Autodisciplina delle Società Quotate*), edition of March 2006, in consideration of the above mentioned Regulations for Operations with Related Parties ("*Regolamento Operazioni con Parti Correlate*") n. 17221 and later modifications as well as the Consob Communication DEM/110078683 of September 24th 2010. The procedures contained in the "*Regolamento per la disciplina delle operazioni delle parti correlate*" went into force on January 1st 2011.
The operations conducted with related parties, including the inter-Group relations cannot be qualified as atypical or unusual; these operations are regulated by ordinary market conditions.

In regard to the relations with related parties, please refer to the specific paragraph in the Explanatory Notes of the Consolidated statement of the El.En. Group and the separate statement of El.En. S.p.A.

OPT-OUT REGIME

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.

OTHER INFORMATION

Atypical and unusual operations

In compliance with Consob Communication DEM/6064293 of July 28th 2006, DEM/6064293, we wish to state that during this year and the preceding one the Group did not make any unusual or atypical operations, as defined in the aforementioned communication.

Management and coordinating activities

El.En. S.p.A. is the parent company and consequently is not subject to any management or coordinating activities in compliance with art. 2497 and following paragraphs of the Civil Code.

Compliance according to art. 15 and following of the Consob Market Regulations

(adopted after vote n. 20249 on December 28th 2017)

In compliance with art. 15 of the Market Regulations adopted with vote no. 20249 on December 28th 2017 (of which the preceding one was art. 36 of the Market Regulations adopted with vote n. 16191 in 2007) in relation to the regulations governing the conditions quotation of controlling companies constituted or regulated companies according to the laws of countries that do not belong to the European Union and that are of significant importance for the purposes of the consolidated financial statement, we wish to state that:

- On December 31st 2017 among the companies that are controlled by El.En. S.p.A. the following are subject to the regulations: With Us Co. Ltd, Penta Chutian Laser (Wuhan) Co. Ltd e Penta-Laser Equipment (Wenzhou) Co. Ltd.
- Procedures have been adopted to assure the complete compliance to the regulation.

Fiscal consolidation

It should be recalled that for the three year period 2011-2013 which was later extended for the three year period 2014-2016 and 2017-2019, for the subsidiary Esthelogue S.r.l. and, for the three year period 2012-2014, extended for the three year period 2015-2017, for the subsidiary Ot-las (ex Cutlite Penta S.r.l)., the Parent Company El.En. S.p.A. will adhere to the IRES regime of taxation of the national consolidated as per art.117 and following paragraphs of the TUIR and of the Ministerial Decree of June 9th D.M. 2004. The relations between the parties, as far as this law is concerned, are regulated by the special “Consolidation Agreement”.

SUBSEQUENT EVENT

No significant events occurred after the closing of the year.

CURRENT OUTLOOK

The results for 2017 improved both the records for the sales volume and EBIT that were set in 2016 and have made the task of exceeding them next year even more challenging.

Thanks to the re-organization operations that took place in 2017 in the medical sector, the Group has prepared the groundwork for maintaining the thrust in growth that has been shown in the last few years. In the industrial sector, after two years of extraordinary development, growth may continue but most likely at a lower level.

If the favorable trend of the market shown in 2017 continues, the Group expects to achieve a consolidated growth of about 10% and maintain the EBIT at 10% with respect to the sales volume.

DESTINATION OF NET INCOME

To our shareholders,

In submitting for your approval the separate financial statement of El.En. S.p.A. as of December 31st 2017, we propose to allocate the net income for this year as follows:

- To distribute all of the net income to the shareholders
- To distribute to the shares in circulation on the date that coupon 2 came due on May 28th 2018, in accordance with art. 2357-ter, second sub-section of the Civil Code, a dividend of 0,40 Euros (zero comma 40 Euros) gross for each share in circulation for an overall amount as of today's date of 7.718.988,80 Euros, assigning all of the net income for this year, amounting to 41.146,00 Euros, and for the residual amount 7.677.842,80 Euros, drawing from the net income not distributed in the preceding years and accrued in the voluntary reserve called "extraordinary reserve".

For the Board of Directors
Managing Director– Ing. Andrea Cangioli

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP

in compliance with art. 123-bis D. Lgs. February 24th 1998, n. 58
(administration model and traditional control)

Approved by the Board of Directors during the meeting held on March 15th 2018

Financial year 2017

Internet site: www.elengroup.com

GLOSSARY

Code: the self-disciplining code of the companies quoted on the stock market which was approved in July 2015 by the Committee for Corporate Governance and promoted by the Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

"c.c.": the Civil Code;

"Board": the Board of Directors of El.En. S.p.A.

Board of Auditors: the Board of Auditors of El.En. S.p.A.

"El. En."/ "the Company": the listed company to which this report refers.

"Financial year": the financial period closed on December 31st 2017 which is referred to in the report.

"Regolamento Emittenti Consob": the Regulations issued by Consob (*Commissione Nazionale per le Società e la Borsa*, after vote n. 11971 in 1999 (and later modified) concerning listed companies;

"Regolamento Mercati Consob": the Regulations issued by Consob after vote n. 20249 in 2017 concerning stock markets.

"Regolamento Parti Correlate Consob": the Regulations issued by Consob after vote n. 17221 on March 12th 2010 (and later modifications) related to operations with related parties.

"Report": the report on corporate governance and ownership that all companies are required to issue in compliance with art. 123-bis TUF.

"Statute/company by-laws" the company statute or by-laws of El.En

"TUF": Legislative Decree of February 24th 1998, n. 58 (*Testo Unico della Finanza*).

* * *

1.0 PROFILE OF THE EL.EN. COMPANY

Since 2000, with the admission of its ordinary stock to the MTA (formerly MTAX, and before that, *Nuovo Mercato*) organized and managed by Borsa Italiana SpA – it has always been the intention of El.En. ("the Company"), to follow, maintain and perfect the adaptation of its own system of corporate governance in conformity with the suggestions and recommendations of the Code and identified as the "best practice", since it represents a unique opportunity to increase their reliability and reputation in relation to the market.

The company has been part of the Techstar segment since the founding of the segment in 2004 and has been quoted in the Star segment since 2005. Since December 9th 2016 the Company has been include in the FTSE Italia Mid Cap index, FTSE Italia Star segment.
The corporate governance of El.En. consists of a Board of Directors, a controlling body and an assembly.
During the phase of adaptation to the regulations set forth by Legislative Decree n. 6 of January 17th 2003, and the later amendments and modifications, the shareholders of El.En. voted to keep the traditional system of administration and management.
Consequently, the company is currently administered by a Board of Directors which is regulated, in all of its aspects (composition, functions, salaries, powers, representation of the company), by Articles 19 to 23 of the company by-laws and is subject to the control and supervision of a Board of Statutory Auditors which is governed in every aspect by Art. 25 of the By-laws.
The auditing of accounts is conducted by a company that is enrolled in the special CONSOB professional register.

This report is drawn up on the basis of the relative *forma*t, VII edition, specifically prepared by the Borsa Italian SpA.

The Board of Directors
The Board of Directors holds full powers for the ordinary and extraordinary administration of the activities related to the pursuit of the aims of the company.
The Board Members were elected by the shareholders' meeting held on April 28th 2015 and, after the vote of approval of the Board of Directors on May 15th 2015, is made up of executive and non-executive members organized in three committees so as to carry out consulting and executive functions in support of the Board: the committees for controls and risks, for remuneration, and for nominations.
Two of the Board members were elected since they possessed the independence requirements as per art. 148-ter TUF.
The board members have legal domicile at the headquarters of the Company for the duration of their mandate.
The executive Board Members retain, in accordance with the vote of the Board of Directors held on May 15th 2015, separately from each other and with independent signature, all of the ordinary and extraordinary administrative powers for achieving all of the aims included in the company purpose, excluding only the attributions which are prohibited from being object of proxy in conformity with art. 2381 of the civil code and the company by-laws.
The approval of the financial statement for 2017 represents the end of the mandate.
Since September 5th 2000 the Board has instituted amongst its members the following committees which are composed for the most part, of non-executive members who have the following tasks described below and which are disciplined by the specific regulations:

a) *Nominations Committee for the appointment of the director*, (henceforth referred to as the Nominations Committee") which has the task of assuring the transparency of the procedures for the selection and election of the board members as well as the balanced and efficient composition of the board.
b) *Remuneration Committee*, which has the task of formulating proposals for the amount of remuneration to be paid to the executive Board Members and to those that have particular responsibilities, and, in response to the indications given by the delegated commissions, to determine the criteria for the remuneration of the top executive officials of the company.
c) *Committee for controls and risks (*formerl*y the Internal Control Committee)*, which has consulting, executive and sustaining functions for the Board of Directors in the realization and the supervision of the internal controls systems as well as sustaining the Board of Statutory Auditors in the evaluations of the proposals of the Independent Auditors. Moreover, with the vote held on November 12th 2010 the "Board" also acts in relation to the operations with related parties and the monitoring of situations of conflict of interest in light of the role attributed to the independent administrators in accordance with article 4, subsection 3 of the *Regolamento Parti Correlate Consob* and the new *Regolamento interno relativo alle operazioni con parti correlate* approved in the same date.

The regulations of the committees also determine their composition and role.
The first version of these rules was approved on September 5th 2000, and they were revised in order to adapt them to the new regulations or new structural reorganization in the company.

On September 5th 2000 the Board also appointed a provost for internal control. The internal control system was later amplified and organized as described below in this report.

The Board convenes at least once every quarter also in order to guarantee adequate information for the Board of Statutory Auditors related to the most important transactions conducted by the Company and its subsidiaries as well as, when required, the conducting of operations with related parties or those that are particularly complex or important and, moreover, every time that the president and/or the executive board members decide to present questions and decisions related to their area of expertise to the entire board.

The directors of the Company participate as members of the administrative bodies of most of the subsidiary companies or else have the position of sole director, otherwise the administrative body of the subsidiary companies supply complete detailed information required for the organization of the activities of the Group and the accounting statements necessary for conformity with the relative legislation; normally, the usual policy in the past has been for the subsidiary companies to supply all of the information necessary for the preparation of the consolidated financial and economic reports before the end of the month following the closing of the quarter.

The company by-laws concerning the appointment of directors, the composition of the Board and their related areas of competency – specifically articles 19, 21 and 22 – were modified by the assembly which was held on May 15th 2007 for the purpose of adapting them, to the extent required and not already included, to the new TUF and to the Code and, most recently, further adapted by the assembly held on October 28th 2010 to the directives contained in the a.m. D. Lgs. 27/2010. At that time, the Board was also attributed the prerogatives described in articles 11 and 13 of the Consob Regulations on urgent dealings with related parties.
During the meeting held on May 15th 2012, article 19 of the by-laws was adapted to L. July 12th 2011, n. 120 in terms of the balance between genders.

Moreover, the shareholders' meeting of May 15th 2013, removed from the text of Articles 19 and 25 – which regulate the method of election, respectively: the first, of the administrative body and the second of the controlling bodies, the prohibition from withdrawal of the certificates demonstrating the validation of the right to present proposals for nominations before the actual meeting of the assembly. At the same time, we also corrected some typographical errors present in these articles referring to the date of deposit/communication of the certificates.
For a detailed description, please refer to the specific paragraphs contained in the part of this report related to information on the adhesion to the Code.
In relation to the required presence of the so-called independent board members which, since 2005 has been obligatory by law, it should be noted that, in conformity with the Code, this practice has been a regular policy since the Company was first quoted on the stock market.

The Board of Statutory Auditors
The Board of Statutory Auditors is the body which, in conformity with the laws and company by-laws, is entrusted with the supervision of the conformity to the laws and to the company by-laws, the respect of the principles of correct administration, of the adequacy of the company organizational set-up related to the specific tasks, systems of internal controls and accounting administration system used by the company and its concrete functioning. The Board of Statutory Auditors moreover supervises the implementation of art. 19 of D. Lgs. January 27th 2010 n. 39 as well as the means for the correct application of the rules for corporate governance contained in the self-disciplining code and on the conformity with the Consob regulations and the implementation of the company procedures related to dealing with related parties.
This Board is also entrusted with the supervision of the adequacy of the instructions given to the subsidiary companies so that they supply all the information necessary in order to be in compliance with the communication obligations required by law.
The present Board of Statutory Auditors, was elected by the assembly on May 12th 2016 and will remain in office until the approval of the financial statements for 2018.
Company by-laws establish a limit in the accumulation of assignments, in conformity with 148-bis TUF, so that the appointment of a candidate or auditor who already functions as acting auditor in more than five listed companies is considered ineligible or invalid, as well those who are in a situation of incompatibility or that exceed the maximum limit as per the *Regolamento Emittenti* (art. 144-*duodecies* and following).
After the modifications in the by-laws approved by the assembly on May 15th 2007, they specified in art. 25 of the statute, which already contemplated the election using a voting list, that the acting auditor drawn from the minority list which came in first would be elected president of the Board of Statutory Auditors. Most recently, with the assembly of May 15th 2012 the Company adapted art.25 of the By-laws to L. July 12th 2011, n. 120 in terms of the balance between genders.
Pursuant to art. 144-*septies*, sub-section 2, Registry of Companies, the minimum amount of the equity in the capital stock that is required on the occasion of the last election for the presentation of the lists of candidates for the board of

auditors is 4,5%, in conformity with art. 25 of the Company By-laws, with art. 144-sexies Registry of Companies, and CONSOB resolution of January 28th 2016, no. 19499.

Statutory audit

The auditing (in compliance with D. Lgs. 39/2010) is conferred to Independent Auditors that are enrolled in the CONSOB professional register. Starting from the date of the quotation of the company on the stock market until the December 31st 2011 the task of auditing the separate and consolidated financial statement of the company, in conformity with art. 159 TUF in force at the time the appointment, was conferred to RECONTA ERNST & YOUNG s.p.a.

The shareholders' meeting which meets in order to approve the financial statement for 2011 for the years 2012 – 2020 conferred the appointment on Deloitte & Touche SpA in conformity with articles 13,14 and 17 of D. Lgs 39/2010.

Internal dealing

Up until March 30th 2006, for the relevant definable subjects in accordance with and in conformity with articles 2.6.3 and 2.6.4. of the "*Regolamento dei Mercati organizzati e gestiti da Borsa Italiana SpA*" starting on January 1st 2003 there had been in force an "Ethics Code" which, with reference to operations made by those subjects, regulated the obligations of information and the types of behaviour to be observed with an aim to guaranteeing the maximum transparency and homogeneity of information in relation to the market.

On account of the modifications determined by the TUF of the EU law 2004 (L. April 18th 2005, n. 62), in consideration of the EU directives concerning market abuse, and of the later regulating activity in conformity issued by CONSOB, since April 1st 2006 the company was required to conform to the regulations on the subject of internal dealing in particular to articles 114, sub-section 7, *Testo Unico sulla Finanza* and from 152-sexies to 152-octies of the *Regolamento Emittenti*.

Since April 1st 2006, therefore, it has become obligatory to communicate to the public all the operations made on the financial instruments of the company by relevant persons or persons closely connected to them and, consequently, the laws regarding internal dealing contained in the Market Regulations (*Regolamento dei Mercati*) organized and managed by Borsa Italiana SpA, have been abrogated.

As a consequence of this, the Ethics Code adopted in 2003 by the Company was replaced by another document, adopted on March 31st 2006 and later modified on November 13th 2006 and November 13th 2015, which, besides describing in detail the legal obligations, also specifies the time limits or prohibitions for the operations made by the above mentioned subjects.

During 2016, after E.U. Reg. 596/2014 came into force, aligning it in conformity with the new regulations, the period during which operations on financial instruments of the Company are prohibited, was increased.

During 2017 the Ethics Code was aligned with the new regulations also in relation to Title VII, para. II of the listed company rules introduced by Consob with vote no. 19925 on March 22nd 2017. This vote, in fact, introduced the option provided by Art. 19, Paragraph 9, Reg. U.E. 596/2014 to raise to the amount of 20,000 Euros the threshold over which communication becomes obligatory.

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2.0 INFORMATION ON OWNERSHIP (ex art. 123-bis, sub-section 1, TUF) as of December 31st 2017

a) Structure of capital stock (ex art. 123-bis, sub-section 1, letter a), TUF)
The extraordinary shareholders' meeting held on May 12th 2016 proceeded with the split of the nominal value of the shares in the ratio to 1:4, leaving the amount of capital stock unchanged. Consequently, for every ordinary share with a nominal value of 0,52 Euros each shareholder received four shares worth 0,13 Euros each. After this operation, which was neutral as far as the entity of the equity was concerned, the capital stock which is underwritten and paid out is unchanged and amounts to 2.508.671,36 Euros and is divided into 19.297.472 ordinary shares which are worth 0,13 Euros each.
The same assembly, in compliance with art. 2443 of the Civil Code, voted to confer to the Board of Directors, for a period of five years starting on May 12th 2016, the power to increase the capital stock one or more times for a maximum amount of 104,000.00 nominal Euros by issuing a maximum of 800,000 ordinary shares having a nominal value of 0,13 Euros each, with the payment of a price the entity of which will be determined by the Board in a unit value, including share premium, which is equal to the arithmetical average of the official prices registered by the ordinary shares of the Company on the stock market that is organized and directed by Borsa Italiana s.p.a. during the 6 months prior to the single vote of the Board or the increase of capital, even partial, on the condition that this amount is not less than that determined on the basis of the consolidated shareholders' equity of the El.En. Group on December 31st of the year of the last financial statement published on the date of the respective single vote for increase, even partial, in execution of the resolution.

This increase in capital must be voted on, in compliance with sub-section 5 of art. 2441 Civil Code, with the exclusion of the option right established by the law in favor of the shareholders since it has been set aside for use in the Stock Option Plan 2016-2025, was approved by the shareholders' meeting of May 12th 2016 and is intended for the board members, collaborators and employees of the Company and the subsidiaries it controls.

On September 13th 2016 the Board exercised this right and put into effect the Stock Option Plan 2016-2025 which was described in the 2016 Management Report in the section "Significant events which occurred in 2016" and in the information sheet which was drawn up in conformity with article 84-bis, sub-section 1, and chart 7 of Appendix 3A of the Regolamento Emittenti Consob consulted on the Company's internet site, www.elengroup.com (Italian version) – sez. Investor Relations - Documenti Societari - Piano Stock Option 2016-2025.

b) Restrictions in the transfer of stock (ex art. 123-bis, sub-section 1, letter b), TUF)
There are no particular restrictions on the transfer of stock.

c) Significant ownerships in shareholders' capital (ex art. 123-bis, sub-section 1, letter c), TUF)
From the information and data available on December 31st 2017 the shareholders listed on the attached Table 1 have significant ownership (over 5%) of the capital stock of the Company.

d) *Shares which confer special rights (ex art. 123-bis, sub-section 1, letter d), TUF)*
None.

e) Shares held by employees: mechanism of the voting rights (ex art. 123-bis, sub-section 1, letter e), TUF)
None.

f) Restrictions in the right to vote (ex art. 123-bis, sub-section 1, letter f), TUF)
None.

g) Agreements among shareholders (ex art. 123-bis, sub-section 1, letter g), TUF)
None.

h) Clauses related to change of control (ex art. 123-bis, sub-section 1, letter h), TUF) and by-laws relating to OPA (ex art. 104, sub section 1-ter and 104 bis, sub section 1, TUF)
None.

In relation to the regulations contained in the by-laws regarding offers of public acquisition (OPA), the shareholders' meeting voted on May 13th 2011 to include among the prerogatives of the Board, in compliance with art. 104, sub-section 1-ter, T.U.F., the power to implement defensive measures in case of an offer of public acquisition even in the absence of the authorization of the shareholders' meeting.

i) Authorizations to increase the capital stock and to purchase treasury stock (ex art. 123-bis, sub-section 1, letter m), TUF)

On September 13th 2016 the Board put into effect the resolution taken by the shareholders' meeting on May 12nd 2016. For details, please refer to the paragraphs above, at letter a) of this section in relation to the structure of the capital stock and the references made there for consulting the relative documents.

As far as the treasury stock is concerned, on October 27th 2016, the authorization granted by the shareholders' meeting of April 28th 2015 for the purchase of treasury stock expired.

The company does not currently possess treasury stock.

l) Management and coordinating activities (ex. art. 2497 and following of Civil Code)

El.En. SpA is the Parent Company and therefore is not subject to any activity of management or coordinating in compliance with art. 2497 and following of the Civil Code.

* * *

In compliance with art. 123-*bis*, first sub-section, letter i) TUF we herewith declare that *"no agreements have been stipulated between the Company and the Directors which include indemnities in case of resignation or firing without just cause or if their employment is terminated due to an offer of public acquisition"*.

The information required by article 123-*bis*, first sub-section, letter l) TUF *("the regulations applicable to the appointment and the replacement of the directors….as well the modification of the by-laws, if different from the legislative and regulatory ones applied in addition")* are described in the section of the Report dedicated to the Board (Section 4.1).

* * *

3.0 COMPLIANCE (ex art. 123-bis, sub-section 2, letter a), TUF)

Until the ordinary stock of the Company. was quoted on the stock market organized and managed by the Borsa Italiana S.p.A. on December 11th 2000, apart from any legal obligations and/or regulations, compatibly with its size and structure, the Company acted in accordance with the suggestions and recommendations of the Code, both in the original version of 1999, as well as the subsequent revised and modified versions.

The present version of the Code (July 2015) is accessible to the public at the web site http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice htm

The information in compliance with art. 123-bis, sub-section 2, letter a), TUF is contained in the related and pertinent sections of the Report.

* * *

Neither the Company, nor its subsidiaries are subject to non-Italian laws which influence the structure of the corporate governance of the Company.

4.0 BOARD OF DIRECTORS

4.1. APPOINTMENTS AND REPLACEMENTS (ex art. 123-bis, sub-section 1, letter l), TUF)

The appointment of the members of the Board is conducted by means of a vote from lists and is governed by art. 19 of the company statutes. This article has been modified several times in order to adapt it to the repeated changes in the laws which govern the subject. It was first modified by the extraordinary shareholders' meeting held on May 15th 2007 in compliance with art. 147-*ter* comma 1 TUF and the *Regolamento Emittenti* 11971/1999, and then by the assembly held on October 28th 2010 in compliance with art. 147-*ter sub-section* 1-*bis* introduced most recently by art. 3 D. Lgs. January 27th 2010, n. 27 and by the one which met on May 15th 2012 to adapt it to art. 147-*ter*, *sub-section* 1-*ter*, as well as the regulations for the activation as per art. 144-*undecies* of the *Regolamento Emittenti Consob* 11971/1999, regarding the respect of the balance among types in the compiling of the lists of candidates as well as in the composition of the body elected and in the replacement of members who have ceased.
Moreover, the shareholders' meeting held on May 15th 2013, in consideration of the change in legislation and regulations concerning the validation of the right to present lists of candidates as per D, Legs. 18th June 2012, n. 91, removed from the text of the by-laws the prohibition from withdrawing the certificates before the meeting was held.

At this time, in relation to appointments and composition, the text states as follows:

*"**Art. 19 – Administrative organ** – (… omissis …) For the appointment of the members of the Board of Directors the procedure described below must be followed: At least 25 (twenty-five) days before the date set for the first convocation of the ordinary assembly the partners who intend to propose candidates for the appointment as members of the board must deposit the following documents at the company headquarters:*
a) a list containing the names of the candidates for the position of board member numbered progressively and an indication of which ones have the requisites for independence in compliance with art. 147-ter, sub-section 4, D. Lgs. February 24th 1998, n. 58 and the Codice di Autodisciplina *prepared by the Committee for Corporate Governance of the companies quoted on the stock market promoted by Borsa Italiana s.p.a.;*
b) together with this list the partners must deposit: a complete and detailed description of the professional curriculum of the candidates being presented, with adequate reasons for the proposal of their candidacy; a complete curriculum vitae of each candidate from which it will be possible to see the positions held in administrative boards or controlling commissions in other companies; a declaration in which each candidate accepts their candidacy and declares under their own responsibility that no causes exist for ineligibility or incompatibility, and that all the prerequisites established by the applicable regulations and by the company by-laws for their respective positions exist.
The creation of the lists containing not fewer than three candidates must take place observing the regulations related to the respect of the balance among types.
The lists must show the identifying list of the partners, or the name of the partner, who is presenting the list with complete indications of personal data and the percentage of capital held singularly and overall.
Each partner may present and participate in the presentation of a single list and each candidate can be presented in only one list, otherwise he/she will be considered ineligible. The partners who belong to the same union pact may present only one list.
The partners who have the right to present lists either by themselves or together with other partners are those who possess the percentage of equity in the capital stock specified by art. 147-ter D. Lgs. February 24th 1998, n. 58, or the greater amount established by Consob regulations considering the capitalization, floating funds and ownership of the companies quoted.
The ownership of the minimum number of shares necessary for the presentation of the lists is determined by the amount of shares registered in the possession of the partners on the day in which the lists are deposited with the company. The relative certification must, in any case, be produced at least twenty-one days before the day set for the first convocation of the ordinary shareholders' meeting.
The board members are appointed by the ordinary assembly on the basis of the lists presented by the partners in which the candidates are listed in numerical order.
Each partner having the right to vote may vote for only one list.
The board members are drawn from the list or lists which have received the most votes and, in any case, a percentage of votes which is at least half of that necessary for the presentation of the list itself.
At least one member of the board must always be drawn from the minority list which received the largest number of votes. In the case that there are lists which receive the same number of votes, the entire ordinary assembly must vote again and the list which obtains a simple majority of votes will be elected.
If, within the established term, no list has been presented, the assembly will vote according to the relative majority of shareholders present at the assembly.
In the case of a sole list being presented, all of the board members will be elected as part of that list in the order in which they appear on the list.
In the case that no minority list receives votes, the board will be completed by the vote by the relative majority of the shareholders present at the assembly.

Among the candidates the assembly must elect an appropriate number of board members who possess the requisites for independence established for the controllers by art. 148, sub-section 3, D. Lgs. February 24th 1998, n. 58 and by the Codice di Autodisciplina *prepared by the Committee for Corporate Governance of the companies quoted on the stock market promoted by Borsa Italiana s.p.a". A Board Member who, after his/her appointment loses the prerequisites for independence must immediately communicate the circumstances to the Board of Directors and, in any case, the appointment is nullified.*
The composition of the body that is elected must, in any case, guarantee the balance between genders in compliance with art. 147-ter, sub-section 1-ter, D. Lgs. of February 24th 1998, n. 58.
The mandate for the members of the Board lasts for 3 (three) years, that is, for the shortest period that is established each time by the Assembly in conformity with art. 2383, sub-section 2 c.c. and they may be re-elected; if, during the year one or more members are missing the other members may have them replaced in conformity with art. 2386 c.c. In every case in which one or more board member ceases, the appointment of the new board members must take place in compliance with the current regulations concerning the balance between genders represented (… omissis…)"

For the purpose of guaranteeing the greatest transparency, the Company has adopted and has expressly mentioned in the notice convening the assembly, the recommendations of the CONSOB in their communication n. DEM/9017893 of February 26th 2009, related to the necessity for all of those who intend to present a list of candidates, to be elected to the position of so-called minority board members, to deposit together with the list, a declaration which demonstrates the absence of connections, even indirect ones, as per art. 147-*ter*, sub-section 3 and art. 144-*quinquies* of the *Reg. Emittenti* 11971, with shareholders who detain, even jointly, a controlling equity or relative majority which can be identified on the basis of the "communication of significant equities" as per art. 120 or of the publication of company pacts as per art. 122 of the same decree.
Moreover, already before the introduction of art.147-ter, sub-section1-bis. TUF, in order to satisfy the interest of most shareholders to know in advance the personal and professional characteristics of the candidates so as to cast a more informed vote, it was decided to anticipate the statutory term for depositing the lists (in compliance with Code 2006 6.C.1.).
Except for the regulations stated in Art. 19 of the above mentioned statute, El.En. Spa is not subject to any other special regulations related to the composition of the Board of directors, in particular those related to the representation of minority shareholders and/or the number and characteristics of the independent directors.

Succession plans (Criteria 5.C.2 of the Code)
The Company does not belong to the FTSE-Mib index.
Following the recommendations of the Nominations Committee, the current Board has decided to defer the formulation o fan actual succession plan for the executive board members since it is clear that any new board members that are chosen to replace one or more of the members who have ceased must be persons who have a profound knowledge of the functional and organizational characteristics of the company.
The Board has also based its evaluation on the fact that over time, thanks to the investment that the company has made in this sector, qualified personnel of the Company has acquired the managerial capacity which in any case would make it possible at any time to find a temporary replacement in case of necessity.
These considerations and evaluations have been confirmed by the appointment of a General Director as January 1st 2017.

4.2. COMPOSITION (ex art. 123-bis, sub-section 2, letters d and d-bis), TUF) – ART. 2 CODE

Current members of the Board of Directors
The current Board which will be in office until the approval of the financial statement for the year which ends on December 31st 2017, is composed of the following members:

Position	Name	Sex	Year of birth	Role	Year of first election after the admission to the stock market
President and Managing Director	Gabriele Clementi	M	1951	Executive	2000
Managing Director	Andrea Cangioli	M	1965	Executive	2000
Managing Director	Barbara Bazzocchi	F	1940	Executive	2000

Board Member	Fabia Romagnoli	F	1963	Non executive independent in compliance with art. 147-ter TUF and art. 3 of the Code	2015
Board Member	Alberto Pecci	M	1943	Non Executive	2002
Board Member	Michele Legnaioli	M	1964	Non executive independent in compliance with art. 147-ter TUF and art. 3 of the Code	2000

The number of board members was established as six by the shareholders' meeting which met on April 28th 2015 and which elected the current Board.

The Board was elected with 56,738% of the voting capital by the shareholders' meeting held on April 28th 2015 and, after the vote of the Board of Directors on May 15th 2015, is made up of executive and non-executive members who, in order to carry out the consulting and proposing functions of the Board, are organized in three committees: one for controls and risks, one for remuneration and one for nominations and appointments.

For the elections only one list was presented and deposited at least twenty-five days before the assembly and this list contained the names of all the candidates who were subsequently elected.
The list was presented jointly by the following partners: Andrea Cangioli, Gabriele Clementi, Barbara Bazzocchi.

The personal data of the board members elected on April 28th 2015 is listed below:

GABRIELE CLEMENTI – chairman and managing director of the board, born in Incisa Valdarno (Florence) on July 8th 1951. He received his degree in electrical engineering from the University of Florence in 1976 and collaborated with the university until 1981, while at the same time founding a centre for experimenting applications of biomedical equipment together with Barbara Bazzocchi. In 1981, together with Mrs. Bazzocchi, he founded El.En. as a collective company. Since that time he has been dedicated full time to the direction and management of El.En. S.p.A and of the Group in which he has several different positions. Since 1989, year of the transformation of the company into Srl (company with limited responsibility) he has been chairman of the Board of Directors. Since 2000 he has also been managing director and is in the board of some of the companies of the Group. In 2017 he was conferred the title of *Cavaliere del Lavoro.*

BARBARA BAZZOCCHI – managing director of the board, born in Forlì on June 17th 1940. She received her diploma in accounting in 1958 and as an executive secretary in 1961. From 1976 until 1981 she managed and administered a centre for the experimentation and application of biomedical equipment and then, with G. Clementi, founded El.En. S.p.A. As director, she has been involved full time in the management of the company since its founding. Since 1989 she has been managing director and she also is a member of the Boards of some of the companies of the Group.

ANDREA CANGIOLI – managing director, born in Florence in December 31st 1965. In 1991, he received his Engineering degree from the Politecnico di Milano with a major in Engineering of Technological Industries specializing in Economics and Organization. Since 1992 he has been on the Board of Directors of El.En. s.r.l. and since 1996 he has been managing director of the company and of numerous companies belonging to the Group.

ALBERTO PECCI – non-executive board member, born in Pistoia on September 18th 1943. He received his degree in Political Science and after a brief experience working at the BNL bank USA, he was dedicated to Lanificio Pecci, of which he is president, as well the other companies of the textile group of which the Lanificio is parent company. He was appointed *Cavaliere del Lavoro* in 1992, and was Vice President (1988-1993) and then President (1993-2002) of La Fondiaria Assicurazioni; he has been a member of the Board of Directors of Mediobanca, of Assicurazioni Generali, of Banca Intesa and of Alleanza Assicurazioni. He is currently a non-executive vice president of the Board of Mediobanca S.p.A, a company listed on the Italian stock market (Borsa Italiana). He has been a non-executive board member of the Company since 2002.

FABIA ROMAGNOLI – independent board member, born in Prato on July 14th 1963. She has had a vast professional experience, including, from 2006 to 2012, being a member of the *Commissione Formazione dell'Unione Industriale Pratese* (Confindustria); in 2012 and 2013 she represented the Unione Industriale Pratese in the internationalization, and since 2013 she has been president of the Cassa di Risparmio di Prato. She has been a non-executive independent board member of the Company since 2015.

MICHELE LEGNAIOLI – independent board member – born in Florence on December 19th 1964. He has had a long professional experience including, among others, being president of Fiorentinagas S.p.A, and Fiorentinagas Clienti S.p.A, Gruppo Giovani Industriali of Florence, national vice-president of the Giovani Imprenditori of Confindustria, since May of 2003, a member of the commission of Confindustria, from April 28th 2004 until 2010, president of the company Aeroporto di Firenze S.p.A which is quoted on the Italian stock market.
Non-executive independent board member of the Company since 2000.

Number, composition and length of term of the Board of Directors

Art. 19 of the Company By-laws states that the Board of Members must be composed of a minimum of three and a maximum of fifteen members appointed, even among non-partners, by the assembly which will, on each occasion, determine the number of members.
The members of the administrative board will serve for three years, or else for the a shorter period determined on each separate occasion by the assembly, in compliance with art. 2383, sub-section 2, c.c. and can be re-elected; if during the year, one or more of the board members dies or resigns, the other board members will have them replaced in conformity with art. 2386 c.c.
In compliance with art. 2 of the Code (principle 2.P.1.), the present Board of Directors of El.En., appointed on April 28th 2015 is composed of executive directors (including the president) in compliance with application criteria 2.C.1. and non-executive members: of the six persons that are now board members, three directors including the president are executive members (Clementi, Cangioli and Bazzocchi) since they have authorized signature and three (Romagnoli, Legnaioli, Pecci) are non-executive.

During the meeting held on March 15th, the Board conducted a self-evaluation on the functioning, considered efficient, on the size of the Board, on the composition, in relation to what is stated in the By-laws and the regulations as well as the Code, and the areas of professional competence of the members of the Board.
The self-evaluation process is repeated once a year, normally during the approval of the financial statement for the year.

(2.P.2 e 2.P.3) As far as the non-executive members are concerned, to their activity as Board Members they dedicate adequate time and personal commitment so as to constantly have an active and knowledgeable role in the assemblies and board meetings and on the committees of which they are members. In fact the two independent administrators and the non-executive Board Member, Pecci, through their assiduous participation in the work of the committees of which they are members and at the board meetings are directly involved with the issues of remuneration and systems of internal control and risk management and of the composition and the adequacy of the administrative organization.

The positions held by non-executive directors in other companies are shown on the following chart:

Name	Position and name of company	Number of large size companies or those quoted on the stock market (also foreign)
Michele Legnaioli	• Sole director of Valmarina s.r.l.	0
Fabia Romagnoli	• Managing director of Mariplast Spa • President of the Fondazione Cassa di Risparmio of Prato • Sole director of Goldplast s.r.l. • President of the ACRI commission for microcredit	0
Alberto Pecci	• Executive President of Pecci Filati s.p.a. • Executive president of Toscofin s.r.l. • Sole Director of Immobiliare	1

	Centro P s.r.l. • Sole Director of Enrico Pecci s.a.s. di Alberto Pecci & C. • Sole director of SMIL s.a.s di Alberto Pecci & C. • Sole director of Cellerese s.a.s. di Alberto Pecci & C. • Sole director of Campora Immobiliare s.a.s. di Alberto Pecci & C. • Executive vice-president of Immobiliare Marina di Salivoli s.r.l. • Non-executive board member of Rimigliano s.r.l. • Non-executive board member of Ego s.r.l. • Non-executive vice president of the board of Mediobanca S.p.A.	

Diversity policies

Following a proposal by the Nominations Committee which had been formulated after the meeting held on November 10th and represented the conclusion of resolutions that had been initiated at the start of the year with the first proposal coming from the Board on March 15th, on November 14th the Board of Directors approved the formulizing of the Policies applied in relation to the composition of the commissions of El.En. S.p.A. (*Politiche applicate in materia di composizione degli organi di El.En. s.p.a)* henceforth referred to as the "Composition and Diversity Policy".

Besides compliance with the law and various secondary regulations that are applicable, the objectives pursued by the Company by issuing the "Composition and Diversity Policy" are as follows:
a) to guarantee the efficient management of the Company and the industrial Group that it heads ("the Group");
b) to create value for the shareholders over a mid- to long-term period;
c) to make the activities of the Company and the Group sustainable over a mid- to long-term period with respect to the stakeholders.

The Board
As far as the Board is concerned, the "Composition and Diversity Policy" besides the provisions in quantitative terms set forth in art. 19 of the by-laws – and listed in paragraph 4.1 above – and the indication that the present number of board members (6 members) guarantees both the ease of debate and the speed of deliberation, in qualitative terms would hope that the Board be composed of the following types of members:

1) persons who are fully aware of the tasks and responsibilities inherent to their position as well as the power and obligations inherent to the functions that each member has been called to perform;
2) persons with competence and professional qualities that are diversified and suited to the role to be played, also as members of internal commissions of the Board, and calibrated in relation to the size and operating characteristics of the Company, in consideration of both the theoretical background acquired during their training period as well as their practical experience.
We believe that, in order to become a member of the Board, a sufficient indication of professionalism would be that they have a good knowledge and experience preferably in at least two of the following fields:
- *experience in company management and organizatio*n acquired from a lengthy activity in accounting, management or control in companies or groups of a size similar to those composing the Group;
- ability to read and understand the data contained in financial statements that have been drawn up and edited in conformity with the same standards as those used by the Company and the Group: acquired from a multi-year experience in administration and control of large companies or companies quoted on the stock market, professional experience or teaching at a university.
- *competence in the corporate environment (internal controls, compliance, legal and company compliance, etc)*: acquired through experience in auditing and management controls conducted in very large companies or ones that ate quoted on the stock market, practicing a professional activity or teaching at a university;
- *knowledge of the foreign markets to which the Group directs its products*:: acquired through multi-year professional or entrepreneurial activity in a company or group dealing at an international level and in a sector similar to that of the Group.

- *knowledge of the market mechanisms of the sector in which the Group operates*: acquired through multi-year professional or entrepreneurial activity conducted in the technological sector in which the Group operates.
- *technical now-how in the sector in which the Group operates*: acquired from long-term activity in a company operating in the same technological sector as El.En. S.p.A.

The Board of Directors would hope that all of the areas of competency listed above would be represented in the administrative body since the simultaneous presence of diverse backgrounds is a guarantee that the various professional experiences will be complementary and promote the efficiency of the work of the Board.
In particular, we believe that the diversity in the areas of expertise both within the Board of which they are a member as well as for the decisions that are made, may effectively contribute to the analysis of the different issues and questions from different perspectives and promote debate on the board since this is an essential instrument for pursuing the right strategies and assuring an effective running of the Company and the Group.
In relation to the Board Members who can be qualified as independent in compliance with art. 147-ter, subsection 4, TUF and Art. 3 of the Self-disciplining Code, it would be opportune that at least one of them have a specific experience in presiding over the Controlling Bodies or Commissions for Internal Controls and Risks of listed companies of the same size as El.En. S.p.A. or that they have worked in the administrative bodies of banking, financial or insurance institutions so that they can contribute effectively to the management of the risks to which El.En. is exposed.
3) persons with personal characteristics that are consistent with the requirements for good governance of the company and a series of subjective requirements which are suited to guaranteeing the efficient functioning of the body to which they belong.
4) persons who are able to dedicate adequate time and resources to the complexity of their task, while still respecting the limits in the accumulation of assignments in compliance with the law and the resolutions taken by El.En. in this regard.
5) gender diversity – meaning that at least one third of the members must belong to the sex least represented – for the purpose of bringing to the Board a new approach and different vision to the various issues and the management in the broadest sense of the Company.
We believe, in fact, that besides the diversity in professional background and age, the gender diversification which has been implemented by El.En. since their founding in 1981, guarantees that the different attitudes and methods of approach to issues which certainly characterize the two sexes, contribute effectively to a balanced management of the Company and of the Group;
6) age diversity, for the purpose of promoting the dynamics of the Board by including the particular qualities, in terms of analysis and management of the issues which is afforded by different degrees of experience and capacity for initiative and purpose.
7) persons who possess the qualities of honorability as described in art. 147-quinquuies TUF.
8) persons who are not in a position of incompatibility, or so-called interlocking, i.e., who are not executive administrators of other Italian companies not belonging to the Group and in which one of the administrators is a member of the Board of El.En. S.p.A.
The requirements listed above must be possessed by both the executive and non-executive members who participate in all of the decisions made by the entire Board and are called upon to play an important role in the debate and monitoring of the choices made by the executive components.
The level of authority and professionalism of the non-executive members must be sufficient to carry out the increasingly important tasks needed for a healthy and prudent management of the Company and the Group: it is therefore fundamental that the group of non-executive Board Members have an adequate knowledge of the business in which the Company operates, of the dynamics of the market on which it is active, of the regulations related to companies listed on the stock market and, above all, of the methods used for the management and control of risks and conflict of interest.
Moreover, in compliance with Art. 147-ter, sub-section 4 TUF and Art. 3 of the Self-disciplining Code – since El.En belongs to the STAR segment of the Italian stock Market – and with Art. 2.2.3 of the Market Regulations and with Art. IA 2.10.6 of the Instructions for the Market Regulations, the Board of Directors must include among its components an appropriate number of independent administrators: at least 2 for a board of up to 8 members, at least 3 for a board of 9 to 14 members, at least 4 for a board of more than 14 members.
An administrator may be qualified as such on the following conditions:
a) he/she does not control directly or indirectly, either through subsidiary companies, trust corporations, third parties, equities in held through company agreements, the El.En. Company, nor does he/she have a significant influence over the Company.
b) he/she, in the last three years, has not held the position of president of the Board of Directors, legal representative, executive administrator or manager with strategic responsibilities in the El.En. Company or in one of the subsidiaries with strategic importance.
c) he/she , during this year or last year, has not held, even indirectly (through subsidiary companies and/or in which he/she has a significant or executive position), relations of a commercial, financial or professional nature with the El.En. Company or its subsidiaries, or with important exponents of the latter.

d) he/she, in the last three years has not been employed by the El.En. Company or by one of its subsidiaries, or by an important representative of the latter (president, legal representative, executive administrator, managers with strategic responsibilities) , by a shareholder, physical or juridical person or group of shareholders that control the El.En. Company or its important representatives.
e) he/she, in the last three years, has not received from the El.En. Company or from one of its subsidiaries, additional remuneration, even in the form of equities or stock options related to the performance of the Company, other than the normal remuneration as non-executive administrator of El.En.
f) he/she is not an executive administrator in another company in which an executive administrator of El. En. has an administrative position or is a member of an administrative body.
g) he/she is not a partner or an administrator of a company or an entity that belongs to the network of the company hired to audit the accounts of El.En.
h) he/she is not the husband/wife, common law spouse or domestic partner or relative up to the fourth degree of the person who is in one of the conditions described in the letters above.

Board of Auditors
Please refer to paragraph 14.0 regarding the composition of the Board of Auditors.

The methods for implementing the policies described above consist in the expression to the shareholders, during the meeting for the appointment of the administrating and controlling bodies, of an orientation which is consistent with this policy and in the verification both during the election and, periodically later on, from year to year during the self-evaluation of the Board of Directors and the evaluation of the requirements for independence of the Board of Auditors, that the above mentioned policy is being respected both in terms of composition and function.
In relation to the verification of the objectives that have been reached, the evaluation is made considering the result of both the El.En. Company and the Group during the examination of the level of achievement of the objectives at the time of the procedure for the approval of the incentive bonus which is paid to the board members and to the General Director.

Maximum number of positions which can be held in other companies (I.C.3)

During the board meeting held on May 15th 2015, the board members confirmed what they had already stated in the past in relation to the maximum number of positions as director or auditor which El.En. directors could hold in other companies that are quoted on the regular Italian and foreign stock markets, in financial institutions, banks, insurance companies or others of significant dimensions. During this meeting, the board elaborated their evaluations on the basis of the involvement related to each role (executive, non-executive, independent board member) also in relation to the type and size of the company in which the positions were held as well as the eventuality of their belonging to the El.En. Group and established that their executive board members could not hold positions as directors and/or auditors in more than five companies quoted on the stock market.

As far as the Board of Statutory Auditors is concerned, after the approval of the shareholders' meeting, the board of directors, using the regulatory recall method, inserted into art. 25 of the statutes, the further limits which were introduced by art.. 144-*duodecies* ss. of the *Regolamento Emittenti* issued by the Consob in compliance with 148-*bis* TUF, in addition to the previously established maximum limit of five positions as acting auditor in quoted companies.

As far as the Company is concerned, as of December 31st 2017 none of the current board members or auditors has exceeded the maximum number of positions.
For the purpose of supplying information to the shareholders who are called upon to appoint the new members of the Board during the meeting convened for the approval of the financial statement for the year ending on December 31st 2017, at the meeting held on March 15th 2018 the Board confirmed that the maximum number of positions that can be held is five.

Induction Programme

As already mentioned, the current executive members of the Board conduct their activity every day at the Company, and two of them, the President and the Board Member Bazzocchi, who were the partners who founded the Company in 1981 and since then have been directly involved in the operating management of the Company and the Group, each in his/her own area of expertise. Since 1992 Andrea Cangioli has been a Board Member and since 1996 managing director of El.En. and of numerous other companies of the Group. Executive board member Pecci and independent board member Legnaioli, besides their technical competence at a company and corporate level, have by now accrued over a decade of experience within the Company through their constant presence on the committees that were created in September of 2000. Board member Ms. Romagnoli has a long professional experience in management and controls.

As far as the members of the Board of Statutory Auditors are concerned, all of them have an exceptional technical and legal background and experience, and they also, like the President were present at the founding of the Company and since then have sustained it, or as in the case of the two acting auditors, or they have been involved for over a decade in the internal controls of the Company where they have worked with dedication and commitment.
During the board meetings as part of the regular agenda, the new changes in regulations and self-governing practice for the sector in which the company operates are always illustrated.
During the board meeting held on May 15th, therefore, the program initiated in 2016 was continued, with an aim to increasing the knowledge of the non-executive members and the auditors in the field of the operating and development sectors of the activity of the Company and the Group with the illustration, by the president of the scientific and technical commission of the Company, of the areas in which the company is already well established and those in which, with reference to the medical sector, it intends to make an entry and illustrated the outlook for the industrial development of research activities that are already in existence.

4.3. ROLE OF THE BOARD OF DIRECTORS (ex art. 123-*bis*, sub-section 2, letter d), TUF) – ART. 1, CODE

In compliance with art. 21 of the statutes, the Board is the body to which the most ample powers of ordinary and extraordinary administration are conferred and which is responsible for the management of the company.
In conformity with principles 1.P.1. and 1.P.2, and with art. 20B of the company by-laws, the Board, meets normally at least once every quarter in order to receive information from the delegated bodies and, also, to inform the Board of Statutory Auditors, not only during the verification phases, on the activity conducted in relation to the operations of major economic and financial importance made by the company and by the subsidiaries, as well as the transactions involving potential conflict of interest, those with related parties, and those which are atypical or unusual with respect to the normal operations of the company.
The fixed schedule for the meetings is planned so as to assure that the Board of Directors is able to carry out their functions in an informed and responsible manner. It also has the purpose of guaranteeing the conduction on the part of the Board of Directors of all the necessary and essential activities of a strategic nature and the verification in relation to the exercising of the powers delegated to them also in reference to the main subsidiaries, and, of these, those which are subject to activities of management and coordination which usually include among the components of their respective controlling bodies one of the executive board members if not the president of El.En. or, in some cases, the president of the scientific-technical commission of the Company.
The scheduled meetings, moreover, have the purpose of allowing the non-executive board members to acquire all the elements necessary for the evaluation of the organizational, administrative and accounting arrangements both of El.En. and the main subsidiaries, with their actual operations set up by the executive board members (1.C.1. lett. c).
On the other hand, the prevision that the incumbent head of the executive board members report to the Board of Directors and to the Board of Statutory Auditors, at least on a quarterly basis, on the activities conducted during the year (1.C.1. lett. d), on the general trend of the operations and on their foreseeable evolution, as well as on all the main operations of major economic and financial significance performed by the Company or by its main subsidiaries (1.C.1- letter f), usually in advance and, in any case, in urgent cases, before the next meeting of the Board, not only is required by law in compliance with 150 TUF in relation to the Board of Auditors, but is part of the policy of creating all the conditions necessary so that the Board can evaluate the overall results of the management and periodically compare the results actually obtained with those programmed (1.C.1 lett. e) as well as evaluating the reaction of the management towards situations in potential conflict of interest. In particular, in view of the future approval by the Board and, as a preventive measure, the executive board members, in compliance with art. 20 E mentioned above, must promptly report the operations in potential conflict of interest, those with related parties, as well as those which are atypical or unusual with respect to the normal operations of the company.

During the financial year 2017 the Board of Directors met five (5) times on the following dates:

1. March 15th
2. May 15th
3. September 5th
4. November 14th
5. December 11th

For the percentage of attendance at the meetings of the individual board members, see the relative chart at the end of this report (1.C.1. lett. I, n.2).

The average duration of each meeting during 2017 was 2,70 hours (1.C.1, letter i)

During the financial year 2018, the Board of Directors has met on the following dates:

1. March 15th

and, on November 14th 2017 established the following calendar of meetings in compliance with the company regulations (1.C.1.letter i):

2. May 15th - Quarterly report as of March 31st 2018;
3. September 12th – Half-yearly report
4. November 14th – Quarterly report as of September 30th 2018.

This schedule, of course, may have additional dates added to it should there be a need for other meetings of the Board of Directors.

In relation to the documentation and information supplied to the Board so that they can express informed and knowledgeable opinions on the subjects to be discussed, art. 20 A of the company by-laws states that the president must take measures to make sure that all of the members of the Board are supplied, at a reasonable time well in advance of the date of the meeting (except in urgent cases) all of the documentation and information necessary related to the subjects to be discussed and submitted for their approval. In practice, in order to assure that the pre-meeting information sheet is delivered rapidly and completely, we send the documentation needed for the discussion of the subjects as part of the order of the day of the meeting, either dispatched *brevi manu* or by e-mail to all of the board members and members of the Board of Statutory Auditors (1.C.5). The length of time is not set abstractly but is determined by the President on the basis of the subject for which the documents to be transmitted are instrumental and sustaining.

The meetings are organized in such a way that, for every subject that is included in the order of the day, enough time, in the opinion of the entire board, can be dedicated in order to give a full explanation of the proposals and to conduct an adequate debate to which all of the board members can contribute.

Considering the fundamental importance that research has in the activity of El.En., the president of the technical-scientific commission of El.En., usually invited by the president, participates in the meetings of the Board as well as the General Director so that he may report on the main issues regarding the management, and the legal counsel of El.En in order to illustrate changes in regulations and, when deemed necessary in order to describe and to illustrate subjects to be discussed that day of a purely technical nature, the director of internal functions, an executive or professional of the type considered most suitable.
In order to formally acknowledge the recommendations of the Code, even though this occurs normally, the Company voted to recognize in a by-law (art. 20) the faculty that the President of the Board of Directors has to request that managers of the company, the subsidiaries or the associated companies, who are responsible for particular sectors that needs to be dealt with, attend the board meetings in order to supply the opportune information on the subjects on the agenda (art. 1, applicative criteria 1.C.6).

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In compliance with art. 20 E of the company statutes, besides the attributions which by law cannot be delegated and are part of the specific duties and functions of the Board, the following activities are reserved as the exclusive right of the Board of Directors:
- establishing the general direction to be taken by the management and overseeing the general trend of the management with particular reference to situations of conflict of interest;
- the study and approval of the strategic, industrial and financial plans of the company and of the structure of the Group of which it is the leader (1.C.1. lett.a) and b);
- the attribution and the revocation of powers to the board members or to the executive committee with the definition of the content, the limits, and the means of exercising them, as well as the adoption of measures specifically intended to avoid the concentration of excessive power and responsibility in the management of the company (2.P.4);
- the determination of the amounts of remuneration of the delegated bodies, of the president and the board members charged with special tasks and, in the case that the assembly has not already taken measures in this direction, the subdivision of the overall salary owed to the single members of the Board of Directors and the executive commission;
- the creation of committees and commissions, and the establishment of their fields of expertise, attributions and means of functioning, also with an aim to the creation of the form of corporate governance in compliance with the self-disciplining codes for the companies quoted on the stock market. (4.P.1);
- the approval, usually given in advance, of operations of major strategic, economic, and financial importance (1.C.1 lett. f), with particular reference to the operations with related parties, to those in which a board member has personal interest for himself or for a third party or that are atypical or unusual.
- the verification of the adequacy of the type and size of the organizational, administrative and general accounting structures set up by the delegated bodies (1.C.1 lett. c);
- the appointment of the general managers and the determination of their duties and powers;
- the appointment of agents for single acts or categories of acts.
- the appointment or the revocation, in accordance with the opinion expressed by the Board of Statutory Auditors of the executive responsible for drawing up the company financial documents (art. 154-*bis* TUF).

In implementation of the functions attributed to them by the above mentioned regulation, the Board, through the activity initiated and coordinated by the Controls and Risks Commission as well as the half-yearly reports presented by the internal auditor and by the executive officer responsible for the preparation of the financial statement of the company, had evaluated during the meetings held respectively on March 15th 2017 (related to the activities of the second half of 2016: verification of the functioning and suitability of the internal controls and risk management system with reference to the area of formation of the financials; updating of the matrix of the area subject to control and the control activities that have been conducted and/or scheduled; analysis f the compliance to the regulations related to quotation on the MTA managed by the Italian Stock Market (Borsa Italiana S.p.A.) and in particular the activities implemented by the commissions established for this purpose in order to meet the many requirements imposed by the present laws included in L. 262/05, on September 5th 2017 (referred to the first half of 2017: updating of the matrices of the areas subject to control and the control activities that have been conducted and/or scheduled; analysis of the requirements derived from the placement of medical devices both on the Italian and foreign markets: verification of the functioning and suitability of the system of internal controls and the management of risks with particular reference to the drawing up of the financials; activities conducted in compliance with L262/05; the adequacy of the organizational, administrative, and accounting systems of the Company which have been set up by the executive administrators with particular reference to the system of internal controls and risk management (Applicative criteria 1.C.1, letter c)

In relation to the organizational, administrative and general accounting structure of the subsidiary companies with strategic importance set up by the executive directors, with particular reference to the internal control system and the management of risks (Applicative criteria 1.C.1., letter c), the Company, as part of the activities *ex* L. 262/2005, again in 2017 El.En conducted a re-examination of the perimeter of scoping and it was found that it would be unnecessary to modify the scope of the processes which had been tested.
The companies that have been selected as significant for this financial year are: Deka Mela S.r.l, Cutlite Penta S.r.l.; Esthelogue s.r.l, Quanta System s.p.s., Asclepion Gmbh, With Us Co. Ltd., Penta Chutian Laser Wuhan Co Ltd., and Penta Laser Wenzhou Co Ltd.
The results of the activities conducted this year and of the tests, as usual, were shown to the Committee for controls and risks and to the Board of statutory auditors acting as a Committee for internal controls in periodic meetings.

The Board evaluates the general trend of the management on the basis of the information received from the delegated bodies and at every board meeting and therefore, every three months, compares the results programmed with those actually achieved. (Applicative criteria 1.C.1., lett. e).

As already mentioned, art. 20 of the company statutes grants the faculty to the Board to examine and approve in advance all the operations of El.En. and of its subsidiaries, whenever these operations have significant strategic, economic, or financial importance for the Company (Applicative criteria 1.C.1., lett. f).

Art. 20 of the company, moreover, although it is the subject of specific Consob Regulations and El.En. statutes, grants the faculty to the Board to examine and approve in advance all the operations of El.En. and of it subsidiaries in which one or more of the directors have an interest either for themselves or for a third party. Moreover, article 6 of the internal regulations for dealings with related parties requires that the Board Member who holds an interest, directly or indirectly, must inform the Board in advance and then absent themselves from the meeting, except in those cases in which they have to remain in order to not compromise the quorum, in which case instead of absenting himself/herself, he/she must abstain from the vote.
Art. 20 of the company statutes grants the faculty to the Board to examine and approve in advance all the operations with related parties, in conformity with those identified on the basis of IAS 24 and *Regolamento Parti Correlate CONSOB*, of El.En., and of its subsidiaries, when these operations have significant strategic, economic or financial importance for El.En.

Generally speaking, in relation to the identification of the operations that have particular strategic, economic or financial importance, no general criteria have been established because the evaluation for each individual case is turned over to the delegated bodies which conduct the daily management and, in the opinion of the Board, have all the characteristics required for identifying these cases.
This is different from what occurs with operations conducted with related parties in relation to which the company has adhered, in compliance with the internal regulations for such operations, to the definition of operations of major significance as defined by the Consob in the *Regolamento Parti Correlate Consob*, Attachment 3.

The Board evaluates the size, composition and functioning of the Board itself and of its committees, in terms of determining the number of board members, when the proposal is brought to the assembly and subsequently for the division and delegating of functions and the election of the committees (Applicative criteria 1.C.1., letter g) and, later on, repeats the evaluation procedure annually. This examination is preceded by an analysis of the composition and functioning of the Board conducted by the Nominations Committee in a special meeting. During this meeting the

Commission evaluates the competency of the members of the Board and the conformity of the composition in relation to the regulations and the company by-laws.
This year the evaluation was conducted on March 15th when the Board met for the approval of the financial statement. The evaluation, considering the proposal formulated in this regard by the Nominations Committee which met on March 13th, had a positive outcome considering the unchanged composition of the Board, the newly appointed General Director, and also the results achieved by the Company and the Group during the year.

Once a year, after the approval of the financial statement, the Board usually proceeds with the evaluation of the presence of the requirements of independence for the independent Board Members considered sufficient also in quantitative terms in relation to the By-laws, the Code and the TUF.
On the occasion of the appointment of the Board that is now in office, in the report drawn up by the administrators in relation to this subject in the Order of the Day, general indications were given regarding the optimal composition of the new Board both in quantitative and qualitative terms.

As far as the current activities of the board members and their evaluation by the Board is concerned (criteria 1.C.4), in case of general preventive authorization by the assembly of the derogation of the prohibition of concurrency, on May 15th 2007 the shareholders' meeting, authorized the inclusion in the statutes at art. 19 last sub-section, of a regulation according to which no act of authorization is necessary as long as the concurrent activity is conducted because of having the role of member in one of the administrative bodies in one of the subsidiaries. This authorization is limited to the area of consolidation.
The Board, first during the formulation of the proposal to the shareholders and later, at the shareholders' meeting, evaluated *a priori* that the assumption of office as part of the area of consolidation must take place in the interest of the parent company for the purpose of coordinating the subsidiaries.

4.4. MANAGING BODIES

Managing Directors

The Board of Directors now serving, elected by the shareholders' meeting held on April 28th 2015, appointed from among its members, three executive members, one of which is also the president. These members have, separately from each other and with individual signature, all the ordinary and extraordinary powers of administration for the conduction of all activities that are part of the company purpose, excluding only those proxies the attribution of which is prohibited in conformity with law and the company statutes**.**

(2.P.4) The circumstance in which unlimited proxies are conferred is related mainly, according to an inveterate usage, to the exercising, in practice, of the powers delegated according to a model that requires, on the one hand, daily involvement on the part of the three executive board members in pursuing the company objective, with each one acting individually and autonomously carrying out only those tasks related to everyday management, each one in the sector to which he has been designated and, on the other hand, confronting and cooperating with each other in every operation which has significance or importance.
In effect, therefore, there is never a concentration of company powers in a single individual as described in principle 2.P.4, although each one could potentially achieve this. In practice, although they have held a mandate as executive director since the Company was first quoted on the stock market in 2000, none of the three executive board members, including the president, has ever become, nor acted as, the sole and principal person responsible for the management of the company. This circumstance was further re-enforced by the appointment of a General Director, effective starting January 1st 2017, which, although it has not affected the management aspects from a strategic point of view, has, in any case, been significant in terms of the distribution of the operative management powers.

For this reason the Board at this time, after hearing the opinion of the Nominations Committee, during the annual self-evaluation on March 15th, by unanimous decision voted to not proceed with the appointment of a lead independent director on the basis of applicative criteria 2.C.3, but to adopt other delegating criteria.

In fact, to acquire greater manoeuvring space in order to be able to align the company in practice with the recommendations contained in Applicative Criteria 2.C.3., during the definition of the areas of competence pertaining to the Board as per Art. 20 E, the company added explicit reference to the company statutes, the possibility/duty to proceed, upon the attribution of powers to the board members, to the adoption of measures aimed at avoiding in effect the concentration of excessive power and responsibility in the management of the company. Although no single individual can be considered as chiefly responsible for the direction of the Company, situations of interlocking directorate do not exist for any of the three board members (2.C.5).

Chairman of the Board of Directors (2.P.5)

In conformity with art. 2. of the Code, art. 20 A of the El.En. company statutes assigns to the President the possibility/duty of organizing the work of the Board, by proceeding with the convocation and the organization of the Order of the Day as well as the coordinating of the Board's activities, the conduction of the various meetings, and the rapid communication of information to the board members so that they can act and decide knowledgeably and autonomously.

Art. 23 of the company statute assigns the representation of El.En to the president of the Board of Directors without any limitations and, within the limitations of the powers delegated to them, to the members of the Board of Directors who have executive powers.

In effect, to the president of the Company – Gabriele Clementi – on account of the small/medium size of the Company and the close collaboration, even in operational terms, with the other two executive board members, executive powers have been conferred which have a content and breadth analogous to those of the other executive directors: in fact, like the other two executives, he conducts a concrete and daily activity in the service of the company.

During the board meetings he also makes it a habit to inform and involve the non-executive members in the company activities, the strategies of the Group and the prospects for their long-term realization.
As already described and explained above in relation to the conferring of powers, the Board of Directors at this time does not feel that it is opportune to appoint one of the two independent members as *lead independent director* to collaborate with the president in order to further re-enforce the connection between the executive and non-executive directors.

The chairman is not the principal, in the sense of "sole person", responsible for the management of El.En., as explained in the motivations given in the preceding paragraph and he is not the controlling partner of El.En.

Information given to the Board of Directors

The delegated bodies refer to the Board concerning the activities conducted while exercising the proxies conferred to them:

- normally, on a quarterly basis;
- when a significant transaction takes place with related parties or in conflict of interests, by calling a special board meeting.

During this year the delegated bodies reported to the Board quarterly during the regular scheduled meetings for the approval of the financial statements.

4.5. OTHER EXECUTIVE BOARD MEMBERS

On the current Board of Directors there are no directors which can be qualified as executive directors in accordance with Art. 2.C.1, except for those listed in paragraph 4.4. above.

4.6. INDEPENDENT DIRECTORS

In its Board of Directors, currently composed of six members, El.En. includes two non-executive administrators qualified as independent in conformity with art. 148, sub-section 3, TUF, reported in art. 147-ter, comma 4, TUF, and in conformity with art. 3 of the Code (3.C.3).

The election to the current Board of Directors of Fabia Romagnoli and Michele Legnaioli meant that the Board now has two independent members in compliance with art. 19 of the company by-laws in conformity with art. 147-ter, sub-section 4 of Legislative Decree 58/98 and art. 3 and criteria 3.C.1 and 3.C.2. of the Code. During the election of the Board, the shareholders' meeting decided that the fact that one of them, Mr. Legnaioli, had held the position of independent director of the company for more than nine years did not in itself constitute a relation of a nature that would exclude his fitness to be qualified as independent director, considering the absence of any other kind of relationship among those listed in art. 148 sub-section 3 D.Lgs 58/98 cited above and in criteria 3.C.1 of the Code and considering the recognized ethical character and professional capacity of the person involved as well as the continuation of his independence of judgment and evaluation.

In compliance with art.144-novies Consob Regulations for companies, the Company, at the time of the appointment, rendered public the outcome of the evaluations of the existence of the prerequisites in relation to each independent board member.

On May 15th 2015, at the first meeting after the election, while forming the internal commissions, the Board decided that the requisites for independence existed in relation to the two non- executive board members elected as such (Applicative criteria 3.C.4.).
The independence of the directors is subsequently evaluated annually during the meeting for the approval of the financial statement on the basis of information obtained from the directors themselves (3.C.4): according to policy, in fact, the company sends a questionnaire to the two directors qualified as independent which contains the declaration concerning the controlling, economic or personal relations with the Company, the Company's subsidiaries or executive board members of the Company.
In this regard it should be noted that during the approval of the financial statement for 2017 and of this Report, the Board, during the meeting of March 15th 2018, after gaining the approval of the Board of Statutory Auditors, on the basis of the information supplied by the independent directors did not find any variation in the conditions and the requisites for independence in conformity with the law, with the statutes and with the Code.

The Board of Statutory Auditors checked the correct application of the verification criteria and procedures used by the Board to evaluate the independence of its members and issued a positive result. (Applicative criteria 3.C.5.).

As far as Applicative criteria 3.C.6. is concerned, the independent board members who, as mentioned above, participate in all three of the commissions created within the Board, and considering the recommendations that had been received from the Commission for Corporate Governance of Companies quoted on the stock market included in the comment to art. 3 of Code 2015, decided to hold, on July 14th and on November 17th their meeting that was different and separate from those of the various company committees of which they are members.

At the moment of the presentation of their candidacy in the lists for appointment to the Board, the two independent administrators indicated their suitability to qualify as independent both in compliance with art. 148, comma 3 TUF, and with art. 3 of the Code and promised that they would maintain their qualifications of independence for their entire term or, if unable to do so, to resign (comment to art 5 of the Code).

In the declaration which they renew every year, for the evaluation of the continued existence of the prerequisites for independence the two board members who have this qualification are obliged to immediately inform the Board of Directors of any changes that might have taken place with respect to what they had declared previously.

4.7. LEAD INDEPENDENT DIRECTOR

After an analysis conducted by the Board of Directors on the basis of an opinion expressed by the Nomination Committee, described in paragraph 4.4. above, El.En. Spa believes that, at this time, a concentration of company positions in a sole person has not occurred, in conformity with principle 2.P.4. In fact, neither the president or the other two executive board members has ever effectively become the sole and principal person responsible for the management of the company. None of them, even though they are all significant shareholders in compliance with art. 120 TUF, is a controlling shareholder of El.En.

This circumstance was confirmed by the new Nomination Committee which had been given the task of making the evaluation after the election of the new Board of Directors and the conferring of powers during the inauguration of the Board on May 15th 2015 and the annual self-evaluation conducted on March 15th 2017.

For this reason the Board of Directors has decided at this time to not proceed with the appointment of a *lead independent director* as per Applicative criteria 2.C.3. and to adopt other delegating criteria.

5.0 TREATMENT OF COMPANY INFORMATION

The company information is managed by the El.En. Company so as to guarantee the preservation of the confidential information and the diffusion at the right time, in conformity with the laws now in effect, of that which could significantly influence the price of the financial instruments that have been issued.
The treatment and the spreading of company information occurs under strict control for the purpose, on the one hand, of preventing the spread of information which could compromise the legitimate interests of the Company and its shareholders and, on the other hand, guarantee a correct, opportune and impartial communication to the market of any information which, in accordance with Art. 7, Reg UE 596/2014 and 181 TUF, could have a significant effect on the price of the financial instruments issued by the Company.
Therefore, precise information which is not publicly known and which, if rendered public, is of a nature that could significantly influence the price of the financial instruments, is divulged in compliance with Art. 17 Reg. UE 596/2014 and Art. 114 TUF in order to guarantee the parity, punctuality and completeness of the information.
In particular, any news related to El.En. is carefully evaluated by the top management of the Company that has been assigned this task (FGIP), along with the employees and collaborators who elaborate the data and are aware of information related to the company, first on the basis of its nature – whether it is confidential or not - and, secondly as to what is the best and most correct means of diffusion.

As far as the internal regulations of the Company are concerned, in 2007 with a resolution by the Board, the Company approved a special procedure called "Regulations for the treatment of El.En. company information" ("*Regolamento per il trattamento delle informazioni societarie di El.En. s.p.a.*") with which, besides putting into practice the above mentioned policy for the diffusion of information, they intend to codify, in a form which is simple but safe and confidential, the internal management of the information and knowledge of special importance for the company activities and the conduction of its functions and, where necessary, in order to prevent illegal behaviour and for the fulfilling of the obligations imposed by law for quoted companies, for the purposes of a correct divulgation of confidential information which could be of interest to the stock market.

Moreover, this document also includes the rules for the institution and management of the register of persons who have access to sensitive information.
These regulations were up-dated in 2017 in order to align them, as far as was compatible with the size an organization of the Company, to the regulations provided in Reg. 596/2014 and the Guidelines for the Management of Confidential Information issued by the Consob.

As already mentioned, moreover, as provided for originally in conformity with articles 2.6.3 and 2.6.4 of the markets organized and managed by Borsa Italiana S.p.A. then in effect, from 2003 until March 31st of 2006, the Company had adopted an internal ethics code for the Group concerning *internal dealing.*
Later, after the modifications made on the TUF by the law on saving (*Legge sul Risparmio*) and the regulations issued by Consob to implement them, the obligation to communicate all operations made by significant subjects as prescribed in the ethics code became law, and the threshold of the operations to be communicated was reduced to 5.000,00 Euros; for this reason it was necessary to adopt a new text for the internal regulations which reflected the current regulations.
In following the recommendations of Borsa Italiana, El.En. accepted the new ethics code which is called the "Ethics code for operations performed on financial instruments of El.En. by significant persons" ("*Codice di comportamento per operazioni compiute su strumenti finanziari di El.En. s.p.a. da persone rilevanti*") adopted by the Board of Directors after the vote on March 31st 2006 and subsequently modified by the resolution taken on November 13th 2006 and on November 13th 2015, the imposition on the significant persons and those closely connected to them, as defined in art. 152-*sexies* Regolamento Consob 11971/1999, to respect a blackout period of 15 days prior to the approval by the board of the financial for the year and the relative intermediate reports.
During the year the Code was renamed "Ethics Code" (*Codice di Comportamento*) *internal dealing for operations conducted on financial instruments of El.En. S.p.A by related persons*" and was aligned with the new regulations among other things, also in relation to the modifications to Title VII, Part II, of the Company regulations introduced by Consob with vote 19925 on March 22nd 2017. With this resolution, in fact, they took advantage of the option provided by art. 19, paragraph 9, Reg. UE 596/2014 which raised to 20.000.00 Euros a year the threshold limiting the obligations for communication.
Moreover, due to the adoption of European Regulation 596/2014 which prohibits people who work in a accounting, control or management function from conducting operations for themselves or for third parties directly or indirectly related to financial instruments of the Company for a period of 30 calendar days prior to the announcement of an intermediate financial report or final annual report that the company is required to make public (the so-called closing period) (see article 19, sub-section 11 of the MAR). After this regulation came into force, in 2016 the Company adopted the above mentioned "*Codice di comportamento per operazioni compiute su strumenti finanziari di El.En. s.p.a. da persone rilevanti*" and raised the limits of the blackout accordingly.
In the case of extraordinary operations, moreover, the Board of Directors may impose extra temporal limits *ad*

personam for the negotiation of company shares, or, in exceptional and motivated cases they may grant exceptions to the blackout period.
In the above mentioned ethics code the exercising of stock options or of rights for options related to financial instruments and, solely for the shares derived from the stock option plans the consequent selling operations (as long as they are made when exercising the stock option right) are not subject to the limits and prohibitions described in the above mentioned ethics code.

6.0 INTERNAL COMMITTEES OF THE BOARD OF DIRECTORS (ex art. 123-bis, sub-section 2, letter d), TUF) – ART. 4 CODE

Since 2000, and after that, at each re-election, the Board has created from among its members three commissions which are supposed to take initiatives and to be consulted.
In conformity with Criteria 4.C.1 the commissions:
a) are all composed of three non-executive members, two of which are independent; the work of each commission is coordinated by a president.
b) are governed by regulations defining their composition, duties and functions approved by the Board of Directors and periodically updated by the Board.
c) the composition reflects the recommendations expressed in the Code and the last time the members were replaced was on May 15th 2015 after the election of the present board;
d) the regulations of each committee state that minutes must be made to record the content of each meeting in special books; each commission president must announce that the meeting has taken place during the board meetings in which the commission is involved in a subject being examined.
e) the regulations of each committee state that in order to carry out their duties and their functions, the committee has access to the information and company functions necessary for this task, as well as the faculty of consulting outside experts and of disposing of any financial resources placed at their disposal by the Company to the extent required for carrying out the activities with which they have been entrusted;
f) the regulation of each commission states that persons from outside the company may be sent to participate in the meetings when their presence constitutes a useful auxiliary for the conducting of the activities and functions of the commissions.

* * *

7.0 NOMINATION COMMITTEE – ART. 5 CODE

In conformity with art. 5.P.1. of the Code, the Board of Directors appointed a nominating committee for the appointment of the Directors, composed of its own non-executive members.

Composition and function of the nomination committee (ex art. 123-bis, sub-section 2, letter d), TUF)
Since its creation in 2000 the composition of the Nomination Committee has always been in conformity with the Code in its various versions.
The committee that is now in office was nominated by a resolution taken on May 15th 2015 and is composed as follows: Alberto Pecci (non-executive), Fabia Romagnoli (non-executive and independent), and Michele Legnaioli (non-executive and independent).

The tasks to be performed and the mode of operation of the above mentioned Nominating Committee were formally established at the time of its constitution on September 5th 2000 in the regulations approved *ad hoc* by the Board of Directors which met on the same day; later, the tasks assigned to the Nominating Committee were revised in compliance with the various modifications to the Code.

During 2017 the committee met twice. All of the members were present and the meetings lasted an average of 57,50 minutes. The work conducted during the meeting was coordinated by the president. At both of the meetings a member of the Board of Auditors was present, at one of them with a representative and at the other with all of them. The president of the committee reported to the Board during the meeting held on March 15th, about the meeting held on March 13th .

The Nominations Committee this year has been made up of three members mostly independent directors (standard 5.P.1).

The secretary and, upon invitation by the committee, at least one member of the Board of Statutory Auditors and the internal auditor participate in the meetings. (Applicative criteria 4.C.1., lett. f).

In 2018, the Nomination Committee has already met once, on March 14th, 2018. At this time at least one more meeting is scheduled after the inauguration of the new Board of Directors elected by the Shareholders' meeting, for the purpose of the evaluations to be made regarding the contents of paragraph 19.0.

Functions of the nomination committee

In compliance with art. 9 of the regulations of the Nomination Committee, they are entrusted with the tasks described in art. 5 of the Code. The Committee must guarantee the transparency of the selection and the election of the Board as well as the balance in its composition and therefore has the following functions:

a) they must guarantee the transparency of the procedures for the selection of the directors and the observance of the nominating procedures in compliance with art. 19 of the by-laws.
b) to the Board of Directors they propose candidates for the position of administrator in cases where it is necessary to replace an independent administrator Applicative criteria 5.C.1 letter b).
c) they can give opinions to the Board of Directors concerning the size and composition of the Board and give recommendations concerning the type of professional figures that it would be opportune to have on the Board for a correct and effective functioning, as well as on the subjects mentioned in art. 1.C.3. (maximum number of positions that can be held by an administrator or an auditor) and 1.C.4. (problematic cases in terms of competition) (Applicative criteria 5.C.1 letter a.);
d) they can conduct the investigation and formulate proposals related to the evaluation of the use of succession plans for the executive administrators and, when necessary, contribute to the creation of the plan.

When carrying out their functions and duties, the Nomination Committee has the concrete possibility of gaining access to the company information and operations necessary to conduct their activity, as well as making use of outside advisors and any financial resources put at their disposal by the Company to the extent that is necessary to carry out the tasks which have been assigned to them.

During this year, the Nomination Committee supported the Board during the annual process of self-evaluation including issues related to the succession policies, and the recurrence of the conditions necessary for the appointment of a lead independent director during the meeting for the approval of the 2016 financials. They also met in order to formalize the *Policies applied in relation to the composition of the commissions of El.En. S.p.A.* and presented the proposal to the Board which then adopted the document on November 14th.

Except for extemporaneous meetings requested during the regular board meetings and which are recorded in the board minutes, in conformity with regulations, the meetings of the Nomination Committee are recorded separately in the minutes book. (Applicative criteria 4.C.1., lett. d).

In carrying out its functions, the Nomination Committee has had access to all of the information and the company functions that it has deemed necessary for fulfilling its tasks.
At this time the Nomination Committee has not found it necessary to make use of outside consultants or to use the special financial resources provided for carrying out its duties.

8.0 REMUNERATION COMMITTEE – ART. 6 CODE

In order to guarantee the most complete information and total transparency in the remuneration paid to the directors, in 2000 the Board of Directors created the Remuneration Committee from among its own members (Principle 6.P.3.).

Composition and function of the Remuneration Committee (ex art. 123-bis, sub-section 2, letter d), TUF)
The Remuneration Committee that is now in office was appointed by the resolution taken on May 15th 2015 after the election of the new Board of Directors and it is now composed as follows: Fabia Romagnoli (non-executive and independent), Alberto Pecci (non-executive) and Michele Legnaioli (non-executive and independent).

The Remuneration Committee functions, and has the duties described in the regulations approved *ad hoc* by the Board of Directors during the meeting held on September 5th 2000. After that, the tasks of the committee have been revised on the basis of the modifications made in the Code.

It should be noted that the Remuneration Committee is only for consultation and has the faculty of making proposals and that, in conformity with art. 2389, sub-section 3, c.c. and art. 20 E of the company statutes, only the Board has the power to determine the remuneration of the delegated bodies, the president and the board members with special positions once the opinion of the Board of Auditors has been expressed.

The president of the Remuneration Committee, on the basis of art. 3 of the relative regulations, has the task of coordinating and planning the activities of the committee and conducting the meetings. He informed them and gave his report on the activities conducted during the first meeting of the Board.
During this year the committee met once, on March 13th, and reported on their activity during the Board meeting held on March 15th.
The duration of the committee meeting held this year was 60 minutes.
All of the committee members were present and the entire Board of Auditors or one of its representatives was present.
In 2018 the Remuneration Committee has already met once, on March 14th. Another meeting is scheduled after the appointment of the new Board for the purpose of conducting their activity related to the amount of remuneration for the Board Members who have been elected.

During this year the Remuneration Committee was composed of non-executive members, most of whom were independent. (Principle 6.P.3.).

During this year the Remuneration Committee was composed of at least three members (Applicative criteria 4.C.1., lett. a).

All of the members of the Remuneration Committee, as previously mentioned, are outstanding personalities who have developed a long experience in important companies (Florence Airport, KME, Mediobanca s.p.a., Fondazione Cassa di Risparmio di Prato), etc.
The Board therefore did deem it necessary to proceed with a further evaluation of the expertise of one of the members on the subject of accounting and finances, and/or in relation to remunerative policy, since for all the components these characteristics emerged from the curriculum they presented when their names were added to the list of candidates for the appointment of the current Board.

The regulations of the Remuneration Committee state in art. 4 that no board member may be present at the meetings of the committee during which his/her own salary is discussed.
The salaries of non-executive and independent directors were voted by the assembly and since the Remuneration Committee is composed only of non-executive directors, the executive directors to which the remuneration proposals refer do not participate in the meetings of the commission in which the proposals of the Board are made concerning their own salaries (Applicative criteria 6.C.6.).

The secretary participated in the meetings of the Remuneration Committee and upon invitation from the committee and in relation to the specific subjects being dealt with (Applicative criteria 4.C.1., lett. f), persons or professionals who are not members of the committee and the Board of Auditors, either all of them or one or two of its members (comment to article 6 of the Code).

Functions of the Remuneration Committee
The Remuneration Committee has the functions that were assigned to it by the regulations approved by the Board of Directors. They consist chiefly in the tasks described in art. 6 of the Code. Its role, consequently, is to advise and to propose:

- the Remuneration Committee presents proposals for the definition of a remuneration policy of the administrators and mangers with strategic responsibilities (standard 6.P.4) to the Board of Directors;
- the Remuneration Committee periodically evaluates the adequacy, the overall consistency and the concrete application of the general policy adopted for the remuneration of the executive directors, the other directors who have special functions, and the executives with strategic responsibilities, supervises their application on the basis of information supplied by the executive directors and transmits general recommendations to the Board of Directors (Applicative criteria 6.C.5);
- it presents to the Board of Directors proposals for the remuneration of the executive directors and the other directors who have special functions as well as setting the performance objectives related to the variable component of this remuneration; it also monitors the application of the decisions adopted by the board and, in particular, verifies that the performance objectives have actually been achieved (Applicative criteria 6.C.5);
- on its own initiative or upon request by the Board, it conducts the investigative and preparatory activities that are adequate and necessary for the elaboration of the remuneration policy.
- it reports to the shareholders on the manner in which they have carried out their functions.

During this year the Company did not make use of any outside consultants.

In making their recommendations, the Remuneration Committee may stipulate that:

- the remuneration of the executive administrators be defined so as to be in line with interests in achieving a priority objective for the creation of value for the shareholders over a mid- to long-term period;
- a significant part if the overall salaries of the board members, who have managerial responsibilities, be dependent to the reaching of certain objectives which may even not be of a economic nature, identified and specified in advance by the Board of Directors.

During this year the Remuneration Committee conducted the following activities:

a) evaluating what had occurred in relation to achieving the goals that had been set for the incentive salary plan for 2016 and in the variable part of the remuneration of executive administrators and managers with strategic responsibilities;
b) definition of the proposed policy of incentive salaries and the incentive salary plan for 2017. In this regard, they also formulated a proposal for a remuneration policy that was the subject of the report submitted for approval to the shareholders as well as establishing specific guidelines for the remuneration of the new controlling commission, bearing in mind the new conditions.

At the meeting held during the year, the Board of Auditors, represented by the two acting auditors, participated (Comment to art.6 of the Code).

The meetings of the Remuneration Committee are recorded in the minutes book. (Applicative criteria 4.C.1., lett. d).

When carrying out their functions and duties, the Remuneration Committee has access to the company information and operations necessary to conduct their activity, as well as making use of outside advisors according to the terms established by the Board. (Applicative criteria 4.C.1., lett. e).

At this time the Remuneration Committee has not found it necessary to make use of outside consultants or to use the special financial resources provided for carrying out its duties.

9.0 REMUNERATION OF THE DIRECTORS

The contents of the report on remuneration published in compliance with art. 123 *ter*-TUF and art. 84-quarter of the Consob regulations should be added on to the information which follows. This information is available on the El.En. site: www.elengroup.com in the section: *Investor relations/governance/ shareholders' meeting documents/2018.*

General remuneration policy

* * *

The Board has defined the guide lines for the incentive policy for the executive directors and the directors with strategic responsibilities (standard 6.P.4.) which they have submitted in the first part of the Report on Remuneration 2017 for the inspection and decision of the shareholders' meeting during the meeting for the approval of the financials for 2016. According to applicative criteria 6.C.1 the main characteristics are the following:

a) The set component and the variable component attributed to the executive board members and to those holding special positions, in consideration of the structure of El.En. and of the sector in which it operates, is believed to be adequately balanced in relation to the strategic objectives and the risk management policy of El.En.
b) Maximum limits have been set for the variable components.
c) The set component is held to be enough to remunerate the performance of the executive administrators or those who hold special positions even when the variable component has not been issued due to the fact that the performance objectives set by the Board have not been reached.
d) These objectives are set in the first quarter of the year and are measurable and deemed by the Board to be related to the creation of value for the shareholders within a mid-term period.
e) All of the variable component that is due is paid out during the following year.
f) After the election of the new board of directors on May 15th 2015 specific written contractual agreements were stipulated with the President and the two managing directors which allow the Company to ask for the reimbursement of the entire variable component of the remuneration assigned to them by the Board on the basis of incentive plans for remuneration that have been approved during their mandate in the event that these bonuses were paid for achieving certain objectives listed in the above mentioned plans and that later turn out to be false on the basis of data that is clearly and objectively wrong.
g) No indemnity is paid for the premature cessation of employment or for its failure to be renewed but only a severance pay amounting to 6.500,00 Euros each and paid at the end of the mandate to the president and both of the two managing directors.

Stock option plan

The shareholders' meeting held on May 12th 2016 approved the incentive plan for 2016-2025 (Stock Option Plan 2016-2025) in favour of the administrators, collaborators and employees of the Company and its subsidiaries, to be implemented by assigning in one or more instalments, free of charge, option rights for underwriting newly issued ordinary shares in the company, the exercising of which will be governed by the special regulations definitively approved by the Board of Directors on September 13nd 2016when the plan was implemented. At the same time, the Board proceeded with the identification of the recipients, determine the amount of options to be assigned, as well as to set the price of the new ordinary shares which will be issued as the new beneficiaries exercise their option rights.
All of the details of the plan are described in the *Documento redatto ai sensi dell'articolo 84-bis, sub-section 1 and Chart 7of Appendix 3A of the Regolamento Consob n.11971/1999* available on the internet site of the Company, www.elengroup.com sez. Documenti Societari/Piano Stock Option 2016-2025.
In particular, when implementing the plan, the Board established the following with reference to the administrators of the Company in compliance with Applicative Criteria 6.C.2:

a) For all beneficiaries, a vesting of three years: the options assigned may be exercised in a first instalment starting on September 14th 2019.
b) With reference to the beneficiaries that are administrators of the Company, the availability of the options that have been assigned is subordinate to the circumstance which with reference to the preceding year for exercising the option establishes that the recipients of the options have reached the threshold of at least one of the objectives that has been assigned to them in relation to the annual incentive remuneration plans approved each year by the Board following the proposal of the Remuneration Committee.
c) With reference to the beneficiaries that are administrators of the Company, it was established that they, as promised upon assignation of the options, must retain until the end of their mandate at least 5% of the shares received as part of the options assigned to them.

Remuneration of the executive directors

A significant portion of the salaries of the executive directors depends on the earnings of the Company and/or reaching certain goals specified in advance by the Board proposed by the remuneration committee consistently with the incentive

policy formulated by the Board and approved by the shareholders' meeting on May 15th 2017, both in relation to the maximum amount which can be paid out (standard 6.P.2) and the guide lines.
The incentive remuneration plan proposed by the Board on March 15th 2017 and since it was later definitively confirmed by the Shareholders' assembly without any modifications to the proposals of the Board, no further deliberation by the Board was deemed necessary.

Remuneration of directors with strategic responsibilities

In relation to the directors with strategic responsibilities, up until December 31st 2016 the Board of Directors of El.En. had identified only one director who was a board member until the end of the term of the board which ended on April 28th 2015 and who is now on the Technical-Scientific Commission of El.En. Starting on September 1st 2017 he no longer had the function that had induced the Board to qualify him as a manager with strategic responsibilities. Therefore, until December 31st 2017 he was the recipient of an incentive remuneration plan adopted in accordance with the general policy described above (standard 6.P.2), and consequently a significant part of his remuneration for 2017 was connected to achieving the goals in conformity with the terms that have been described with reference to executive directors.
Since January 1st 2017 the Company has appointed a General Director who is the recipient of an incentive remuneration plan that is based on the terms described in the Report on Remuneration.
With reference to the Stock Option Plan for 2016-2025, for its implementation the Board has used the same methods used for the administrators of the Company which assumes, for the exercising of the option rights, that he/she has reached the threshold amount of at least one of the objectives assigned to him/he in relation to the annual incentive remuneration plan approved every year by the Board on the basis of the proposal of the Remuneration Committee.

The Board of Directors decided to assign an incentive remuneration to the president of the Technical-Scientific commission who, although he is not a director of El.En. is considered a figure of strategic importance in consideration of the fact that the main characteristic of the business of the company is that it is based on research.

Incentive mechanisms for the provost responsible for internal auditing and for the executive officer responsible for the preparation of the financial statements
The incentive mechanisms directed at the provost responsible for internal auditing or internal controls and the executive officer responsible for the preparation of the financial statements of the company are established by the managing director of internal controls and are deemed to be consistent with the roles that are assigned to them (Applicative criteria 6.C.3.).

Remuneration of the non-executive directors
The remuneration of the non-executive directors is established by the shareholders meeting at a set sum and is in no way connected to the economic results of El.En. (Applicative criteria 6.C.4.).

The remuneration of the non-executive directors is represented by the base salary established by the shareholders' meeting for all of the board members when they are appointed and currently amounts to 12.000,00 Euros a year.

The non-executive directors are not included in the incentive plans involving stock options (Applicative criteria 6.C.4.).

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Indemnities for the directors in case of resigning, dismissal, or discharging on account of an offer of public acquisition (ex art. 123-bis, sub-section 1, letter i), TUF)

Except for the severance pay indemnity established by the assembly in compliance with art. 17 of the TUIR, at the moment of appointment of the president or the executive board members for a maximum amount of 19.500,00 Euros a year, no agreements have been stipulated between El.En. and the directors concerning an indemnity in case of resignation or dismissal/discharge without just cause or if the relationship with the Company ceases on account of an offer of public acquisition.
At this time there are no further rights assigned in relation to the severance pay indemnity described above, there are no agreements that stipulate the assignment or maintenance of non-monetary benefits in favor of subjects who have terminated their employment, nor consulting contracts that have been stipulated for a period following the termination of employment; no agreements exist in relation to payments for non-compete clause.
When he was appointed, the General Director underwrote a non-compete clause which lasts for the entire period of his directorship and for two years after the end of his employment, in relation to which he receives an indemnity during his employment. For further details, please consult the Report on Remuneration.

10.0 COMMITTEE FOR CONTROLS AND RISKS

In 2000 the Board of Directors created an internal controls committee which, in 2012, was renamed "Committee for controls and risks" (Principle 7.P.3 letter a, n. ii and 7.P.4)

Composition and function of the committee for controls and risks (ex art. 123bis, sub-section 2, letter d), TUF)
The composition of the Committee for Controls and Risks has always been in conformity with the Code in its various versions.
The Committee for Controls and Risks that is now in office was appointed by the resolution taken on May 15th 2015 after the election of the new Board of Directors and is composed of: Fabia Romagnoli (non-executive and independent), Alberto Pecci (non-executive) and Michele Legnaioli (non-executive and independent).
The president, Michele Legnaioli, in conformity with art. 3 of the committee regulations, has the task of coordinating and scheduling their activities as well as conducting the meetings.

The commission always meets before the approval of the annual financial statement and the half-yearly report by the Board of Directors and whenever requested by one of the commission, Board or the provost for internal controls.

During this year the Committee met six times, on March 15th , May 11th, July 14th, September 5th , November 10th and December 11th.
The meetings of the Committee lasted for an average of 82,50 minutes and all of the members were present.
For the current year 2018, there have been two meetings: February 15th and March 14th; a third meeting is planned for the month of September.

During the year the Committee for Controls and Risks was composed of non-executive directors, most of whom were independent (Principle 7.P.4.).

During the year the Committee for Controls and Risks was composed of at least three members (Applicative criteria 4.C.1., lett. a).

All of the members of the Committee for Controls and Risks have experience in the fields of accounting and finance which the Board felt was adequate at the time of the appointment (Principle 7.P.4), for the reasons mentioned above in the paragraph related to the Remuneration Committee.

The Board of Auditors, the executive officer responsible for the preparation of the financial statements, the executive director of internal controls, the secretary and the internal auditors, participate in the meetings of the internal controls commission and, when necessary, in order to resolve specific orders of the day, a person or professional that the president deems useful in the discussion. (Applicative criteria 4.C.1., lett. f).

Functions attributed to the committee for controls and risks
According to the regulations, the remuneration committee is responsible for the tasks described in art. 7 of the Code regarding internal control and risk management, as well as those derived from the CONSOB *Regolamento Part Correlate* regarding the regulations for dealings with related parties.
During this year, in the light of D. Lgs. 39/2010 which redefined some aspects of internal controls, El.En., on the basis of the contents of Stock Market Notice n. 18916 of December 21st 2010 –regarding the requirements which must be possessed by companies belonging to the STAR segment, had already proceeded with the vote taken on May 13th 2011, to attribute to the committee a role that was merely supportive with reference to the activities assigned by D. Lgs. 39/2010 to the board of auditors concerning the legal auditing of accounts.
In November of 2015, after the modifications made to the Code in July 2015, they clarified in the regulations the Controls and Risks Committee's role as a support in the inquiry conducted for the evaluation and decisions of the Board related to the management of risks derived from adverse facts of which the Board had become aware (7.C.2 lett.g).

The Committee was assigned those tasks described in the *Regolamento Consob* 17221/2010 related to operations with related parties and those mentioned in art. 7 of the Code.
Therefore, the Committee, as part of the operations conducted with related parties:
(a) examines, analyzes and expresses an opinion in advance on the procedures and on the relative modifications adopted by the Board of Directors in relation to operations conducted with related parties;
(b) carries out the tasks which have been assigned to it in those procedures in relation to the instruction and examination of the operations with related parties governed by these same procedures.
Moreover, in relation to art. 7 of the Code, in offering advice and proposals, when required, it must analyze the problems and implement the practices for the control of the company activities and in particular, as far as is compatible with the functions attributed by the law to the Board of Statutory Auditors of companies listed on the stock market, it

must:
a) assist the Board of Directors in defining the directives for internal control and risk management, in the periodic evaluation of the adequacy and effectiveness of the system, of the efficiency and effectiveness of the system, as well as the verification activity aimed at the identification and management of the main risks involving the company and its subsidiaries, and the determining of the degree of compatibility for the risks which have been identified involving the company or its subsidiaries, through a management of the company that is consistent with the strategic objectives that have been set also in of view of a mid- to long term sustainability of the company's activities.
(b) evaluate, together with the executive officer responsible for the preparation of the financial statements and the independent auditors and the Board of Statutory auditors, the adequacy of the accounting principles being used and their consistency in relation to the drawing up of the consolidated financial statement;
(c) express their opinions on specific aspects related to the identification of the main risks to which the company is exposed.
(d) examine the periodic reports which have as their subject, the evaluation of the system for internal controls and management of risks and, in particular, those concerning internal audit.
(e) monitor the autonomy, the adequacy, the effectiveness and the efficiency of the internal auditing system.
(f) using their own discretion and specifically communicating with the president of the Board of Auditors, to ask for the function of an internal audit to conduct verifications on specific operating areas.
(g) assist the Board of Auditors when specifically requested, in the evaluation of proposals advanced by the auditing company in order to obtain the position of auditors and evaluate the work plan drawn up for the auditing and the results shown in the report and in the letter of suggestions.
(h) assist the Board of Auditors when specifically requested, in their supervision of the effectiveness of the auditing process.
(i) report to the Board, at least twice a year, on the occasion of the approval of the financial and the half-yearly report, on the activity conducted and on the adequacy of the system of internal controls and management of risks;
(l) form an opinion concerning the appointment, revocation and remuneration of the manager of the internal auditing system and they qualities that this person has that are necessary for carrying out his functions and responsibilities;
(m) to support, through an adequate activity of inquiry, the evaluations and decisions of the Board of Directors related to the management of risks deriving from adverse facts of which the Board has become aware.
(n) carry out the other tasks which from time to time may be assigned to it by the Board of Directors.

During this year the Committee for Controls and Risks evaluated, in particular, the activities conducted by the manager in relation to Law 262/2005. They also made an inspection and evaluation of the activities of the internal auditors respectively in relation to the updating of the limits of the areas of risk and the state of the control activities that have been implemented, and of the functioning and the adequacy of the system of internal controls and risk management with reference to the area of formation of the financials, to the up-dating of the matrix of the areas subject to control and the control activities conducted or scheduled; to the compliance related to the listing on the MTA managed by the Italian Stock Market and, in particular, the activities implemented by the entities created for this purpose in order to meet the many requirements required by the present legislation; to compliance derived from the regulations related to the placing of medical devices on the Italian and foreign markets.

The Committee for Controls and Risks, moreover, implemented the procedures and the internal organization with reference to the management of company information and directed the revision of the regulations for the treatment of El.En.'s company information (*Regolamento per il trattamento delle informazioni societarie di El.En. S.p.A*) and the appointment of the FGIP.
The Committee for Controls and Risks also supported the Board in assigning the task to Independent Auditors ex D. Lgs December 30th 2016, no. 254 related to the communication of information of a non-financial nature and worked together with the Board of Auditors on the evaluation of the contents and the terms in the proposal presented to the Company.

Moreover, this year, the Committee was involved in a hypothetical operation between the subsidiary companies in relation to which, the Company, which is within the parameters a "smaller size company" in compliance with art, 3, letter f) Regulation 17221/2010, has taken the option provided by art. 10 Regulation 17221/2010 mentioned above, and decided that it was opportune to assign the Committee the task of conducting an investigation for the purpose of expressing a non-binding opinion on the interest of El.En. to conclude the operation, as well as on the economic feasibility and substantial correctness of the related conditions. As of today, the operation has not yet been concluded.

All the members of the Board of Auditors usually participate in the work of the Committee for controls and risks and, in any case, at least one member always present (Applicative criteria 7.C.3.).

The meetings of the Committee for Control and Risks are duly recorded in the book of minutes (Applicative criteria 4.C.1., lett. d).

When carrying out its functions, the commission for controls and risks may have access to the company information and operations which are necessary for it to conduct its activities, and it may also, when opportune, consult with outside experts, in accordance with the terms established by the Board. (Applicative criteria 4.C.1., lett. e).

During this year, the Committee, while evaluating the possibility of the above mentioned operation, hired an external consultant; a university professor specialized in company evaluations from the Department of Economic and Entrepreneurial Science in the University of Florence.
For this purpose about 18.000,00 Euro were placed at the disposal of the Committee.

11.0 INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEM

As part of its activities for the management of the Company, and while defining their strategic industrial and financial plans, the Board of Directors evaluates the nature and the degree of risk compatibly with the goals that have been set.

While mandating the various bodies involved in the system of internal controls (managing director, internal auditor, committee, supervising body, provost, etc.) the Board has defined the various directives of the internal controls and risk management system in such a way that the principal risks pertaining to El.En. and its subsidiaries are correctly identified, adequately measured, managed and monitored, and, at the same time, determining the degree of compatibility of these risks with a management of the company that is consistent with the strategic objectives that have been set (Applicative criteria 7.C.1, lett. a).

The essential elements of the system of internal controls and risk management (Applicative criteria 7.C.1, lett. d) of El.En. are represented, on one hand by the rules and procedures, and on the other, by the bodies for corporate governance and control.
The rules consist mainly of a series of fundamental principles which were codified in the Ethics Code; secondly, they consist of a series of second level procedures (those in *ex* Legislative Decree 231/01, L.262/05, L.81/09, internal regulations on the treatment of confidential information, operations with related parties, internal dealing, etc.) which make it possible to apply them to the specific situation of the company and to implement the above mentioned general principles.
On the other hand, the internal auditors, the provosts for internal controls, the executive responsible for the company financial documents, the supervising bodies 231, the Committee for Controls and Risks, the Board of Statutory Auditors, the Independent Auditors are all charged with the supervision of the compliance, with the rules and procedures on the basis of the competence and functions defined and attributed by the Board to the different bodies at their respective levels.

The details of the current system for the management of risks and for internal controls now in existence in relation to the policy on financial information, even consolidated (ex art. 123-bis, sub-section 2, letter b), TUF), are described in Appendix 1. The following is a summary of the policy followed by El.En. after law 262/2005 came into effect.

On May 15th 2007, in implementation of art. 154-bis TUF, for the purpose of formalizing a set of rules and tests to add to those already in existence which were related to the formation of the financial information process (including the consolidated) the Board appointed Enrico Romagnoli, an employee who has worked for the company since its admission to the stock market organized and managed by the Borsa Italiana S.p.A, as the executive officer responsible for the preparation of the financial statements.
Initially, El.En., collaborating with Price Waterhouse Coopers company (a company which is different from that which audits the books of El.En.) instituted a task force with the objective of analysing the system of internal controls (SCI) with reference to the tasks assigned by law to the executive responsible for the accounting and company documents.

The analysis was conducted using as a model the CoSo Report – Internal Control Integrated Framework and upon conclusion of the project a report was written which summarized the results which had emerged; on the basis of these results they identified the specific instruments to apply in order to guarantee the coordination and functioning of all the elements of the SCI which were related to information and data on the economic and financial situation of the company, in compliance with the law and/or diffused on the market.
Since that time, the provost has carried out this activity with an aim to continuous improvement and constant verification of the instruments being used and, as part of this activity, during 2012-2013 manager assigned, in collaboration also with Deloitte ERS, conducted activities focused on the revision of the procedures for the companies in scope according to a risk-based method in order to make a better analysis of the risks connected to the financial reports. This model has been applied also to the new companies that were later included in the scope.

At least once every six months, using the Commission for controls and risks and the Board of Auditors, the Board evaluates the plan (the type and frequency) of the controls set up by the internal auditor in coordination with the managing director of internal controls (Applicative criteria 7.C.1 letter c).
Through the activities implemented and coordinated by the internal controls committee, as well as the reports presented periodically by the internal controls provost and the superintending institution 231, during the meetings held on March 15th, May 15th, September 5th , and November 14th, the Board evaluated as adequate the efficiency, effectiveness and correct functioning of the internal controls system (Applicative criteria 7.C.1., lett. b and d).

11.1. EXECUTIVE DIRECTOR IN CHARGE OF INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has identified an administrator for the institution and maintenance of an effective system for internal controls and risk management (standard 7.P.3, letter a) n.i)). Andrea Cangioli, managing director was appointed to this position.
In the name of the Board, he is in charge of the supervision of the functioning of the system of internal controls and risk management and carries out the tasks and the functions as per the Code and in particular: the identification of the main risks for the company (strategic, operative, financial, compliance), bearing in mind the characteristics of the activity conducted by El.En. and by its subsidiaries, and submits them for periodic examination by the Board when the financial data and the managerial performance of the Company and the Group are bring presented (Applicative criteria 7.C.4, lett. a); implementing the directives defined by the Board of Directors, including the planning, activation and management of the internal controls system and constant verification of its adequacy, effectiveness and efficiency (Applicative criteria 7.C.4., lett. b); adaptation of the system to the dynamics of the operating conditions and the legislative and regulating situation (Applicative criteria 7.C.4., lett. c); request to the person responsible for the internal audit to conduct the verifications in specific operating sectors and on the respect of the regulations and procedures in carrying out company operations, while keeping the commissions for controls and risks and the Board of Statutory auditors informed (Applicative criteria 7.C.4., lett. d).

During the work sessions of the committee for control and risks and of the Board of Auditors, when necessary, the executive director will refer concerning the problems that have emerged or that he has been informed of as part of the activity that he conducts (Applicative criteria 7.C.4 letter e).

11.2. PROVOST FOR INTERNAL AUDITING

Since 2000 the Board has appointed one or more persons to verify that the internal controls system is always adequate, fully operative and functioning (provost(s) for internal controls, internal auditors) (Applicative criteria 7.P.3., lett. b).
The current provosts for internal auditing are Cristina Morvillo and, exclusively in relation to the drawing up of the financial statements, Lorenzo Paci' the appointment of which occurred on the basis of the executive director in charge of supervising the systems for internal controls and the opinions expressed by the commission for controls and risks (Applicative criteria 7.C.1.- second part) with the approval of the Board of Auditors.

The Board is the body in charge of the remuneration of the provost(s) for internal auditing; consistent with the company policy, upon proposal from the executive director in charge of supervising the functions of the internal controls system and, on the basis of the opinion expressed by the commission for controls and risks, (Applicative criteria 7.C.1- second part) and of the Board of Auditors.

The provosts for internal auditing are not responsible for any of the operative sectors and in the hierarchy depend on the Board of Directors (Applicative criteria 7.C.5., lett. b).
The provosts responsible for internal auditing conduct verifications continually and also in relation to specific cases and, in conformity with the international standards, the operations and the effectiveness of the system of internal controls and risk management based on a process of analysis and classification of the main risks of the controls (7.C.5, lett. a).

The provosts responsible for internal auditing, each one in their own area of expertise, have direct access to all the information that is useful for conducting their activities (Applicative criteria 7.C.5, lett. c); they prepare periodic reports containing adequate information concerning their activities, on the ways that the risk management is conducted in the investigative sectors that have been assigned as well as the compliance with the plans for controlling them, besides an evaluation of the effectiveness of the system used for internal controls and risk management (Applicative criteria 7.C.5., lett. d) and communicate them to the presidents of the board of auditors and the committee for controls and risks as well as the administrator responsible for the system of internal controls and risk management (Applicative criteria 7.C.5., lett. f); they have not had an opportunity to report on events of particular significance; on the basis of the activity of verification and control conducted by the director in charge of the 262/2005, in conformity with the COBIT model "Control objectives or information and related technology", they have verified the reliability of the computer systems including the systems used for entering the accounts (Applicative criteria 7.C.5, lett. g).
At this time the provosts have not found it necessary to make use of outside consultants or to use the special financial resources provided for carrying out its duties.

During this year the activities of the internal auditor continued to be focused on the verification of the functioning and adequacy of the internal controls system and risk management with reference to the area of formation of the financial statement; of the matrix of the areas subject to control and the control activities that have been conducted or scheduled, the analysis of the requirements related to the listing on the MTA managed by the Italian Stock Market S.p.A and, in particular, the activities implemented by the entities created for this purpose in order to comply with the many regulations contained in the present laws; analysis of the requirements derived from the placement of medical devices on the Italian and foreign markets, and the activities conducted in compliance with law 262/05.

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The function of internal auditing with reference to the area of drawing up the financial statement which is an activity of the ex-262/05 area of monitoring has been assigned to Dott. Lorenzo Paci, CPA, an external subject involved in the activities for the implementation of model 231 and considered to possess the necessary pre-requisites of professional competence, independence and organization. The externalizing of the functions of internal control with reference to the area of the financials originated with the intent to optimize resources conducted by the Board in February of 2005 when it was decided to appoint a provost for internal controls who was identified as a member of the financial staff and involved in the preparation of the financial statements of the companies belonging to the Group.
A correct division between operating and control activities persuaded the Board to continue with this policy.

11.3. ORGANIZATIONAL MODEL ex D. Lgs. 231/2001

El.En. has a model for organization, management and control in compliance with Legislative Decree n. 231/2001.
As far as the subsidiaries of strategic importance are concerned, it has now been adopted by Quanta System s.p.a, ASA s.r.l. and by the subsidiary Deka M.E.L.A. s.r.l.

The present model of El.En. is the result of a revision of the one originally approved and its continual updating, on the basis of the evolution of the types of possible misdemeanors that are contemplated individually by the legislators. With the intent of preventing any misdemeanors which could in some way be related to the activity of El.En. in consideration of its structure and the area in which it operates, the Board has decided to include in its own model 231 the part regarding health and safety on the workplace which is valid also for compliance with art. 30 L. 81/09.
Besides the violations related to health and safety in the workplace, the present model ex D.Lgs 231/2001 of the Company is aimed at preventing crimes against the public administration, company crimes, market offenses, environmental crimes, transnational crimes, receiving stolen goods, money laundering, use of illegally obtained money or goods.
The superintending body is a commission composed of three members, one of which is an acting auditor, Dott. Paolo Caselli.
At this time, although the Company, in accordance with the By-laws, has the faculty of attributing to this function to the Board of Auditors, they have deemed it more effective to maintain the current organization of the supervising body: an acting auditor and provosts for internal auditing.

11.4. INDEPENDENT AUDITORS

The auditing activity, in conformity with articles 13, 17, and 19, D. Lgs. 39/2010 is assigned to an independent auditors that is enrolled in the specific CONSOB registry; the shareholders' meeting of May 15th 2012, for the auditing of the annual financial statement and the consolidated statement of the company for the years 2012-2020, Deloitte & Touche S.p.A. has been appointed. The appointment expires upon the approval of the financial statements for 2020.

11.5. EXECUTIVE OFFICER RESPONSIBLE FOR THE PREPARATION OF THE FINANCIAL STATEMENTS OF THE COMPANY AND OTHER COMPANY ROLES AND FUNCTIONS

The executive officer responsible for the preparation for the financial statements is Enrico Romagnoli who is the manager of the financial department of El.En. and also has the position of Investor Relations Manager.
The executive officer responsible for the preparation for the financial statements is appointed according to the statutes by the Board of Directors and in compliance with art. 20 G must possess all of the requisites of honesty in accordance with the law for statutory auditors and directors and the professional characteristics and requisites in terms of experience in the work place which are adequate for the tasks assigned to him.

The provost in charge of the accounting documents has access to all the powers and means that are necessary for conducting this activity.

The principles and the means that are implemented by the provost are described in detail in Appendix 1.

11.6. COORDINATING THE SUBJECTS INVOLVED IN THE SYSTEM OF INTERNAL CONTROLS AND RISK MANAGEMENT

In essence this coordinating activity has already been described above and therefore does not require repeating, however, it should be stated that El.En. must provide a strict coordination of the persons that are involved in the system of internal controls and risk management through a cross-designation of the subjects belonging to a body as members of others or else through the participation in the work of the various subjects belonging to other bodies that are involved in the system of control and risk management.

12.0 INTERESTS OF THE DIRECTORS AND OPERATIONS WITH RELATED PARTIES

With reference to the operations in which one of the directors has an interest or the operations with related parties, meaning those which involve the parties identified according to IAS 24, in art. 20 the statute states that the approval by the Board in relation to operations having a significant strategic, economic or financial importance, with particular reference to the operations with related parties, to those in which one of the board members detains an interest for himself or for a third party, or those that are unusual or atypical, must be given in advance**.**
The Board, moreover, in conformity with art. 2391-*bis* of the Civil Code, on March 30th 2007 adopted a special procedure called "*Regolamento per la disciplina delle operazioni con parti correlate di El.En. s.p.a.*" (El.En. Regulations for the operations with related parties), in compliance with the CONSOB regulations with related parties, was revised in 2010. This regulation contains the rules which govern the approval and conducting of operations initiated by the company, either directly or through one of the subsidiary companies, with parties with which there is a pre-existing equity investment, a professional or employee relationship, or a close family relationship which could condition the conclusion, regulating or substance of a contractual relationship. This set of rules has rendered, in formal terms, the intent which, in any case, in the past has always been followed by the Company, to act in such a way as to guarantee that the performance of operations with related parties (meaning also the operations in which the correlation exists on account of the interest of an director or an auditor for himself or for a third party) takes place with the greatest transparency and correctness both in substance and in procedure.
The Company and its directors in any case must act and conform to the regulations of the Civil Code concerning this subject (articles 2391 e 2391-*bis*).
Moreover, the specific procedure controlling the relations with related parties and the existence of conflicts of interest which involve the administrative and controlling bodies is contained in the manual of administrative and management procedures, in force since 2000.
This procedure specifies that the provost for internal controls/internal auditor must proceed every six months with the verification, by means of interviews with the members of the Board of Directors and the Board of Statutory Auditors, of the existence of other related parties or of situations which might determine a conflict of interest.
In practice, this verification is conducted by means of a written interview consisting of a questionnaire which is filled out and signed by the above mentioned officers and kept in a file by the provost for internal controls/internal auditor.
The procedure approved by the Board contains the criteria for identifying the operations which must be approved by the Board after the opinion of the commission for controls and risks has been expressed.

Besides the regulations on this subject contained in the statutes (art. 20 E) and the internal regulations according to which, in particular, the executive board members are required, in conformity with the above mentioned art. 20 E, in view of the necessity of approval in advance, to immediately call attention to operations potentially in conflict of interest, those with related parties, and those which are atypical or unusual with respect to the normal operations of the company, in a review of the internal Regulations, and in particular of art. 6, the Board decided that a board member having an interest of his own or on behalf of a third party in a specific operation must reveal this information in advance at the meeting which has been called to deliberate this subject and that he/she must absent themselves from the meeting.

13.0 APPOINTMENT OF STATUTORY AUDITORS

In conformity with art. 144-*sexies Regolamento Emittenti Consob*, as well as art. 148, sub-section 2 TUF as last modified by D.Lgs. 27/2010 and in the new policies introduced relating to gender balance, by law 120 of July 12th 2011, art. 25 of the company statutes the following procedure must be applied for the appointment of the auditors.
***"Art. 25 – Statutory Board of auditors** (...omissis). For the appointment of the members of the Board of Statutory Auditors the following procedure must be applied: the partners who intend to nominate candidates to be appointed Auditor at least 25 (twenty-five) days before the date set for the first convocation of the ordinary assembly must deposit the following documents at company headquarters:*
a) a list containing the names shown in numerical order and divided into two sections: one for the candidates for acting auditor and the other for supplementary auditor.
b) along with the list, they must present a complete description of the professional curriculum of the persons being nominated and supply adequate reasons for the nomination as well as a complete CV for each candidate;
c) along with the list, they must present a declaration in which each candidate accepts his nomination and declares, on their own responsibility, the non-existence of causes for ineligibility or incompatibility as well the existence of all of the requisites prescribed by the applicable regulations and by the company statutes for this particular position;
d) along with the list they must add a declaration by the partners who are not among those who detain, even jointly, a controlling equity or relative majority, which attests the absence of the connections as per art. 144-quinquies Regolamento Consob 11971/1999 *with these latter.*
The lists must contain the identity of the partners or the name of the partner, who is presenting the list with all of the personal data and the percentage of capital possessed individually or jointly.
The creation of this list containing the names of the least three candidates must take place in compliance with the regulations of the balance of genders.
Each partner may present and participate with only one list and each candidate can be present on only one list, otherwise they will be considered ineligible.
Only the partners who either alone or jointly with other partners represent the quota of equity in the capital stock in the amount established by art. 147-ter D. Lgs. February 24th 1998, n. 58, or in the greater amount established by the Consob regulations bearing in mind the capitalization, floating funds and ownership of the quoted companies, may present lists.

The ownership of the minimum quota of equity necessary for the presentation of the lists is determined by the shares which are registered in the name of the partners in the day on which the lists are deposited at the company. The relative certification must, in any case, be presented at least 21 days before the date set for the first convocation of ordinary assembly.
The auditors are nominated by the ordinary Assembly on the basis of the lists presented by the partners in which the candidates are listed in numerical order. Each partner having the right to vote may vote only for one list.

*In the case that, upon expiration of the term for presenting the lists, only one list has been deposited, or else that only lists presented by partners that, on the basis of sub-section 4 of art. 144-*sexies Regolamento Consob 11971/1999*, are connected to each other as per art. 144-quinquies* Regolamento Consob 11971/1999*, additional lists may be presented up until the fifth day after that date. In this case the amount of equity which must be held in the capital for the presentation of the list is reduced by half.*

In the case that there is more than one list, for the election of the members of the Board of Statutory Auditors the procedure described below must be followed:
a) the votes obtained by each list must be divided by one, two, three, etc. according to the progressive number assigned to each candidate;
b) the quotients that are thus obtained must be assigned progressively to the candidates of each list in the order in which they appear on the list and they will placed in a single classification in descending order.
c) the candidates that receive the highest quotients will be elected.
At least one acting Auditor must be taken from the minority list which obtained the greatest number of votes. Consequently, in the case that the three highest quotients were obtained by candidates belonging to the majority lists, the last acting auditor to be elected must, in any case, be taken from the minority list which obtained the most votes, even though he obtained a quotient that was lower than that of the majority candidate with the third highest quotient.
In the case in which the candidates have obtained the same quotient, the candidate on the list which has not yet elected any Auditor will be elected, or in the case that all the lists have elected the same number of Auditors, the candidate on the list which obtained the greatest number of votes will be elected. In the case of the same number of votes for the list and the same quotients, a new election will be held by the entire ordinary Assembly, and the candidate who receives the simple majority of votes will be elected.
The presidency of the Board of Statutory Auditors is assigned to the acting Auditor elected first on the minority list who has obtained the greatest number of votes, or, if there is no minority list, to the acting auditor elected first from the list

which received the greatest number of votes. In the case of the substitution of the acting Auditor, he will be replaced by the substitute Auditor belonging to the same list as the one who is being replaced.
In the case that no list has been presented before the expiration date, the Assembly will vote with the relative majority of partners present at the Assembly.
In the case that only one list has been presented the acting and supplementary auditors will be elected from that list in the order in which they appear on the list.
In the case that no minority list receives votes the integration of the Board of Statutory Auditors will take place by means of a vote with the relative majority of the partners present at the Assembly.
The composition of the body that is elected, in any case, must be of such a nature as to assure the balance between genders represented inconformity with art. 148, sub-section 1-bis, D. Lgs. 24 February 1998, n. 58.
The appointment of the auditors for the completion of the Board of Auditors in conformity with article 2401 c.c. is made by the Assembly with a relative majority.
In any case, the cessation of the appointment of one or more components of the controlling body, the designation and appointment of new members must be in compliance with the current regulations regarding the balance between genders represented.

The present Board of Auditors was elected by the ordinary assembly on May 12th 2016 for the financial years 2016-2018 and expires upon the approval of the financial statement on December 31st 2018.

As of December 31st 2016, the Board of Auditors of El.En. s.p.a. is composed as follows: Dott. Vincenzo Pilla, President; Dott. Paolo Caselli, auditor; Dott.ssa Rita Pelagotti, auditor; Dott.ssa Daniela Moroni and Dott. Manfredi Bufalini, alternate auditors.

Pursuant to art. 144-septies, sub-section 2, Reg. Emittenti, the minimum amount of equity in the share capital that is necessary for the presentation of the lists of candidates for the Board of Auditors was 4,5%, in conformity with art.25 of the company by-laws, art. 144-sexies of the Reg. Emittenti and CONSOB resolution of January 28th 2016, no. 19499.

14.0 COMPOSITION AND FUNCTION OF THE BOARD OF AUDITORS (ex art. 123-bis, sub-section 2, letter d and d-bis), TUF)

In conformity with the specific company statutes, the auditors must possess the requisites required by law and, consequently, also the requisites of independence as per art. 148 TUF.

They must act with autonomy and independence also in relation to the shareholders who have elected them (standard 8.P.2.).
The current Board comes from a single list presented by Andrea Cangioli, and Barbara Bazzocchi since no other lists were presented at the time of the elections held on May 12th 2016.
The election took place, it should be recalled, before the share split, with a vote in favour by 2.861.469 shares which is equal to 59.313% of the capital stock.
The mandate of the present Board lasts for three years and will terminate with the approval of the financials for 2018.
For the professional curriculum and the personal characteristics of the members, please consult the curriculums published on the web site of the Company; for the president Vincenzo Pilla, the acting auditors Paolo Caselli and Rita Pelagotti; for the supplementary auditor Daniela Moroni and Manfredi Bufalini in the following section: www.elengroup.com/investor www elengroup.com(section "Investor relations"/governance/documenti assembleari /2016/assemblea ordinaria e straordinaria 26 aprile 2016-12 maggio 2016").
The company constantly places at their disposal their staff and the resources which the Board deems useful in order to conduct their functions in conformity with the current version of art. 25 of the statutes.
As already mentioned, for the purposes of implementing Applicative Criteria 8.C.5, one of the auditors, Dott. Paolo Caselli has always participated actively in the meetings and activities of the Committee for controls and risks with the director of internal auditing. Moreover, in accordance with the vote made by the Board on March 31st 2008, confirmed on May 15th 2012 and May 12th 2016, he is also a member of the supervising body as per *ex* D. Lgs. 231/2001.
Since D. Lgs. 39/2010 came into force, the Board of Auditors, through the acting auditors has participated in the committee for control and risk management.
The reporting activities of the internal auditor and the director take place at the committee for internal control in the broadest sense, including the committee for control and management of risks and for internal control ex D. Lgs. 39 cit.

The Board of Statutory Auditors, is the body which legally is supposed to supervise the compliance with the law and with the company statutes, the respect of the principles for correct administration, the adequacy of the organization of the company in relation to the aspects in which they are competent, the internal controls system and the administrative and accounting systems used by the company and their actual functioning. The Board of Statutory auditors, moreover, supervises the application of the dispositions contained in art. 19 of D. Lgs. No. 39 of January 27th 2010, as well as the methods used for the correct implementation of the rules for corporate governance contained in the self-disciplining code and the compliance with the Consob rules and the effective implementation of company procedures regarding dealings with related parties.
This body is also entrusted with the supervision of the adequacy of the instructions given to the subsidiaries so that they can supply all of the information necessary in order to comply with the requirements for communication according to the law.
According to the by-laws, when requested by the Board of Directors, the Board of Statutory Auditors also acts as a supervising body in conformity with art. 6, D. Lgs. 8th June 2001, n. 231.

As of December 31st 2017 the Board is composed of three acting auditors and two supplementary auditors:

Name	Position	Residence	Place and date of birth
Vincenzo Pilla	President	Firenze, Via Crispi, 6	S. Croce di Magliano (CB), May 19 th 1961
Paolo Caselli	Acting auditor	Pistoia, Via Venturi, 1/B	Firenze, April 14th 1966
Rita Pelagotti	Acting auditor	Firenze, Piazza Santo Spirito 7	Firenze, December 6th 1956
Daniela Moroni	Supplementary auditor	Firenze, Borgo Pinti 60	Monteverdi Marittimo (Pisa) September 16th 1952
Manfredi Bufalini	Supplementary auditor	Firenze, Piazza S. Firenze, 2	Firenze, August 24th 1966

According to the Statutes there is a limit in the number of offices which can be held, in conformity with art. 148-*bis* TUF, so that those auditors who hold the office of acting auditors in more than five companies quoted on the stock market as well as those who are in situations of incompatibility or are over the maximum number of offices according to the *Regolamento Emittenti* (articles. 144-*duodecies* and following) are considered ineligible and dismissed if they are candidates or elected auditors.

As of December 31st 2017 the following components of the Board of Statutory Auditors of the company were also members of the controlling bodies of the following subsidiary companies:

First and last name	Positions
Vincenzo Pilla	- President of the Board of Statutory Auditors of Lasit s.p.a. - President of the Board of Statutory Auditors of Quanta System s.p.a.
Paolo Caselli	- Sole Auditor of Deka M.E.L.A. s.r.l. - Acting auditor of Lasit s.p.a. - Alternate auditor of Quanta System s.p.a.

The average duration of the meetings of the Board of Statutory Auditors is 82,29 minutes.
During this year the Board of Statutory Auditors met seven (7) times.
Six meetings of the Board of Statutory Auditors have been scheduled for the year 2018, one of which has already been held, on February 19th and on March 21st.
The President and the acting auditor, Rita Pelagotti were present at 6/7 of the meetings; the acting auditor Paolo Caselli was present at all of the meetings including that with the Internal Controls Committee.

Diversity policies

Besides what has already been said in general about the Policy of Composition and Diversity in paragraph 4.2, it should be noted that the formalizing of the policies related to the composition of the controlling bodies is strongly conditioned by the detailed regulations which govern this subject.
Therefore, in the Policy of Composition and Diversity adopted by El.En., the Company has simply repeated the essential elements of these regulations.
As far as the quantitative composition is concerned, in conformity with law and with Art. 25 of the By-laws, the Board of Statutory Auditors is composed of five members: three acting auditors , one of which is the president, and two alternate auditors.

As far as the qualitative composition is concerned, the Board of Statutory Auditors is composed of persons who meet the requirements of honorability, professionalism, competence and independence established by the law.

With particular reference to the professionalism, this aspect, besides being ascertained and evaluate in light of the curriculum, is also certified by law by the professional register in which the auditors must be registered. Moreover, this requirement is validated by the obligations for up-dating and training that they are required to meet by law.

The components must also be diversified by gender, meaning that at least one-third of them must be of the sex that is least represented – for the purpose of bringing to the Board a different vision and approach to the issues of control and to be in compliance with the law that governs this subject (Art. 148, subsection 1-bis, TUF).
AS far as the limit in the accumulation of offices is concerned, the Company follows the regulations established by Consob, Art. 144-terdecies, Reg. Emittenti, issued in implementation of Art. 148-bis, TUF.

The method for implementing El.En's Policy of Composition and Diversity consist in expressing to the shareholders during the process of appointing the administration and control bodies, an orientation that is consistent with this policy and in the verification during the election and later, periodically every year, during the evaluation of the independence requirements of the Board of Auditors that these policies are being respected in terms of composition and function.

As far as achieving these objectives is concerned, the evaluation is conducted taking into account the results both of the Company as well as that of the Group during the examination of the level of achievement of the objectives at the time of the approval of the incentive remuneration for the administrators and the General Director.

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The Board of Statutory Auditors:

- verified the independence of its members on the first occasion after their appointment (Applicative criteria 8.C.1) and evaluated their requisites for independence as art. 148, comma 3, TUF (*Art. 144- novies*, sub-section 1-*bis*, *Regolamento Emittenti*;

- during the year verified that their members continued to have the requisites for independence and transmitted the results to the Board (Applicative criteria 8.C.1.);

- while conducting the evaluations mentioned above, applied all of the criteria stated in the Code with reference to the independence of the directors (Applicative criteria 8.C.1.).

All of the verifications had a positive outcome and this fact was communicated to the Board of Directors of the Company which acknowledged it during the board meeting held on March 15th .

In relation to the initiatives taken by the President of the Board for purposes of an induction program, as stated above, the members of the Board of Auditors all have long experience both in relation to the technical and legislative aspect and/or, they were present at the founding of the Company and since then have always sustained it or they have been involved in the internal controls activity of the company since this activity was created and where they have worked with dedication and commitment.
For this reason, considering the current composition of the Board of Auditors, we do not believe that it is necessary to take particular measures towards the creation of an induction program that is different from that illustrated for the Board previously in this report. The president will take into consideration such measures should there be a change in the composition of the Board.
As far as the remuneration o the Board of Auditors is concerned, it was approved by the shareholders' meeting as had been proposed by the Board and is suitable in consideration of the effort involved, the importance of the role and the size and sector of the Company. (Applicative criteria 8.C.3.).

An auditor who, either for himself or for a third party has an interest in a particular operation of El.En. must inform immediately and in detail the other auditors and the president of the Board concerning the nature, terms, origin and extent of his interest and in compliance with art. 6 of the Internal regulations for operations with related parties, must leave the meeting which is voting in this regard. (Applicative criteria 8.C.3.).

The Board of Auditors, for which the methods have already been described previously in this report, in conducting their activities, are constantly coordinated with the functions of internal audit and with the committee for controls and risks which are present in the Board of Directors. (Applicative criteria 8.C.4. and 8.C.5.).

The Board of Statutory auditors has continued, among other things, to exert its control on the operations with related parties and in this role participated in the work and was part of the investigation of the Committee for Controls and Risks, as mentioned in paragraph 10.0 - and to actively participate as one of the components of the supervising body *ex* D. Lgs. 231/2001 of the Company and of some of its subsidiaries; it has also carried out the functions attributed to it by D. Lgs. 39/2010 with reference to the supervising activity of the auditing company to be proposed as successor appointed by the shareholders' meeting which met on May 15th 2012 .

15.0 RELATIONS WITH SHAREHOLDERS

El.En. has created a special section in its Internet site which is easy to find and to access and which contains all of the information concerning El.En. which is of importance to its shareholders so that they can gain the knowledge they need to exercise their rights. This section is called "INVESTOR RELATIONS" and can be consulted from the homepage of the Company.

The person responsible for management of relations with the El.En. shareholders is Enrico Romagnoli (investor relations manager) (Applicative criteria 9.C.1.).

El.En. does not feel it is necessary to create a special department in the company for the relations with shareholders (Applicative criteria 9.C.1.).

In conformity with art. 9 of the Code, the Board of Directors, compatibly with the organization and structure of El.En. endeavours to encourage the participation of the shareholders in the assemblies and to facilitate the exercising of the rights of its partners also by creating a continuous dialogue with them. The Board of Directors endeavours to set a convenient time, date and place (usually the company headquarters) for the meetings and to comply rapidly with the requirements set by law in relation to the convening of the assembly, the communication that the assembly has been convened, and the participation of the shareholders at the assembly.
In conformity with the Code, all of the directors normally attend the assemblies and, during the assemblies all of the information and news concerning El.En. are communicated to the shareholders, naturally in compliance with the regulations related to price sensitive information.
The President of the Board of Directors and the executive board members have unanimously agreed to appoint one of the employees, Enrico Romagnoli, to be responsible for the relations with institutional investors and the other shareholders. The *investor relations manager* is part of a company department which is composed of employees who elaborate accounting, administrative and financial documents and information.

In conformity with the procedure for the communication of documents and information concerning El.En., the investor relations manager is involved in a dialogue with the shareholders and with the institutional investors also through management of a special section of the Company's Internet site and the communication of the appropriate documents in compliance with the law and the regulations regarding the treatment of company information ("*Regolamento sul trattamento della informazione societaria")*, in particular confidential information.

16.0 SHAREHOLDERS' MEETINGS (ex art. 123-bis, sub-section 2, letter c), TUF)

The assembly is governed by Title III of the Company Statutes (articles 11-18) which, in conformity with the law and the specific rulings, regulates its areas of competence, functioning, means of convening, constitutional quorums, intervention etc. as described below in the version that was updated on December 31st 2014:

"***Article 11***

Assembly

The legally constituted Assembly represents the entirety of the shareholders, and its decisions, made in conformity with the law and with the Statutes, are binding for all of the shareholders including those that dissent or were not present.
The Assembly may be ordinary or extraordinary and may be convened even in second or third convocation.
The ordinary Assembly must be convened at least once a year for the approval of the financial report within the terms established by the law. It can be convened within one-hundred and eighty days after the closing of the financial year for the years for which the company is obliged to draw up the consolidated statement and when particular reasons related to the structure and the subject of the company require it.
The Shareholders' Meeting is convened whenever the administrative body deems it opportune, or when a special request has been presented by the persons who may do so according to law, or else upon the initiative of the Board of Statutory Auditors or a part of it, in conformity with art. 25 of the current Statutes.

Article 12

Place of asssembly

The Assemblies are held at the headquarters of the company or in another place that is specified in the notification of the assembly, as long as it is in Italy.

Article 13

Convocation of the Assembly

The Assembly is convoked normally by the Administrative body, in conformity with the relative regulations, by means of a notice which is published, in accordance with the law, on the internet site of the company and in the daily newspaper "ITALIA OGGI" (except in those cases where the law states otherwise). The notice must state the day, the time and the place where the meeting is being held and the list of subjects which will be discussed.

A single notice may contain the dates for the first, second and third convocations.

Article 14

Attendance at the Assembly

Attendance at the Assembly is governed by the related laws and regulations now in effect.
The shareholders who have the right to vote may attend the assembly on the condition that, and for the number of shares in relation to which, they have deposited certification in conformity with the law.
A partner who has the right to attend the Assembly in conformity with D. Lgs February 24th 1998, n. 58 and the other applicable regulations, may be represented by conferring a written power of attorney. The power of attorney which is written and signed digitally must be sent to the company by certified e-mail.
The company does not make use of the institution of "designated representative of the company with listed stock" as described in article 135-undecies D.Lgs. February 24th 1998, n. 58.

Article 15

Presidency of the Assembly

The Assembly is presided over by the President of the Board of Directors or, if he is absent or impeded, by the Vice-President; if neither of them are present, then by the person elected with the greatest majority of votes by the shareholders present.
The Assembly elects, even among the non-shareholders, a Secretary and, if deemed necessary, two scrutinizers.
The presence of a secretary is not necessary if the minutes are kept by a notary.
The President of the Assembly has the duty of verifying that the meeting complies with regulations and of ascertaining the identity and legitimate rights of those present. Once the validity of the constituents of the Assembly has been certified, it cannot be invalidated because some of those present have left the meeting.
The President also has the task of presiding over the regular conduction of the meeting of the Assembly, directing and moderating the discussion and establishing, when necessary the duration of each intervention, determining the methods and order for voting and ascertaining the results, all in conformity with the regulations which, formulated by the Board of Directors and approved by the ordinary Assembly can govern the orderly and functional activity of the meeting both in ordinary and extraordinary assembly.

Article 16
Minutes

The decisions taken by the Assembly must be transcribed in the minutes and be signed by the President, by the Secretary, or by a notary and by the scrutinizers if there are any. In the cases where it is set forth by the law, and, also, when the President of the Assembly deems it opportune, the minutes may be drawn up by a notary.

Article 17
Ordinary Assembly

For the first convocation the ordinary assembly is considered to be duly constituted when the number of shareholders present represents at least half of the capital stock calculated in conformity with art. 2368, sub-section 1, c.c.; the assembly votes by absolute majority. For the second convocation the ordinary assembly, whatever the portion of capital stock represented is, votes according to the absolute majority of those present on the subjects which should have been decided earlier.
For appointment of the Board of Statutory Auditors the regulations as per Art. 25 of the present Statute must be observed.
In conformity with the laws and regulations, write-in votes are allowed.

Article 18
Extraordinary Assembly

In first and second convocation the extraordinary assembly is considered to be duly constituted when the number of shareholders present represents the portion of the capital stock indicated as per art. 2368, sub-section second and 2369, third sub-section c.c.. For the third convocation, the Assembly is duly constituted when the number of shareholders present represents at least a fifth of the capital stock. The assembly decides in first, second and third convocation with the favourable vote of at least two thirds of the capital stock represented in the assembly.

Since 2000, the El.En. by-laws include the possibility for its shareholders to use write-in votes (absentee ballots).
The notifications of convocation of assembly and the relative courtesy communications concerning the actual date of the meeting are published both on the Internet site of the company and, where required and if allowed also in a summary, in a national daily newspaper (at this time ITALIA OGGI).
The majority shareholders are members of the Board and up to now none of them has presented a proposal on subjects for which a specific proposal had not previously been presented by the Administrators (Comment to art.9).
The President of the Board of Directors who, unless prevented from doing so, presides over the assembly, must proceed with a detailed description of the proposals and the subjects in the Order of the Day of the shareholders' meeting in such a way as to guarantee that the assembly is conducted in an efficient and orderly fashion. For this purpose, the shareholders meeting held on May 15th 2007 approved the assembly regulations drawn up by the board (Criteria 9.C.3), which were later modified on May 13th 2011 in the part related to attendance at the assembly. In fact, it was also necessary to revise the assembly regulations in the light of the modification to article 14 of the company by-laws which was approved by the shareholders' meeting on October 28th 2010 after the innovations introduced by lawmakers with D. Lgs. No. 27 of January 27th 2010 in relation to article 2370 C.C. regarding the right to attend the assembly and exercising of the right to vote, and the introduction of art. 83-sexies TUF, a rule which established the so-called *record date*.
The assembly regulations of El.En. s-p-a- that are listed below are also available on the web site www.elengroup.com in the section called Investor Relations/Governance/Statute.

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ASSEMBLY REGULATIONS OF EL.EN. S.p.A.

Art. 1 – Subject and area of application

This set of regulations governs the orderly and efficient conduction of the shareholders' meeting of El.En. s.p.a. ("the Company") both for the ordinary and extraordinary assemblies.
The regulations can be consulted at company headquarters or on the Internet site of the Company (www.elen.it - investor relations section) as well as whenever an assembly meets.

Art. 2 – Place and presidency of the assembly meetings

The assembly meets in first, second and third convocations at the time and place shown in the notice of convocation published in conformity with art. 13 of the Statute, and it is normally presided over by the president of the Board of Directors, or in case of his absence or impediment, by the persons indicated in art. 15 of the company statutes.

Art. 3 – Attendance at the assembly

3.1. The right to attend the assembly is governed by article 14 of the Company by-laws according to which the persons who may attend the assembly are: the shareholders and those who have a legitimate right to attend the assembly, who possess the right to vote on the condition that, they have made the deposit for the number of shares possessed within the established term and following the methods required by law.

3.2. Upon invitation by the president, the employees of the Company, consultants and representatives of the company in charge of auditing the accounts may attend the assembly meetings when their presence is considered useful or opportune in relation to the subjects to be discussed or the work to be conducted.
3.3. Experts, financial analyst, and journalists, with the consent of the president, may also attend the meetings of the assembly unless there are objections on the part of the shareholders present. For this purpose, those who wish to attend must send the president a written request by the second weekday before the date set for the assembly.
3.4. Before starting the description and discussion of the various items in the Order of the Day, the president must inform the assembly of the presence and participation in the meeting of those persons indicated in sub-sections 3.2.and 3.3. above.

Art. 4 –Verification of the right to attend the assembly and access to the meetings.

4.1. Only the approved and authorized persons, as per article 3 above, after showing personal identification and verification of their legitimate right, may have access to the assembly rooms.
4.2. The personal identification and verification of the legitimate right to attend the assembly must be conducted by auxiliary personnel hired specifically for this purpose, at the entrance to the rooms where the meeting will be held and normally take place during the thirty minutes prior to the time set for the beginning of the meeting, unless otherwise stated in the notice of convocation.
4.3. at the entrance to the meeting rooms those persons who have the right to attend the assembly must display personal identification and the certification described in the notice of convocation to the auxiliary personnel. Once the identification and the verification has taken place as per sub-section 4.2. above, the auxiliary personal will give the attendees a special voucher which they must keep for the duration of the assembly meeting and return to the auxiliary personnel should they leave the meeting, even temporarily.
4.4. In order to facilitate the verification of the powers of representation to which they have the right, the persons who attend the assembly as legal or voluntary representatives of shareholders or of other persons who possess the right to vote, may send the documents proving their powers to the Company within the two days preceding the date set for the meeting.
4.5. Except for the audio-visual equipment which may be authorized by the president to assist the creation of the written report (minutes) and documentation of the meeting of the assembly, no type of recording equipment (including cell phones), photographic equipment or similar.

Art. 5 – Constitution of the assembly and opening of discussions

5.1. The president of the assembly is assisted in drawing up the minutes by a secretary appointed, even from among the non-shareholders, by the assembly on the basis of a proposal made by the president himself or by a notary and, when necessary in conformity with the law, by two scrutinizers designated in the same way among the non-shareholders. The secretary or the notary can be assisted by persons of their choice and, as an exception to art. 4.5, upon authorization by the president, they may use audio-visual recording equipment
5.2. Among his duties, the president also has that of ascertaining and guaranteeing the legitimacy of the individual delegations and, in general, the legitimacy of the attendees present at the assembly and, consequently, also to verify and declare the legitimate constitution of the assembly. The president may create a presidential office which has the task of assisting him in the verification of the legitimacy of the participation and of the voting, as well as the specific assembly procedures.
The president may solve any conflicts which may arise related to the legitimacy of the attendees.
5.3. The President of the assembly may make use of the security services provided by the auxiliary services which have been specifically hired for the occasion.
5.4. In the case that the number of shareholders present does not reach the amount of capital stock necessary for the legitimate constitution of the assembly in conformity with articles 17 and 18 of the company statutes, the president of the assembly, after an appropriate amount of time, in any case not less than an hour after the time set for the beginning of the meeting, will communicate this information to the attendees and postpone the discussion of the Order of the Day until the next convocation.
5.5. Once the legitimate constitution of the assembly has been ascertained, the president of the assembly declares that the discussions may begin.

Art. 6 – Discussion of the subjects and proposals in the Order of the Day

6.1.The president of the assembly must describe to the attendees the subjects and the proposals on the agenda, by using, whenever he deems opportune, the opinions of directors, auditors and employees of the Company. The subjects and the proposals can be dealt with in a different order that is approved on the basis of a proposal by the president with a vote by the majority of the capital represented, and, in the same way, a proposal by the president to deal partially or completely may be approved.
6.2. The president of the legitimate assembly also has the duty of directing and moderating the discussions and the right to intervene by establishing the methods and maximum duration of each intervention.
The president of the assembly has faculty to: call a conclusion to the discussions which are lasting longer than the set time limit or that are not pertinent to the subject or proposal on the agenda; to silence those who intervene without having the right to do so or those who have been reprimanded and persist; to prevent words and attitudes that are inappropriate, pretentious, aggressive, offensive or slanderous as well as evident excesses, revoking the right to speak whenever he deems necessary and, in the most serious cases, ordering the expulsion of the person from the meeting

area for the entire duration of the discussions.
6.3. The request to be present at the discussions of the individual subjects on the agenda must be directed to the president, who in granting the right to speak, normally follows the progressive order of the requests to speak. The faculty of a brief reply is granted to whoever has requested the right to speak.
6.4. The president of the assembly or, upon his invitation, the directors, auditors, company employees or consultants normally reply after all of the discussions on each subject on the agenda. The components of the administrative body and of the Board of Statutory Auditors may request to intervene in the discussions.
6.5. In order to prepare adequate replies to the various interventions, bearing in mind the purpose and relevance of the subjects and proposals being dealt with, the president of the assembly may, on the basis of his indisputable judgement, suspend the work of the assembly for an interval of not more than two hours.
6.6. After all of the interventions and replies, the president declares the discussions concluded and puts the proposals to a vote.
Art. 7 – Voting and conclusion of the meeting
7.1. Voting on the various items usually takes place right after the conclusion of the discussions on each item listed in the Order of the Day and the discussions are held in the order in which they appear in the agenda unless the president of the assembly decides otherwise and determines that the voting take place in a different order or after the conclusion of the discussions of all or some of the items.
7.2. Before the voting can begin, the president of the assembly must readmit the shareholders who wish to return to the meeting and had left or been expelled during the discussion time.
7.3. Except in the case of incontrovertible laws to the contrary, the voting must take place with open scrutiny.
7.4. The president of the assembly establishes the means for expressing the votes, which is normally by a show of hands, the recording and counting of the votes, and can also express a time limit within which the vote must be cast.
Upon conclusion of the voting, the scrutiny of the votes takes place; when this is terminated, the president, assisted by the secretary or the notary and scrutinizers if there are any, proclaims the results of the voting.
7.5. The votes that are expressed in a manner that is different from that established by the president of the assembly are null and void.
7.6. The shareholders who express negative votes or who abstain, must declare at the time of the declaration of their vote, their name and the number of shares which they hold on their own or for which they have power of attorney. After the agenda has been concluded, the president of the assembly declares the meeting terminated and proceeds with the formalities for the completion of the minutes.
Art. 8 – Final provisions
8.1. In compliance with art. 15 of the company statutes now in effect, this set of Regulations was approve, by the ordinary assembly of the Company which was held on May 15th 2007, and it can be modified or abrogated only by the vote of the same body.
8.2. Besides the various measures described in this set of regulations, the president may adopt any measures that he deems opportune in order to guarantee the orderly and correct conduction of the work of the assembly and the exercising of the rights of those present."

The Board of Directors, with all of the members present during the meeting held on May 12th 2016, reported to the assembly in relation to the activities conducted and endeavored to make sure that adequate information concerning the necessary elements were supplied to the shareholders so that they can make informed decisions on those matters that were of competence of the assembly (Applicative criteria 9.C.2) in particular by making the documentation and the proposals to be voted on available to the shareholders in due time.
Concerning the guaranteed right of each partner to express their opinion on the subjects under discussion, the president of the Assembly, in conformity with the assembly regulations listed below, concretely as shown in the minutes of the Assembly, proceeds, after the discussion of each subject in the Order of the Day, to invite the shareholders present to intervene in the discussion (Applicative Criteria 9.C.2).
The Remuneration Committee which was present and at the disposal of the assembly, stated that they believed to have reported to the shareholders in their remuneration report (*Relazione sulla Remunerazione*) and the present report.

During this year the market capitalization of the El.En. stock varied significantly, while the presence of the original partners remained practically the same in the structure of the company.
Consequently, the Board did not consider proposing modifications of the By-laws in relation to the percentage set for the exercising of the shares and the prerogatives advanced for the protection of minorities (Criteria 9.C.4.).

This decision was based on the circumstance that the Company by-laws refer to the law and the regulations for the determination of the percentage of equity in the capital stock necessary to exercise the rights and the prerogatives meant to protect the minorities.

17.0 OTHER POLICIES OF CORPORATE GOVERNANCE (ex art. 123-bis, sub-section 2, letter a), TUF)

There are no additional policies of corporate governance other than those described in the preceding paragraphs.

18.0 CHANGES SINCE THE CLOSING OF THE FINANCIAL YEAR

No other changes took place in the corporate governance.

19.0 CONSIDERATIONS CONCERNING THE LETTER OF DECEMBER 13th 2017 FROM THE PRESIDENT OF THE CORPORATE GOVERNANCE COMMITTEE

The recommendations contained in the letter received from the President of th Corporate Governance Committee ("Letter") were brought to the attention of the Board of Directors and Board of Statutory Auditors and were taken into consideration by the committees that met on March 14th 2018.
After the evaluations expressed by the commissions and, in particular, by the Nomination Committee, we proceeded with a discussion of the subject during the meeting of the Board of Directors held on March 15th 2018, in order to examine which of the aspects indicated by the non-executive board members and by the independent board members, could be improved upon in relation to the timing of the pre-meeting information with reference to just a few limited subjects.

By means of a preliminary hearing assigned to the internal committees, the Board of Directors took on the task of making an in-depth evaluation during 2018 to determine which of the issues brought up in the Letter can contribute to the improvement, where opportune, of the governance system of E.lEn. S.p.A.
The document for the financial year 2018 will contain a report of the outcome of the evaluation and any other initiatives which may have been undertaken.

For the Board of Directors
The President – Gabriele Clementi

TABLES

TABLE 1 – INFORMATION ON OWNERSHIP

On the basis of information supplied by El.En.

STRUCTURE OF CAPITAL STOCK				
	Number of shares	% of the capital stock	Quoted	Rights and obligations
Ordinary shares	19.297.472	100%	Milan Stock Exchange	*ex lege*
Shares with limited voting rights	0			
Shares with no voting rights	0			

OTHER FINANCIAL INSTRUMENTS *(attributing the right to underwrite newly issued shares)*				
	Quoted (state the market) / not quoted	Number of instruments in circulation	Category of the shares available for conversion or use	Number of shares available for conversion or use
Convertible bonds	= = =	0	= = =	0
Warrant	= = =	0	= = =	0

SIGNIFICANT OWNERSHIPS IN SHAREHOLDERS' CAPITAL on the basis of the amounts registered by El.En. in relation to the models 120 TUF which were received			
Person declaring	Direct shareholder	Quota % of the ordinary capital	Quota % of the voting capital
ANDREA CANGIOLI	ANDREA CANGIOLI	15,171	15,171
ALBERTO PECCI	S.M.I.L. di Alberto Pecci & C. s.a.s.	10,425	10,425
GABRIELE CLEMENTI	GABRIELE CLEMENTI	9,769	9,769
IMMOBILIARE DEL CILIEGIO	IMMOBILIARE IL CILIEGIO s.r.l.	7,512	7,512
BARBARA BAZZOCCHI	BARBARA BAZZOCCHI	5,122	5,122
KEMPEN CAPITAL MANAGEMENT N.V.	KEMPEN CAPITAL MANAGEMENT N.V.	5,009	5,009
ALBERTO PECCI	ALBERTO PECCI	0,345	0,345

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors as of December 31st 2017											Control and risks committee		Remuneration committee		Nomination committee	
Position	Members	From	Until	List (M/m)	Executive	Non Executive.	Indep. As per the Code	Indep. for TUF	Percentage of attendance at meetings	Number of other positions	Members	Percentage of attendance at meetings	Members	Percentage of attendance at meetings	Members	Percentage of attendance at meetings
Chairman and managing director	Gabriele Clementi	April 28th 2015	Appr. of annual report 2017	M	X				100%	0						
Managing director	Andrea Cangioli	April 28th 2015	Appr. of annual report 2017	M	X				100%							
Managing director	Barbara Bazzocchi	April 28th 2015	Appr. of annual report 2017	M	X				100%	0						
Director	Fabia Romagnoli	April 28th 2015	Appr. of annual report 2017	M		X	X	X	100%	0	X	100%	X	100%	X	100%
Director	Alberto Pecci	April 28th 2015	Appr. of annual report 2017	M		X			100%	0	X	100%	X	100%	X	100%
Director	Michele Legnaioli	April 28th 2015	Appr. of annual report 2017	M		X	X	X	100%	0	X	100%	X	100%	X	100%
Number of meetings held during 2017				Board of Directors: 5 (five)		Control and risks committee 6 (six)				Remuneration committee: 1(one)					Nomination committee: 2 (two)	
Quorum required for the presentation of lists during the last appointment				4,5%												

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Position	Member	since	until	List (M/m)	Independence from Code	Percentage of attendance at the board meetings	Number of other positions in companies quoted on the Italian stock market
President	Vincenzo Pilla	May 12th 2016	Approval annual report 2018	**M**	**X**	**85,71%**	0
Acting auditor	Paolo Caselli	May 12th 2016	Approval annual report 2018	**M**	**X**	**100%**	0
Acting auditor	Rita Pelagotti	May 12th 2016	Approval annual report 2018	**M**	**X**	**85,71%**	0
Supplementary auditor	Daniela Moroni	May 12th 2016	Approval annual report 2018	**M**	**X**	==	0
Supplementary auditor	Manfredi Bufalini	May 12th 2016	Approval annual report 2018	**M**	**X**	==	0
Number of meetings held in 2017: 7							
CONSOB, with resolution 19499 of January 28th 2016 set the amount required for the presentation of the lists at 4,5% of the capital stock.							

APPENDICES

Appendix 1: Paragraph on the "Main characteristics of the systems for risk management and internal controls in relation to the financial information process" in compliance with art. 123-bis, sub-section 2, lett. b), TUF

This document contains a description of the "Principal characteristics of the risk management and internal controls systems now in existence in relation to the financial information process" in conformity with art. 123-bis, sub-section 2, lt. b), TUF (henceforth called the System).

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1) Premise

El.En. has defined their own system for risk management and internal controls in relation to the process of financial information which is consistent with international best practice and is based on the CoSO Framework model elaborated by the Committee of Sponsoring Organizations o the Treadway Commission, integrated for the computer aspects with the component Enterprise Risk Management (ERM): "COSO ERM Framework") ad the Confindustria guide lines.

The CoSO Report defines internal controls as the process, implemented by the Board of Directors by the management and by all of the employees, which is supposed to furnish a reasonable assurance for the achievement of the company goals:

- Effectiveness and efficiency of the operating activities (*operation*);
- Reliability of the financial *reporting*, for the purpose of guaranteeing that the financial reporting supplied a true and correct representation of the financial and economic situation in conformity with the generally accepted accounting principles.
- Conformity with the laws and with the applicable regulations (*compliance*).

The internal controls system of El.En. is based on the following principal features:

Control environment: this is the environment in which the individuals work and represents the control culture which has permeated the organization. It consists of the following elements: Ethics Code, company structure, systems of powers of attorney and proxy, organizational arrangements, procedure for fulfilling the obligations in relation to internal dealing, organizational model *ex* D. Lgs 231/2001.

Identification and evaluation of risks: this is the process which is intended to guarantee the identification, analysis, and management of company risks particularly in relation to the analysis of risks of an administrative and accounting nature, related to accounting information and to the controls meant defend against the risks which have been identified.

Control activities: this is the set of control policies and procedures which has been defined to create a defence against company risks for the purpose of reducing them to an acceptable level as well as guaranteeing that company objectives are reached. It is composed of the following elements:

i. *Administrative and accounting procedures*: the set of company procedures that are significant in relation to the drawing up and diffusion of accounting information (like related administrative and accounting procedures, in particular, statements and periodic financial reports and matrices of the administrative and accounting controls;
ii. *Company procedures that are significant for the purpose of preventing and monitoring operative risks like:* quality management system ISO 9001:2008.

Monitoring and information sheets: this is the process that has been created in order to ensure an accurate and rapid collection of information as well as the set of activities which are necessary in order to verify and periodically evaluate the adequacy, effectiveness and efficiency of the internal controls. We focus on the process of evaluation of the adequacy and the actual application of the procedures and of the controls of the accounting information, so as to enable the Director in charge of the Internal Controls System and Risks assessment and the Provost for Internal Controls to issue the declarations required in conformity with art. 154-*bis* TUF.

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2) Description of the main characteristics of the System for managing risks and internal controls existing in relation to the process of financial information.

The system of internal controls related to the process of financial information is intended to guarantee the reliability, the accuracy, and the timeliness of the financial information.

a) <u>Phases</u> <u>of the System for managing risks and internal controls existing in relation to the process of financial information</u>

The main characteristics of the System for internal controls in relation to the process of financial information are described below:

<u>a.1) Identification and evaluation of the risks in financial information:</u>
The process for identifying and evaluating risks (*risk assessment*) related to financial and accounting information is directed by the provost for internal controls and shared with the Director in charge of the System for Internal Controls and risk assessment and the Internal Controls and Risks Commission.

The process of *risk assessment* is divided into the following activities:
- **analysis and selection of significant financial information** diffused on the market (analysis of the last statement or of the last available half-yearly statement of the Parent Company or consolidated for the purpose of identifying the principal area of risk or and the significant related processes.
- **identification of the significant subsidiary companies and of the significant administrative and accounting areas**, for each entry of the consolidated statement on the basis of defined quantitative criteria;
- **identification and evaluation of the risks** inherent in the significant administrative and accounting areas, as well as of the relative financial processes and flows, on the basis of the analysis of qualitative and quantitative indicators;
- **communication** to the function involved, of the areas of intervention for which it is necessary to create or update the administrative and accounting procedures**.**

<u>a.2) Identification of the controls for the risks which have been identified</u>
After the identification of the risks we proceeded with the identification of the specific controls needed to reduce to an acceptable level the risk related to the failure to reach certain objectives of the system both in relation to the company and to the process. For this purpose El.En. has defined, within the system of administrative and accounting procedures, the so-called "administrative and accounting control matrices" which are documents which describe the control activities existing in every significant administrative and accounting process. The controls described in the matrices should be considered an integral part of the administrative and accounting procedures of El.En.

At *the procedural level* specific controls have been identified like the verifications of the correct recording of accounts on the basis of supporting documentation, the issuing of authorizations, the conducting of reconciliations, and of verifications of consistency. The controls identified at the procedural level, moreover, have been classified according to their characteristics in manual or automatic.

At the company level specific controls have been identified as "pervasive", meaning that they characterize the entire structure, like assigning of responsibilities, distribution of powers and jobs, and controls of a general nature on the computer systems, the segregation of duties.

<u>a.3) Evaluation of the controls for the risks which have been identified:</u>
The periodic verification and evaluation of the adequacy, effectiveness and efficiency of the administrative and accounting controls is divided into the following phases:
- **Continuous supervision,** by the managers of the operations/company which is an integral part of the current management;
- **Conducting of the activities of control and monitoring** for the purpose of evaluating the adequacy of the plan and the actual effectiveness of the controls being used, conducted by the executive delegated to internal controls who makes use of the assistance of Financial Department and of external consultants for the testing activities.

Following up the verifications described related to the effectiveness of the accounting control system a written report on the efficiency of the system was made which, along with the Executive Director of the Internal Controls and Risk Assessment System, was communicated by the Director to the Internal Controls and Risk Assessment Commission and Statutory Auditors acting as the Commission for internal controls.

b) Roles and functions involved
In particular, the main responsibilities which are intended to guarantee the correct functioning of the System are as follows:
• the ***Board of Directors*** is responsible for the appointment of the Executive responsible for drawing up the company and accounting documents, for ascertaining that the Executive has all the necessary prerequisites (in terms of authority, professional competence and independence), powers and means for carrying out the tasks which have been assigned to him; for the institution of a regular flow of information through which the Executive may report the results of the activities conducted and any critical issues which may emerge, also with an aim to taking the necessary steps to overcome the significant critical issues. In carrying out their functions, the Board makes use of the assistance of the

Controls and Risks Committee, which has the duty to advise and to recommend also in reference to the administrative and accounting internal controls system.

• the ***Board*** **of Statutory Auditors** acts as a commission for internal controls and accounting audit, as well as the responsibilities described in art. 19 D. Lgs. 39/22010.

• the ***Board member in charge of the internal controls and risk assessment system*** is responsible for the implementation and monitoring of the Internal Controls System, with particular reference to the Administrative and Accounting procedures; for the evaluation, together with the Executive in charge of Internal Controls, of the results of the periodic risk assessments; for the evaluation, bearing in mind the preliminary activity of the Executive, of the effectiveness of the procedures being used; for the revision of the “other information of a financial nature” released to the market.

• the ***Executive officer responsible for the preparation of the company financial statements***, besides the responsibilities he has jointly with the Director in charge of the internal controls and risk assessment system, has the responsibility for evaluating and monitoring the level of adequacy and effectiveness of the administrative and financial internal control system by conducting investigative activities.

• the **Internal Auditor** has the task of controlling the financial statements and establishing if, either continuously or in relation to specific requirements, and respecting the international standards, the operations and the efficiency of the system o internal controls and risk management is adequate, with reference to the formulation of the financial statements.

• the **Supervising Body** in following the Organization Model ex D. Lgs. 231/2001 has the task of supervising the compliance with the procedures set up by the Company in relation to the prevention of company violations.

EL.EN. GROUP
CONSOLIDATED FINANCIAL STATEMENT
AS OF DECEMBER 31st 2017

FINANCIAL CHARTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

Consolidated statement of financial position

Assets	Note		31/12/2017		31/12/2016
Intangible assets	1		4.259.031		3.895.675
Tangible assets	2		39.177.521		39.616.260
Equity investments	3				
- in associated companies		2.537.355		3.222.303	
- other		1.049.920		595.468	
Total Equity investments			3.587.275		3.817.771
Deferred tax assets	4		6.269.095		6.525.995
Other non-current assets	4		12.371.085		10.881.451
Total non current assets			**65.664.007**		**64.737.152**
Inventories	5		66.567.301		62.138.288
Accounts receivable	6				
- third parties		79.559.226		61.185.150	
- associated companies		885.882		1.260.495	
Total Accounts receivable			80.445.108		62.445.645
Tax receivables	7		8.941.974		5.212.719
Other receivables	7				
- third parties		13.465.479		8.106.549	
- associated companies		473.675		457.481	
Total Other receivables			13.939.154		8.564.030
Securities and other current financial assets	8		2.036.433		-
Cash and cash equivalents	9		97.351.479		97.589.445
Total current assets			**269.281.449**		**235.950.127**
Total Assets			**334.945.456**		**300.687.279**

Liabilities	Note		31/12/2017		31/12/2016
Share capital	10		2.508.671		2.508.671
Additional paid in capital	11		38.593.618		38.593.618
Other reserves	12		98.411.341		64.137.298
Treasury stock	13		-		-
Retained earnings / (accumulated deficit)	14		35.173.088		36.187.694
Net income / (loss)			15.634.293		40.407.578
Group shareholders' equity			**190.321.011**		**181.834.859**
Minority interest			13.975.165		10.864.356
Total shareholders' equity			**204.296.176**		**192.699.215**
Severance indemnity	15		4.216.537		3.860.583
Deferred tax liabilities	16		1.483.090		1.607.046
Other accruals	17		3.796.652		3.514.297
Financial debts and liabilities	18				
- third parties		5.875.176		4.342.074	
Total Financial debts and liabilities			5.875.176		4.342.074
Total non current liabilities			**15.371.455**		**13.324.000**
Financial liabilities	19				
- third parties		9.161.307		10.612.756	
Total Financial liabilities			9.161.307		10.612.756
Accounts payable	20				
- third parties		63.257.059		44.693.970	
Total Accounts payable			63.257.059		44.693.970
Income tax payables	21		1.654.248		4.285.066
Other current payables	21				
- third parties		41.205.211		35.072.272	
Total Other current payables			41.205.211		35.072.272
Total current liabilities			**115.277.825**		**94.664.064**
Total Liabilities and Shareholders' equity			**334.945.456**		**300.687.279**

Consolidated Income Statement

Income Statement	Note		31/12/2017		31/12/2016
Revenues	22				
- third parties		301.483.292		248.430.093	
- associated companies		4.977.726		4.216.165	
Total Revenues			306.461.018		252.646.258
Other revenues and income	23				
- third parties		4.249.299		3.218.999	
- associated companies		15.019		4.903	
Total Other revenues and income			4.264.318		3.223.902
Revenues and income from operating activity			**310.725.336**		**255.870.160**
Purchase of raw materials	24				
- third parties		166.686.745		129.633.985	
- associated companies		7.694		1.620	
Total Purchase of raw materials			166.694.439		129.635.605
Changes in inventory of finished goods			(5.452.236)		(3.401.420)
Change in inventory of raw material			(418.898)		(1.586.683)
Direct services	25				
- third parties		22.618.069		20.649.218	
- associated companies		-		40.271	
Total Direct services			22.618.069		20.689.489
Other operating services and charges	25				
- third parties		36.957.131		31.849.284	
- associated companies		110.852		180.612	
Total Other operating services and charges			37.067.983		32.029.896
Staff cost	26		54.090.981		46.115.688
Depreciation, amortization and other accruals	27		5.675.900		4.793.649
EBIT			**30.449.098**		**27.593.936**
Financial charges	28				
- third parties		(625.132)		(621.353)	
Total Financial charges			(625.132)		(621.353)
Financial income	28				
- third parties		892.192		701.192	
- associated companies		13.773		6.621	
Total Financial income			905.965		707.813
Exchange gain (loss)	28		(3.645.833)		1.846.958
Share of profit of associated companies			(430.284)		185.588
Other non operating charges	29		-		(10.656)
Other non operating income	29		563.655		23.019.182
Income (loss) before taxes			**27.217.469**		**52.721.468**
Income taxes	30		6.807.349		9.728.339
Income (loss) for the financial period			**20.410.120**		**42.993.129**
Net profit (loss) of minority interest			4.775.827		2.585.551
Net income (loss)			**15.634.293**		**40.407.578**

Basic net income/(loss) per share	31	0,81	2,09
Diluted net income/(loss) per share	31	0,78	2,07

Consolidated statement of comprehensive income

	Note	31/12/2017	31/12/2016
Reported net (loss) income (A)		20.410.120	42.993.129
Other income/(loss) that will not be entered in income statement net of fiscal effects:			
Measurement of defined-benefit plans		(101.010)	(255.606)
Other income/(loss) that will be entered in income statement net of fiscal effects:			
Cumulative conversion adjustments		(900.225)	313.663
Unrealized gain (loss) on investment AFS	33	0	(23.775.948)
Total other income/(loss), net of fiscal effectes (B)		(1.001.235)	(23.717.891)
Total comprehensive (loss) income (A)+(B)		19.408.885	19.275.238
Referable to:			
Parent Shareholders		15.183.358	16.742.347
Minority Shareholders		4.225.527	2.532.891

Consolidated cash flow statement

Cash Flow Statement	Note	31/12/17	Related parties	31/12/16	Related parties
Operating activity					
Income (loss) for the financial period		**20.410.120**		**42.993.129**	
Amortizations and depreciations	27	3.833.190		3.597.314	
Gain/Loss on investment AFS	29	(563.655)		(23.013.846)	
Share of profit of associated companies		430.284	430.284	(185.588)	(185.588)
Re-Devaluations of equity investments	27-29	60.900		7.003	
Stock Option		1.662.662		257.617	
Employee severance indemnity	15	223.047		484.866	
Provisions for risks and charges	17	282.353		624.524	
Bad debts provision	6	388.056		250.627	
Deferred income tax assets	4	288.797		(441.270)	
Deferred income tax liabilities	16	(123.956)		(31.117)	
Stocks	5	(4.429.013)		(4.076.890)	
Accounts receivable	6	(18.387.519)	374.613	(1.369.659)	(195.006)
Tax receivables	7	(3.729.255)		2.613.320	
Other receivables	7	(5.262.466)		(1.046.839)	
Accounts payable	20	18.563.090		2.629.278	(26.700)
Income Tax payables	21	(2.630.817)		443.373	
Other payables	21	6.132.937		6.585.770	
Cash flow generated by operating activity		**17.148.755**		**30.321.609**	
Investment activity					
Tangible assets	2	(3.124.360)		(10.300.369)	
Intangible assets	1	(694.351)		(330.153)	
Equity investments, securities and other financial activities	3-4-8	(3.773.148)	(115.053)	41.884.534	
Financial receivables	7	(301.705)	(16.194)	(254.915)	(327.026)
Cash flow generated by investment activity		**(7.893.564)**		**30.999.097**	
Financing activity					
Non current financial liabilities	18	1.533.103		(656.179)	
Current financial liabilities	19	(1.451.448)		(3.750.308)	
Dividends distributed	32	(9.437.616)		(6.438.215)	
Cash flow from financing activity		**(9.355.961)**		**(10.844.702)**	
Change in cumulative translation adjustment reserve and other no monetary changes		**(137.197)**		**123.734**	
Increase (decrease) in cash and cash equivalents		**(237.967)**		**50.599.738**	
Cash and cash equivalents at the beginning of the financial period		**97.589.445**		**46.989.707**	
Cash and cash equivalents at the end of the financial period		**97.351.478**		**97.589.445**	

All of the cash and cash equivalents consist of cash on hand and balance in the checking accounts of the banks.
Interest earned during this financial period amounts to about 882 thousand Euros.
Income taxes for this financial year amounted to 6,8, million Euros.

Changes in the consolidated shareholders' equity

Total shareholders' equity	**31/12/2015**	**Net income allocation**	**Dividends distributed**	**Other movements**	**Comprehensive income (loss)**	**31/12/2016**
Share capital	2.508.671					2.508.671
Additional paid in capital	38.593.618					38.593.618
Legal reserve	537.302					537.302
Treasury stock						
Other reserves:						
Extraordinary reserve	60.749.843	518.065				61.267.908
Special reserve for grants received	426.657					426.657
Cumulative translation adjustment	-377.584				326.833	-50.751
Other reserves	25.539.115			257.625	-23.840.558	1.956.182
Retained earnings / (accumulated deficit)	28.117.462	13.852.785	-5.789.242	158.195	-151.506	36.187.694
Net income / (loss)	14.370.850	-14.370.850			40.407.578	40.407.578
Total Group shareholders' equity	170.465.934		-5.789.242	415.820	16.742.347	181.834.859
Capital and reserve of minority interest	7.394.709	1.678.257	-648.973	-92.528	-52.660	8.278.805
Result of minority interest	1.678.257	-1.678.257			2.585.551	2.585.551
Total Minority interest	9.072.966		-648.973	-92.528	2.532.891	10.864.356
Total shareholders' equity	179.538.900		-6.438.215	323.292	19.275.238	192.699.215

Total shareholders' equity	**31/12/2016**	**Net income allocation**	**Dividends distributed**	**Other movements**	**Comprehensive income (loss)**	**31/12/2017**
Share capital	2.508.671					2.508.671
Additional paid in capital	38.593.618					38.593.618
Legal reserve	537.302					537.302
Treasury stock						
Other reserves:						
Extraordinary reserve	61.267.908	33.791.963				95.059.871
Special reserve for grants received	426.657					426.657
Cumulative translation adjustment	-50.751				-366.652	-417.403
Other reserves	1.956.182			862.654	-13.922	2.804.914
Retained earnings / (accumulated deficit)	36.187.694	6.615.615	-7.718.989	159.129	-70.361	35.173.088
Net income / (loss)	40.407.578	-40.407.578			15.634.293	15.634.293
Total Group shareholders' equity	181.834.859		-7.718.989	1.021.783	15.183.358	190.321.011
Capital and reserve of minority interest	8.278.805	2.585.551	-1.718.627	603.909	-550.300	9.199.338
Result of minority interest	2.585.551	-2.585.551			4.775.827	4.775.827
Total Minority interest	10.864.356		-1.718.627	603.909	4.225.527	13.975.165
Total shareholders' equity	192.699.215		-9.437.616	1.625.692	19.408.885	204.296.176

The amounts entered in the column "Comprehensive (loss) income" refer to:

- the conversion reserve for the change that involved the assets in currency held by the Group;
- the other reserve and retained earnings that are mainly involved in the remeasurement of the severance indemnity fund at the end of the year for the amount related to the subsidiary companies.

For further details, please consult the specific chart of the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

INFORMATION ON THE COMPANY

The parent company El.En. SpA is a corporation which was founded and is registered in Italy. Headquarters of the company are in Calenzano (Florence), Via Baldanzese 17.
Ordinary stock of the company is quoted on the MTA which is managed by Borsa Italiana SpA.
The Consolidated Financial Statement for the El.En. Group was examined and approved by the Board of Directors on March 15th 2018.
The amounts shown in this statement are in Euros, which is the working currency of the Parent Company and many of its subsidiaries.

PRINCIPLES USED FOR DRAWING UP THE FINANCIAL STATEMENT AND ACCOUNTING STANDARDS

PRINCIPLES USED FOR DRAWING UP THE FINANCIAL STATEMENT

The consolidated financial statement has been drawn up on the basis of the principle of historical cost with the exception of a few categories of financial instruments, the evaluation of which has been conducted on the basis of the principle of *fair value.*

This consolidated financial statement consists of:
- the Consolidated Statement of financial position,
- the Consolidated Income Statement,
- the Consolidated statement of comprehensive income
- the Consolidated Cash flow statement
- the Statement of changes in the Consolidated Shareholders' equity,
- the following Notes

The economic information which is provided here is related to the financial years 2016 and 2017. The financial information, however, is supplied with reference to December 31st 2016 and December 31st 2017.

The parent company El.En. S.p.A. appointed the Independent auditors Deloitte & Touche S.p.A. for the consolidated financial statement dated December 31st 2017.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

This consolidated financial statement for the financial year ending December 31st 2017 has been drawn up in compliance with the International Accounting Standards (IFRS) promulgated by the International Accounting Standard Board (IASB) and approved by the European Union. With IFRS we mean also the International Accounting Standards (IAS) still in effect, as well as the interpretive documents issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS APPLIED SINCE JANUARY 1ST 2017

Accounting principles, amendments and interpretations applied since January 1st 2017

- Amendment to **IAS 7 "*Disclosure Initiative*"** (published on January 29th 2016). The document is supposed to supply some clarifications to improve the information given on financial liabilities. In particular, the modifications require that a report be supplied which allows the users of the financial statement to understand the variations in the liabilities derived from financing operations.

- Amendment to **IAS 12 "*Recognition of Deferred Tax Assets for Unrealized Losses*"** (published on January 19th 2016). The document is supposed to supply clarifications on the entering of deferred tax assets for unrealized losses in the evaluation of the financial assets in the "*Available for Sale*" category in ertain circumstances and on the estimate of the taxable income for future years.

The adoption of this amendment had no effect on the consolidated financial statement of the Group.

The following IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union are not yet obligatory and had not yet been applied by the Group as of December 31st 2017:

- Standard **IFRS 15 – *Revenue from Contracts with Customers*** (published on May 28th 2014 and amended with further clarifications published on April 12th 2016) which will soon replace standards IAS 18 – *Revenue* and IAS 11 – *Construction Contracts*, as well as interpretations IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The standard establishes a new model for the revenue recognition, which must be applied to all contracts stipulated with clients with the exception of those that belong to other categories of other IAS/IFRS standards like leasing, insurance contracts, and financial instruments. The fundamental steps for accounting revenue according to the new model are as follows:
    - Identification of the contract with the client;
    - Identification of the performance obligations of the contract;
    - Establishing the price;
    - Allocation of the price to the performance obligations of the contract;
    - Criteria for entering into accounts when all of the performance obligations have been satisfied.

The standard must be applied starting on January 1st 2018. The modifications to IFRS 15, *Clarifications to IFRS 15 – Revenue from Contracts with Customers*, were approved by the European Union on November 6th 2017. The Group plans to apply the standard starting on the date when it becomes obligatory using the full retrospective application method. During 2017 the Group conducted an analysis of the effects of IFRS 15. The Group does not expect that there will be a significant impact on the financial situation or on the equity, nor on the financial disclosure which will be supplied after the application of the new standards since the revenue recognition occurs “at a point in time” , that is to say, at the moment in which the control of the good is transferred to the client, which is generally recognized as the moment of delivery of the goods (the guarantees that are stipulated in the contracts moreover, are of a general nature and not extended and, consequently, the Group believes that they will continue to be accounted according to IAS 37).

Final version of **IFRS 9 – *Financial Instruments*** (published on July 24th 2014). The document includes the results of the IASB project which is intended to replace IAS 39:

- It introduces new criteria for the classification and evaluation of financial assets and liabilities;
- With reference to the impairment model, the new standard requires that the estimate of the losses on receivables be made on the basis of the “expected losses model” (and not on the model of incurred losses used by IAS 39) by using provable information which is available readily and without unreasonable effort and include data related to the past, present and future;
- It introduces a new model of hedge accounting (increase in the types of transactions that are eligible for hedge accounting, change in the method used for accounting forward contracts and the options when they are included in a hedge accounting report, modifications in the effectiveness test)

The new standard must be applied to the financial statements drawn up on January 1st 2018 or later. With the exception of hedge accounting which is applied, with a few exceptions, prospectively) retrospective application of the standard is required but it is not obligatory to supply comparative information. The Group will adopt the new standard when it comes into force.

During 2017 the Group conducted an analysis of the impact of IFRS 9, the results of which are shown below.

a) Classification and evaluation

The Group does not expect to receive a significant impact on its financial statement as a result of the application of the requirements for classification and evaluation in compliance with IFRS 9. Financing, as well as the accounts receivable, are held for accounting at the expiration date of the contract and they are expected to generate cash flows that are represented only by the collection of principle and interest. Therefore, the Group expects that they will be continued to be evaluated, in compliance with IFRS 9, at the amortized cost. Securities and insurance policies, since they are a temporary use of cash, would be allocated in the business model “Held to collect and Sell” (HTC&S) but if they do not pass the SPPI test they will be evaluated at Fair Value with impact on the income statement. This approach is basically aligned with the accounting treatment used in the past and, consequently, the Group does not expect any significant impact on the initial equity.

b) **Loss of Value**
IFRS 9 requires that the Group register all expected losses on receivables on all of its obligations, financings and accounts receivable, on an annual basis or on the basis of the residual duration. The Group expects to apply the simplified approach and does not expect to have any significant impact of its equity.

c) **Hedge accounting**
The Group does not expect any impact from the modifications introduced on the accounting of derivative instruments according to hedge accounting because it does not use this option.

- Standard **IFRS 16 – *Leases*** (published on January 13th 2016), which is supposed to replace standard IAS 17 – *Leases*, as well as the interpretations in IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* e SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.
The new standard supplies a new definition of "lease" and introduces a criteria based on "right of use" of goods for distinguishing leasing contracts from contracts for services, and identifies as discriminants: the identification of the goods, the identification of the right to replace it, the right to receive substantially all of the economic benefits derived from the use of the goods, and the right to direct the use of the goods subject to the contract.
The standard establishes a single model for the recognition and evaluation of leasing contracts for the lessee which includes the accounting of the goods being leased, even operative ones, among the assets, with counterpart a financial debt, and supplying, moreover, the possibility of not recognizing as leasing the contracts for "low-alue assets" and leasing with a duration of the contract equal to or less than 12 months. On the other hand, the standard does not contain significant modifications for the leasers.
The standard must be applied starting January 1st 2019 but advance application is allowed only for companies which apply in advance IFRS 15 - *Revenue from Contracts with Customers*. At this time, the administrators are evaluating the possible effects of the introduction of these modifications on the consolidated financial statement of the Group. We do not expect to apply this standard in advance.

Other standards and modifications that have not yet been approved by the European Union are summarized in the chart below:

Description	**Approved by the date of this statement**	**Date standard will become effective**
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	NO	Not defined
Amendments to IFRS 2: Classification and measurement of share-based payment transactions (issued in June 2016)	NO	01-Jan-18
Annual improvements IFRSs: 2014-2016 Cycle	NO	01-Jan-18
IFRIC 22 Foreign Currency Transactions and Advance Consideration	NO	01-Jan-18
Amendments to IAS 40: Transfers of Investment Property	NO	01-Jan-18
Annual improvements IFRSs: 2014-2017 Cycle	NO	01-Jan-19
Amendments to IFRS 9: Prepayment features with Negative Compensation (issued in October 2017)	NO	01-Jan-19
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued in October 2017)	NO	01-Jan-19
Amendments to IFRIC 23: Uncertainty over Income Tax Treatments (issued in June 2017)	NO	01-Jan-19
IFRS 17 Insurance Contracts	NO	01-Jan-21

The Group has not adopted in advance new standards, interpretations of modifications which have been issued but are not yet in force.

SCOPE OF CONSOLIDATION

SUBSIDIARY COMPANIES

The consolidated financial statement of the El.En. Group includes the statements of the Parent Company and of the Italian and foreign companies that El.En. S.p.A. controls directly or indirectly through a majority of votes in the ordinary assembly. The companies included in the scope of consolidation on the date of this report are listed in the chart below which also shows the percentage owned directly or indirectly by the Parent Company:

Company name	Note	Headquarters	Currency	Share capital	Percentage held			Consolidated percentage
					Direct	Indirect	Total	
Parent company								
El.En. S.p.A.		Calenzano (ITA)	EUR	2.508.671				
Subsidiary companies								
Ot-Las 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%
Esthelogue S.r.l.	1	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	2	Jena (GER)	EUR	2.025.000	50,00%	50,00%	100,00%	100,00%
ASA S.r.l.	3	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	4	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	5	Wuhan (CHINA)	CNY	20.467.304		55,00%	55,00%	53,16%
Penta-Laser Equipment Wenzhou Co., Ltd	6	Wenzhou (CHINA)	CNY	31.528.182		54,72%	54,72%	52,89%
Cutlite do Brasil Ltda		Blumenau (BRAZIL)	BRL	8.138.595	98,27%		98,27%	98,27%
Lasercut Technologies Inc.	7	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.	8	San Francisco (USA)	USD	10		100,00%	100,00%	100,00%
JenaSurgical GmbH	9	Jena (GER)	EUR	200.000		100,00%	100,00%	92,50%
Accure Quanta, Inc.	10	Wilmington (USA)	USD	5		100,00%	100,00%	100,00%
Merit Due S.r.l.	11	Calenzano (ITA)	EUR	13.000		100,00%	100,00%	96,65%

(1) owned by Elen SpA (50%) and by Asclepion (50%)
(2) owned by Elen SpA (50%) and by Quanta System SpA (50%)
(3) owned by Deka Mela Srl (60%)
(4) owned by BRCT Inc. (78,85%)

(5) owned by Ot-las Srl (55%)
(6) owned by Ot-las Srl (54,72%)
(7) owned by BRCT (100%)
(8) owned by BRCT (100%)
(9) owned by Deka Mela Srl (50%) and by Asclepion (50%)
(10) owned by Quanta System (100%)
(11) owned by Ot-las Srl (100%)

Operations conducted during this year

For the operations conducted this year, please refer to the description given in the paragraph titled “Significant events which occurred during 2017” in the Management Report.

ASSOCIATED COMPANIES

El.En. SpA holds directly and indirectly equities in companies in which, however, it does not have control. These companies are evaluated according to the shareholders’ equity method.

The equities in associated companies are shown in the chart below:

Company name	Note	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	1	Tianjin (CHINA)	CNY	2.000.000		41,00%	41,00%	21,79%
Quanta Aesthetic Lasers Usa, LLC	2	Englewood (USA)	USD	500.200		19,50%	19,50%	19,50%
Accure LLC	3	Delaware (USA)	USD	-		43,82%	43,82%	43,82%

(1) owned by Penta Chutian Laser (Wuhan) Co. Ltd (41%)

(2) owned by BRCT (19,50%)

(3) owned by Quanta System S.p.A. (43,82%)

Operations conducted during this year

For the operations conducted this year, please refer to the description given in the paragraph titled “Significant events which occurred during 2017” in the Management Report.

EQUITIES IN OTHER COMPANIES

For the operations conducted during this year, please refer to the description given in the paragraph “Significant events which occurred during 2017” in the Management Report.

TREASURY STOCK

On April 28th 2015 the shareholders’ meeting of the Parent Company El.En. S.p.A voted to authorize the Board of Directors to acquire treasury stock; this authorization expired in the month of October 2016 without any purchases being made, consequently El.En. S.p.A. does not detain any treasury stock.

STANDARDS OF CONSOLIDATION

The statements used for the consolidation of the annual reports are those of the individual companies. These statements are opportunely reclassified and rectified in such a way as to make them uniform with the accounting standards and IFRS evaluation criteria used by the Parent Company.
The economic results of the subsidiary companies that are bought or sold during the year are included in the consolidated Income Statement from the actual date of purchase to the actual date of sale.
In drawing up the consolidated financial statement the assets and liabilities, the income and charges of the companies included in the area of consolidation have all been included. We have not included the payables and receivables, income and charges, profits and losses which have been generated by transactions made between the consolidated companies.
The book value of the equity in each of the subsidiaries is eliminated in the place of the corresponding portion of the shareholders' equity of each of the subsidiaries including the final adaptation at fair value on the date of purchase; the difference which emerges, if it is in the black (positive), is treated as goodwill, and as such is entered into accounts, in accordance with IFRS 3, as illustrated below. If it is in the red (negative) it is entered directly into the Income Statement.
The amount of capital and reserves of subsidiary companies corresponding to equities of third parties is entered under a heading of the shareholders' equity titled "Capital and Reserves of third parties"; the portion of the consolidated economic result which corresponds to the equities of third parties is entered into accounts under the heading "Income (loss) this year pertaining to third parties".

TRANSACTIONS IN FOREIGN CURRENCY

The accounting situation of each consolidated company is drawn up in the working currency of the particular economic context in which each company operates. In these accounting situations, all of the transactions which take place using a currency that is different from the working currency are recorded applying the exchange rate that is current at the time of the transaction. The monetary assets and liabilities listed in a currency which is different from the working currency are subsequently adapted to the exchange rate current on the date of closure of the period being presented.

CONSOLIDATION OF FOREIGN CURRENCY

For the purposes of the Consolidated Statement, results, assets, and liabilities are expressed in Euros, the working currency of the Parent Company, El.En. SpA. For drawing up the Consolidated Statement, the accounting situations with a working currency which is different from the Euro are converted into Euros using, for the assets and liabilities, including goodwill and the adjustments made at the time of consolidation, the exchange rate in force on the date of closure of the financial period being presented and, for the Income Statement, the average exchange rates for the period which approximate the exchange rates in force on the date of the respective transactions. The relative differences in exchange rates are shown directly in the shareholders' equity and are displayed separately in a special reserve of the same. The differences in the exchange rate are shown in the Income Statement at the time that the subsidiary is sold.
The first time that the IFRS were applied, the cumulative differences generated by the consolidation of the foreign companies with a working currency different from the Euro were reclassified into Retained earnings, as is allowed by the IFRS 1; consequently, only the differences in conversion accumulated and entered into accounts after January 1st 2004 are involved in the determination of the capital gains and losses deriving from their possible sale.

For the conversion of the financial statements of the subsidiary and associated companies using a currency that is not the Euro, the exchange rates used are as follows:

	Exchange Rate	**Average exchange rate**	**Exchange Rate**
Currencies	**31/12/2016**	**31/12/2017**	**31/12/2017**
USD	1,05	1,13	1,20
Yen	123,40	126,71	135,01
Yuan	7,32	7,63	7,80
Real	3,43	3,61	3,97

USE OF ESTIMATES

In applying the IFRS, the drawing up of the Consolidated Annual Report requires estimates and assumptions to be made which affect the assets and liability figures of the financial statement and relative information and potential assets and liabilities at the date of reference. The definitive results could differ from such estimates. The estimates are used to enter the provisions for risks on receivables, for obsolescence of stocks, amortization and depreciation, devaluation of assets, stock options, employee benefits, taxes and other provisions. The estimates and assumptions are periodically reviewed and the effects of any variation are reflected in the Income Statement.
Goodwill is subjected to an impairment test in order to determine any loss in value.

ACCOUNTING POLICIES

A) INTANGIBLE FIXED ASSETS WITH A FINITE AND INDEFINITE LIFE

Intangible assets are those assets lacking an identifiable physical consistency able to produce future economic benefits. They are entered at the historical purchase cost, shown net of the amortization applied in the course of the financial years and directly ascribed to the single headings. The Group has chosen to maintain historical cost, rather than fair value, as the measurement criteria for intangible fixed assets. In the case in which, independently of the amortization already entered, there should be a loss of value, the fixed asset is correspondingly devalued; if, in subsequent financial years the reasons for the devaluation should cease to exist, the value is restored to a maximum limit of its original value, adjusted only by the amortization.
The costs incurred internally for the development of new products and services constitute, depending on the individual case, tangible or intangible assets generated internally and are entered in the assets only where all the following conditions are satisfied: 1) where the technical possibility or intention to complete the asset so as to make it available for use or sale exists; 2) where there is a capacity for the Group to use or sell the asset; 3) the existence of a market for the products and services deriving from the asset, or of utility for internal purposes; 4) the ability of the asset to generate future economic benefits; 5) the availability of sufficient technical and financial resources to complete the development and sale or internal use of the products and services deriving from it; 6) reliable assessment of the costs attributable to the asset during its development. The capitalization of development costs includes only the expenses incurred which may be directly attributed to the development process. Research costs are entered in the Income Statement in the financial year in which they are incurred. The Other Intangible Fixed Assets with a finite useful life are assessed at purchase or production cost and amortized at a constant rate during their estimated useful life.
Goodwill and other activities which have an indefinite life are not subject to systematic amortization but to an annual impairment test. If the amount that can be recovered is estimated to be less than the relative book value, it is reduced to the lowest recoverable value. A loss in value is shown immediately in the Income Statement. For goodwill, devaluations are not subject to reversals of impairment.

Business combinations and goodwill

Business combinations since January 1st 2010

Business combinations are entered into accounts using the acquisitions method. The cost of an acquisition is evaluated as the sum of the amount transferred measured at fair value on the date of the acquisition and the amount of any minority equities in the company acquired. For each business combination the purchaser must evaluate at fair value any minority equities in the company acquired or else in proportion to the quota of the minority equity in the net assets indentified in the company acquired. The costs of acquisitions are entered into accounts and classified among the management expenses.
When the Group acquires a business, it must classify or designate the financial assets acquired or liabilities assumed in compliance with the terms of the contract acquired, the economic conditions and the other pertinent conditions in force on the date of the purchase. This includes the verification conducted in order to establish if an incorporated derivative must be separated from the primary contract.
If the business combination takes place in more than one phase, the purchaser must recalculate the fair value of the equity held previously and evaluated with the shareholders' equity method and report in the Income Statement any profits or losses which have been registered.
Every potential amount must be reported by the purchaser at fair value on the date of acquisition. The variation in the fair value of the potential amount classified as asset or liability will be reported in compliance with IAS 39, in the Income Statement and in the chart showing the other components of the overall Income Statement. If the potential amount is classified in the shareholder's equity, its value must not be recalculated until its extinction is entered into accounts against the capital and reserves.

Goodwill is initially evaluated at the costs which emerges from the excess between the sum of the amounts paid and the amount recognized for the minority quotas with respect to the identified net assets acquired and the liabilities assumed by the Group. If the amount is less than the fair value of the net assets of the subsidiary acquired, the difference is reported in the Income Statement.
After the initial reporting, the goodwill is evaluate at cost reduced by the amount of losses accumulated. After the verification of loss of value, the goodwill acquired in a business combination, after the date of acquisition must be allocated to each of the cash-generating units (CGU) that have been identified and which are expected to benefit from the business combination, whether or not other assets or liabilities of the acquired entity have been assigned to that unit..The identification of the CGU coincides with each juridical subject.
If the goodwill has been assigned to a unit generating cash flow and the entity disposes of part of the assets of that unit, the goodwill associated with the asset disposed of must be included in the accounting value of the asset of that unit when determining the profit or loss derived from the disposal. The goodwill associated with the asset that has been disposed of must be determined on the basis of the relative values of the disposed assets and the part maintained by the unit generating cash flow.
The goodwill derived from the acquisitions made before January 1st 2004 is entered t the amount registered under this heading in the last consolidated statement drawn up on the basis of the preceding accounting standards (December 31st 2003).
Goodwill on equity of associates is included in the carrying value of these companies. In case it is negative, it is immediately recognized in the income statement.

Business combinations prior to January 1st 2010
The business combinations registered before January 1st 2010 were recorded following the previous version of the IFRS 3 (2004).

B) TANGIBLE FIXED ASSETS
The assets have been entered at the purchase cost or production cost, inclusive of accessory charges, net of depreciation. Ordinary maintenance expenses have been entirely entered in the Income Statement. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and amortized according to the residual possibility of use of the said item**.**
The Group uses the method of original cost as opposed to fair value as the assessment criteria for tangible fixed assets. Specifically, in accordance with such standards, the value of land and of the buildings constructed on it is separated and only the building is amortized.

The aliquots used for depreciation are shown on the chart below:

Description	*Depreciation percentage*
Buildings	
- buildings	3.00%
Plants and machinery	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
- other plants and machinery	15.50%
Industrial and commercial equipment	
- miscellaneous and minute equipment	25.00%
- kitchen equipment	25.00%
Other goods	
- motor vehicles	25.00%
- forklift	20.00%
- lightweight constructions	10.00%
- electronic office equipment	20.00%
- furniture	12.00%

C) FINANCIAL CHARGES
Financial charges are registered in the Income Statement at the time in which they are sustained.

D) LOSSES IN VALUE OF ASSETS
At each date referred to in the financial year shown, the tangible and intangible assets with a finite life have been assessed for the purposes of identifying any indicators of loss in value. The recoverable value of the goodwill and intangible assets with an indefinite life, where present, have been estimated at each date of reference. If there is any indication of a reduction in value the presumed cashing-in value is estimated.
The presumed cashing-in value is the higher of the two variables, net sales price and utility value. In determining the utility value, expected cash flow are discounted using a pre-tax discount rate which reflects the current market value of the money rate referred to the investment period and specific risks of the business. For a business not generating highly

independent flows of funds, the cashing-in value is determined in relation to the cash-generating unit which the said business belongs to. A loss of value is entered in the Income Statement wherever the value entered for the asset or the relative cash generating unit which it is allocated to, is higher than the presumed cashing-in value. With the exception of goodwill, value losses are readjusted wherever the causes which have generated them cease to exist.

E) FINANCIAL ASSETS: EQUITIES

Financial assets which consist of equities in associated companies are evaluated according to the shareholders' equity method, that is to say, for an amount equal to the corresponding fraction of the shareholders' equity shown in the last financial statement of the companies, after having subtracted the dividends and after having made the rectifications required by the accounting standards used for drawing up the consolidated statement in compliance with the IFRS to make them compatible with the accounting standards used by the Parent Company.
The joint-venture companies are evaluated in the consolidated statement using the shareholders' equity method, starting with the date on which the joint-venture was initiated until it ceased to exist.

F) FINANCIAL INSTRUMENTS

Equities in other companies

The equities in other companies which are not subsidiaries or associated (usually with an ownership of less than 20%) which are not owned with the intent of reselling or trading them (the so-called "available for sale", after being entered into accounts, are evaluated at fair value. The assumption for this disposition is that the fair value can be reliably estimated. When the fair value cannot be estimated reliably the investment is evaluated at cost.
The profits and losses that are not made from these financial activities, according to IAS 39, are entered into accounts through the comprehensive statement of income in the shareholders' equity, in the fair value reserve. These profits and losses are transferred from the fair value reserve to the income statement when the financial asset is disposed of or if the asset loses value.

Financial instruments and financial assets at fair value with variations entered in the Income Statement.

This category includes the assets held for negotiation and the designated assets, at the time that they were first reported, as financial assets at fair value with variations entered in the Income Statement. The Group evaluates its financial assets at the time for value registered in the Income Statement (held for negotiation) if the intention to sell them within a brief period of time is still appropriate.

Stocks – financial assets available for sale

The financial assets that are available for sale are evaluated at fair value, with effect on the shareholders equity with the exception of the losses due to reduction in value, until the financial asset is eliminated; at this time the total entered earlier in the shareholder's equity must be entered in the Income Statement.

Accounts receivable

The receivables are entered at cost (identified using the nominal value) net of any value losses, corresponding to their presumed cashing-in value.

Other financial assets

Financial assets are added and removed from the financial statement according to the date of negotiation and are initially evaluated at cost, inclusive of the charges directly connected with the acquisition. At the subsequent dates of the financial statement, the financial assets to be held until expiry date are shown at cost amortized according to the effective interest rate method, net of any devaluation applied to reflect value losses.
Financial assets other than those held until expiration are classified as held for negotiation or available for sale and are estimated at fair value each financial year with attribution respectively in the Income Statement under the heading "Financial Revenue (Charges)" or in a special reserve of the Shareholders' equity, in the latter case until such time as they are cashed-in or until they have suffered a loss in value.

Cash and cash equivalents

This heading includes cash reserves and bank accounts and other short-term financial investments with a high level of availability which can be easily converted into cash at a negligible risk of varying in value.

Treasury stock

Treasury stock is entered against shareholders' equity. No profit/loss is shown in the Income Statement for the purchase, sale, issue or cancellation of treasury stock.

Accounts payable

Commercial payables, the due date of which falls within the normal commercial terms, are not discounted and are entered at cost (identified as their nominal value).

Financial liabilities
Financial liabilities are initially entered at fair value net of the transaction costs directly attributable to them. Subsequently, financial liabilities are estimated with the criteria of amortized cost, using the effective original interest rate method.

Derivatives and measurement of hedging operations
Fair value hedge: if a derivative is designated as a hedge against exposure to the fluctuations in the current value of an asset or a liability entered into accounts, that can be attributed to a particular risk which can affect the income statement, the profit or loss derived from the later evaluations of the current value of the hedging instrument are shown in the income statement. The profit or loss on the amount being hedged, that are attributed to the risk being covered, modify the book value of this amount and are entered into the income statement.

Cash flow hedge: if an instrument is designated as a hedge against the fluctuations in cash flow of an asset or a liability entered into accounts or a highly probable planned operation and which could have an effect on the Income Statement, the efficient portion of the profits or losses on the financial instrument is shown in the shareholders' equity. The profit or loss accumulated are subtracted from the shareholders' equity and entered in the Income Statement for the same period in which the hedging operation is shown. The profit or loss associated with the hedge or with that part of the hedge which has become ineffective, are entered immediately in the Income Statement. If a hedging instrument or a hedging report are closed, but the operation which is the subject of the hedging has not yet occurred, the profits and the losses accumulated and up to that time entered in the shareholders' equity, are shown in the Income Statement when the relative operation actually occurs. If the operation which is the subject of the hedging is no longer considered probable, the profits and losses that have not yet been realized and suspended in the shareholders' equity are immediately shown in the Income Statement.

Held for trading: (instruments for negotiations) these are derivative financial instruments that are used for speculation or negotiation purposes. They are evaluated at fair value and variations are entered in the income statement.

G) INVENTORY
Stocks of raw materials and finished products are evaluated at the cost or market value; the cost is determined using the method of average weighted cost. The evaluation of inventories is based on the basis of the direct costs of the raw materials and the labor and the indirect costs of production (variable and fixed). Devaluation provisions are also set aside for materials, finished products, spare parts and other supplies considered obsolete or with a slow turnover bearing in mind the possibilities of reuse and sale.
Inventory stocks of works in progress are evaluated on the basis of production costs, with reference to the average weighted cost.

H) RETIREMENT FUNDS AND EMPLOYEE BENEFITS

SEVERANCE INDEMNITY
Up until December 31st 2006 the severance indemnity fund was considered a defined benefit plan. The regulating of this fund was changed by law no. 296 of December 27th 2006 ("Legge Finanziaria 2007) and later decrees and regulations issued during the first months of 2007. On the basis of these modifications, and with particular reference to companies with at least 50 employees, this institution is now considered a defined benefit plan exclusively for the amounts which matured before January 1st 2007 (and not yet liquidated in the financial statement) whereas for the quotas which mature after that date, it is considered a defined contribution plan.
For defined benefit plans, the amount already matured is projected to estimate the amount to be paid at the moment of termination of the employment contract and subsequently recalculated, using the "Projected unit credit method". This kind of accounting methodology is based on theories of a demographic and financial nature so as to make a reasonable estimate of the amount of benefits which each employee has already matured on the basis of the work done.
By means of the actuarial estimate, the *current service cost* which defines the amount of rights matured during the financial year by employees is entered under the "labor costs" heading of the Income Statement and the interest cost, which constitutes the figurative charge which the company would have to pay if it took out a loan equal to the severance indemnity.
The actuarial gain and losses accumulated up until last year which reflect the effects of changes in the actuarial hypotheses used, were entered pro-quota in the Income Statement for the rest of the average working life of the employees when their net value not entered at the end of the preceding year exceeds the value of the liability by 10% (so-called corridor method).
In compliance with the transition rules stipulated by IAS 19 in paragraph 173, the Group applied the amendment to IAS 19 starting on January 1st 2013 retroactively, re-determining the amounts of the financial position shown on January 1st 2012 and December 31st 2012, as though the amendment had always been applied.

For defined contribution plans the Group pays its contribution to a public or private pension fund on an obligatory, contractual or voluntary basis. Once the contributions have been paid the Group has no further obligations. The contributions they have paid are entered into the Income Statement when owed.

STOCK OPTION PLANS

The costs of the work performed by the employees and paid for through stock option plans is determined on the basis of the fair value of the options granted to the employees at the date of assignment.

In comparison to other standard models, the stock option plan approved by the Parent Company El.En. S.p.A. may be considered as an "exotic" option since the right to pick up the option can be exercised only after the vesting period and may occur at any time during the exercise period.

The plan that is used at El.En. is, in concept comparable to two distinct options which could be defined as "*American forward start*". The fair value of an "*American forward start*" option can be obtained by combining a neutral risk approach to determine the value of the stock expected at the beginning of the exercise period and, afterwards, by using a model of the *binomial tree* type to exploit the American type option.

In order to evaluate it an estimate of the volatility of the stock must be made, as well as the risk-free interest rate and the expected dividend rate of the stock.

In compliance with the regulations described in the International Accounting Standard IFRS2, all the significant parameters of the model have been followed observing the conditions of the financial markets and the trend of the El.En. stock on the date that the option rights were assigned.

I) PROVISIONS FOR LIABILITIES AND CONTINGENCIES

The Group has shown the provisions for future contingencies wherever, in the face of a legal or implicit obligation to third parties, it is probable that the Group will have to use its resources to honor such an obligation and when a reliable estimate of the amount of the obligation itself can be made. Variations in such estimates are reflected in the Income Statement for the financial year in which the variation takes place.

L) REVENUE RECOGNITION

The revenue from the sale of goods is recorded when the significant risks and benefits of the ownership of the goods are transferred to the purchaser, which is normally the time when they are delivered or shipped.

Financial revenue and charges are entered on the basis of interest matured on the net value of the relative financial asset or liability using the actual interest rate.

M) ENTRIES IN FOREIGN CURRENCY

Assets and liabilities in foreign currency, with the exception of real estate, are entered at the exchange rate in effect on the day that the financial period was closed and the relative profits and losses are entered into the Income Statement.

N) GRANTS

Contributions, from both public and third party private bodies are entered when there is reasonable certainty of receiving them and of satisfying the conditions for obtaining them. Contributions received for specific expenses are shown among the other liabilities and credited to the Income Statement at the moment in which the conditions for entering them are satisfied. Contributions received for specific assets, the value of which is entered among the tangible or intangible assets, are shown either as direct reduction of the assets themselves or among the other liabilities and are credited to the Income Statement in relation to the period of depreciation of the assets they refer to. Grants in operating account are shown entirely in the Income Statement at the moment in which the conditions for entering them are satisfied.

O) FINANCIAL LEASING

Financial leasing operations are entered into accounts using the financial methodology which stipulates that the fixed asset acquired and its relative financing be entered into accounts. The relative amounts of depreciation and financial charges are entered in the Income Statement.

P) TAXES

Income taxes include the current and deferred taxes calculated on the taxable income of the companies of the Group. Current taxes represent an estimate of the amount of the income taxes calculated on the taxable income for the period. Deferred income tax assets and liabilities have been calculated on the basis of differences of a temporary nature between assets and liabilities recognized for tax purposes and the corresponding figures on the financial statements applying the current tax rate in force or essentially in force at the date of reference. Deferred tax assets have been entered as assets when it is probable that they will be recovered, in other words when it appears likely that the entity of the taxable amount in the future will be sufficient to recover the assets. The possibility of recuperating deferred tax assets is re-examined at the closing of each financial year.

Q) EARNINGS PER SHARE

The basic earnings per ordinary share are calculated by dividing the portion of the Group's net profit attributable to ordinary shares by the weighted average of the ordinary shares in circulation during the financial year, excluding treasury stock. For the purposes of calculating the diluted earnings per share, the weighted average of the shares in circulation is modified by assuming the subscription of all the potential shares deriving from the conversion of stock options having a diluting effect.

STOCK OPTION PLAN

El.En. S.p.A.

The chart below shows information related to the stock option plan approved during 2016 by the Parent Company El.En. S.p.A., for the purpose of promoting employee incentive and loyalty.

	Max. expiration date	Outstanding options	Options issued	Options cancelled	Options exercised	Expired option not exercised	Outstanding options	Exercisable options	Exercise price
		01/01/2017	01/01/2017 - 31/12/2017	01/01/2017 - 31/12/2017	01/01/2017 - 31/12/2017	01/01/2017 - 31/12/2017	31/12/2017	31/12/2017	
Plan 2016-2025	31-dic-25	800.000					800.000		€ 12,72

This plan has two different tranches which have different vesting and exercise periods and consequently is based on a concept equivalent to two distinct options which could be defined as "*American forward start*".
The fair value of an "*American forward start*" option can be obtained by combining a neutral risk approach in order to determine the expected value of the stock at the start of the exercise periods and, later, using a binomial tree type model to exploit the American type option.

For the purpose determining the fair value, the following hypotheses have been formulated:

Risk free rate: 0,338492%
Historical volatility: 0,28489
Interval of time used to calculate the volatility: last year of trading.

The overall *fair value* of the stock options is 2.942.080 Euros.

During 2017 the average price recorded for El.En. stock was about 26,3 Euros.

For the characteristics of the stock option plan and the increase in capital that was approved for implementing it, please consult the description in Note (10) of this report.

Information on the Consolidated Statement of financial position - Assets

Non-current assets

Intangible assets (note 1)

Breakdown of changes occurring in intangible fixed assets during the period is shown on the chart below:

	31/12/2016	Increase	Decrease	Revaluation / Devaluation	Other movements	Depreciation	Translation adjustment	31/12/2017
Goodwill	3.038.065							3.038.065
Research and development costs	99.219	86.325				-99.447		86.096
Patents and rights to use patents of others	39.418	13.562				-25.678		27.302
Concessions, licences, trade marks and similar rights	216.170	296.261	-415		8.984	-174.001	-3.990	343.009
Other intangible assets	36.220	42.789				-31.870		47.139
Intangible assets under construction and advance payments	466.583	323.277			-72.440			717.420
Total	**3.895.675**	**762.214**	**-415**		**-63.456**	**-330.996**	**-3.990**	**4.259.031**

Goodwill

Goodwill, which constitutes the most significant component of the intangible fixed assets, represents the excess of the purchase cost with respect to the fair value of the assets acquired net of the current and potential liabilities assumed. Goodwill is not subject to amortization and is subject to an impairment test at least once a year.

At the end of each impairment test, the single entries of goodwill have been placed in the respective "*cash generating unit*" (CGU) which has been identified. The identification of the CGU coincides with each juridical subject and corresponds to what the directors envision as their own activity.

The following chart shows the book value of goodwill for each "*Cash generating unit":*

CASH GENERATING UNIT (CGU)	Goodwill 31/12/2017	Goodwill 31/12/2016
Quanta System S.p.A.	2.079.260	2.079.260
ASA S.r.l.	439.082	439.082
Ot-las S.r.l.	415.465	415.465
Asclepion Laser Technologies GmbH	72.758	72.758
Deka MELA S.r.l.	31.500	31.500
Total	3.038.065	3.038.065

As of December 31st 2017 the recoverable value of the CGUs shown on the chart was subjected to an impairment test in order to verify the existence of any losses in value by comparing the book value of the unit and the recoverable amount, i.e., the current value of the expected future financial flows which one supposes will be derived from the continued use and from the eventual disuse at the end of the useful life of the unit. Results of these tests are shown below.

Quanta System S.p.A.: the recoverable amount was determined using the Discounted Cash Flow (DCF) method by actualizing the cash flows contained in the economic-financial plan approved by the Board of Directors of Quanta System SpA, which covered a time span from 2018-2020. In order to determine the recoverable amount of the CGU they considered the actualized financial flows for the 3 years of explicit forecasts added to the terminal value, assumed at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.

The main assumption of the economic-financial plan used to make the impairment test is related to the growth rate of the sales volume over the time span covered by the plan. The rates used in order to formulate the forecasts used in the impairment tests are consistent with the final data registered during 2017 and with the outlook for the particular market in which they operate.
The Board of Directors considered the assumptions and the corresponding financials to be suitable for purposes of conducting the impairment test and approved the results obtained.
The actualization rate applied to the expected cash flows (WACC) is 6,84%; for the cash flows related to the years following the period of explicit forecasts, we hypothesize a long term growth rate "g" of 1,5%.
By determining the recoverable amount on the basis of these parameters it was possible to avoid making any reductions in the value of the goodwill.
An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the book value assuming the following hypothesis: a growth rate "g" of 0,5% and a WACC +1% equal to 7,84%.

Ot-las S.r.l.: the recoverable amount was determined using the Discounted Cash Flow (DCF) method by actualizing the cash flows contained in the economic-financial plan approved by the Board of Directors of Ot-las S.r.l. (ex Cutlite Penta), which covered a time span from 2018-2020. In order to determine the recoverable amount of the CGU they considered the actualized financial flows for the 3 years of explicit forecasts added to the terminal value, assumed at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.
The main assumption of the economic-financial plan used to make the impairment test is related to the growth rate of the sales volume over the time span covered by the plan. The rates used in order to formulate the forecasts used in the impairment tests are consistent with the final data registered during 2017.
In particular, the cutting sector (the most important part of their activity) was subjected to a technical inspection for the purpose of supporting the operations now conducted in the industrial sector and, in particular, for conferring the laser cutting activities to a newly created company founded for this purpose, as described in the Management Report.
The Board of Directors considered the assumptions and the corresponding financials to be suitable for purposes of conducting the impairment test and approved the results obtained.
The actualization rate applied to the expected cash flows (WACC) for 2018-2020 vary from 7,78% to 8,46%; for the cash flows related to the years following the period of explicit forecasts, we hypothesize a long term growth rate "g" of 1,5% and the WACC used was 8,92%.
By determining the recoverable amount on the basis of these parameters it was possible to avoid making any reductions in the value of the goodwill.
An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the book value assuming the following hypothesis: a growth rate "g" of 0,5% and a WACC +1% equal to 9,31%. (with a hypothetical average WACC of 8,31%).

ASA S.r.l.: the recoverable amount was determined using the Discounted Cash Flow (DCF) method by actualizing the cash flows contained in the economic-financial plan approved by the Board of Directors of ASA S.r.l., which covered a time span from 2018-20120. For the purpose of determining the use value of the CGU we considered the financial flows actualized during the three years of explicit forecasts added to a terminal value, assumed at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.

The main assumption of the economic-financial plan used to make the impairment test is related to the growth rate of the sales volume over the time span covered by the plan. The rates used in order to formulate the forecasts used in the impairment tests are consistent with the final data registered during 2017 and with the outlook for the particular market in which they operate.
The Board of Directors considered the assumptions and the corresponding financials to be suitable for purposes of conducting the impairment test and approved the results obtained.
The actualization rate applied to the expected cash flows (WACC) is 6,84%; for the cash flows related to the years following the period of explicit forecasts, we hypothesize a long term growth rate "g" of 1,5%.
By determining the recoverable amount on the basis of these parameters it was possible to avoid making any reductions in the value of the goodwill.
An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the book value assuming the following hypothesis: a growth rate "g" of 0,5% and a WACC +1% equal to 7,84%.

The verification of the procedures used for the impairment tests to determine if they were in conformity with the regulations prescribed in the international accounting standards was approved independently by the same Board of Directors of the Parent Company.

Other intangible fixed assets

The increase in “Research and Development costs” are related to the costs sustained for the development of new prototypes by the Parent Company El.En. S.p.A.
The “Patent and rights to use the patents of others” were related to the capitalization of the costs sustained for the purchase of patents by El.En. and by Quanta System.
Under the heading “Concessions, licenses, trademarks and similar rights” we have entered among other things, the costs sustained in particular by the Parent Company El.En. and by the subsidiaries, Lasit, Quanta, Asclepion and Asa for the purchase of new software.
The residual heading of “Others intangible assets” consists mainly of the costs sustained by the parent Company El.En. and by the subsidiaries Quanta System S.p.A and Deka Mela for the creation of software.
The Intangible assets under construction refer mainly to the costs of research and development sustained by one of the subsidiaries for a prototype that is now being developed.

Tangible fixed assets (note 2)

Breakdown of changes occurring in the tangible fixed assets is shown on the chart below:

Cost	**31/12/2016**	**Increase**	**(Disposals)**	**Revaluation / Devaluation**	**Other movements**	**Translation adjustment**	**31/12/2017**
Lands	5.355.886	759.103			3.412.199	-81.770	9.445.418
Buildings	24.881.676	154.318	-43.550			-354.513	24.637.930
Plants & machinery	7.646.225	308.726	-6.182			-117.422	7.831.347
Industrial and commercial equipment	12.347.825	702.344	-834.341			-113.389	12.102.439
Other assets	9.661.431	1.038.370	-580.514		44.462	-201.823	9.961.926
Tangible assets under construction and advance payments	3.744.087	1.335.042	-3.599		-3.447.865	-224.977	1.402.688
Total	**63.637.130**	**4.297.903**	**-1.468.186**		**8.795**	**-1.093.894**	**65.381.748**

Accumulated depreciation	**31/12/2016**	**Depreciations**	**(Disposals)**	**Revaluation / Devaluation**	**Other movements**	**Translation adjustment**	**31/12/2017**
Lands							
Buildings	4.879.775	750.668				-10.046	5.620.397
Plants & machinery	3.953.682	609.561	-5.005			-31.556	4.526.683
Industrial and commercial equipment	9.871.367	1.038.985	-714.405			-94.311	10.101.636
Other assets	5.316.046	1.102.981	-355.640			-107.875	5.955.511
Tangible assets under construction and advance payments							
Total	**24.020.870**	**3.502.195**	**-1.075.050**			**-243.788**	**26.204.227**

Net value	**31/12/2016**	**Increase**	**(Disposals)**	**Revaluation / Devaluation / Depreciations**	**Other movements**	**Translation adjustment**	**31/12/2017**
Lands	5.355.886	759.103			3.412.199	-81.770	9.445.418
Buildings	20.001.901	154.318	-43.550	-750.668		-344.467	19.017.533
Plants & machinery	3.692.543	308.726	-1.177	-609.561		-85.866	3.304.664
Industrial and commercial equipment	2.476.458	702.344	-119.936	-1.038.985		-19.078	2.000.803
Other assets	4.345.385	1.038.370	-224.874	-1.102.981	44.463	-93.948	4.006.415
Tangible assets under construction and advance payments	3.744.087	1.335.042	-3.599		-3.447.865	-224.977	1.402.688
Total	**39.616.260**	**4.297.903**	**-393.136**	**-3.502.195**	**8.795**	**-850.106**	**39.177.521**

According to the accounting standards being used, the value of the land is separated from the value of the buildings that are located on it and the land is not amortized because it is considered an element with an unlimited useful life. The value of the land on December 31st 2017 was 9.445 thousand Euros.
The amount entered under the heading of “increases” is related to the purchase of land by the subsidiary Asa Srl, while the amount entered under the heading of “Other movements” refers to the purchase of land by the subsidiary Penta-Laser Equipment (Wenzhou) entered into accounts on December 31st 2016 with the tangible assets under construction and advance payments.

The heading of “Buildings” includes the building complex in Via Baldanzese a Calenzano (Florence), where the Parent Company operates along with the subsidiaries Deka M.E.L.A. Srl, Ot-las Srl (ex Cutlite Penta Srl), Esthelogue Srl, Pharmonia Srl, and Merit Due Srl, the building in the city of Torre Annunziata purchased in 2006 for the research, development and production activities of the subsidiary Lasit SpA, the building in Jena, Germany which since May of 2008 houses the activities of the subsidiary Asclepion GmbH and the building purchased in Samarate (Varese) at the end of the year 2014 by the subsidiary Quanta System SpA as a financial leasing and therefore entered into accounts according to IAS 17, as well as the new factory owned by the subsidiary Penta Laser Equipment (Wenzhou) on which work was completed last year.

The heading of “Plants and machinery” is related in particular to investments made by Asclepion GmbH, Penta Laser Equipment (Wenzhou) Co Ltd, Quanta System S.p.A., Ot-las S.r.l (ex Cutlite Penta S.r.l., Lasit S.r.l and by the Parent Company, El.En. S.p.A.

The heading of “Industrial and Commercial Equipment” refers in particular to El.En. and to the subsidiaries With Us, Asclepion GmbH, Quanta System, Lasit S.p.A, Ot-las S.r.l. (ex Cutlite Penta S.r.l.), Deka Japan, Esthelogue and Deka Mela; for this latter, it should be recalled that, as in the past, we have capitalized the costs of some of the machinery sold with operative leasing; these sales, in fact, have been considered as revenue from multi-year leasing in compliance with the IAS/IFRS standards.

The increase in the category of “Other assets” refers mainly to the purchase of new motor vehicles, furniture and electronic equipment.

The increases shown in the category of “Tangible assets under construction” refer mainly to the costs sustained by the subsidiary Asclepion GmbH for the new factory and by the Parent Company El.En. S.p.A for improvements and remodeling being done on the headquarters in Calenzano.
As mentioned above, the amount entered in the column of “Other movements” refers to the transfer in the category of “lands” for the costs sustained for the purchase of lands by the subsidiary Penta-Laser Equipment (Wenzhou).

Equity investments (note 3)

The analysis of the equity investments is:

	31/12/2017	31/12/2016	Variation	Var. %
Equity investment in associated companies	2.537.355	3.222.303	-684.948	-21,26%
Other equity investments	1.049.920	595.468	454.452	76,32%
Total	**3.587.275**	**3.817.771**	**-230.496**	**-6,04%**

Equities in associated companies

For a detailed analysis of the equities held by Group in associated companies, refer to the paragraph relative to the scope of consolidation**.**

It should be recalled that the associated companies Immobiliare Del.Co. Srl, Elesta Srl, Chutian (Tianjin) Lasertechnology Co. Ltd, Quanta Aesthetic Lasers Usa, LLC and Accure LLC are consolidated using the shareholders' equity method.

The amounts of the equities in associated companies registered in the financial statement are, respectively:

Immobiliare Del.Co. S.r.l.:	248	Thousand Euros
Actis S.r.l.:	1	Thousand Euros
Elesta S.r.l.:	671	Thousand Euros
Quanta Aesthetic Laser USA, LLC:	1.628	Thousand Euros
Chutian (Tianjin) Lasertechnology Co, Ltd:	107	Thousand Euros
Accure LLC:	(118)	Thousand Euros

Quanta Usa LLC.: the value of the equity includes goodwill for 2 million Euros. The use value was determined with the Discounted Cash Flow (DCF) method actualizing the cash flow in the economic-financial plan having a time span from 2018-2020. For the purpose of determining the use value of the CGU we considered the financial flow actualizing three years of explicit forecast added to a terminal value assumed at the same current value of the perpetual yield of the flow generated last year that was the subject of the explicit forecast.

The main assumption of the economic-financial plan used to run the impairment test is related to the growth rate of the sales volume considering the time span covered by the plan. The rates used to formulate the forecast used as part of the impairment test are consistent with the data recorded during 2017.
The written assumptions and the corresponding financials were considered suitable for conducting the impairment test by the Board of Directors who approved the results.
The actualization rate applied to the expected cash flows (WACC) is 7,5%; for the cash flows related to the financial periods following the period of explicit forecast, we expect a long term growth rate "g" of 1,5%.
Determining the use value on the basis of these parameters showed a change in relation to the accounting value and therefore required a devaluation of the goodwill of 570 thousand US dollars, which brings its residual value to 1,8 million US dollars.
An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the book value assuming the following hypothesis: a growth rate "g" of 0,5% and a WACC +1% equal to 8,5%.

The chart below shows a summary of the data related to the associated companies:

	Total Assets	**Total liabilities**	**Net income (Loss)**	**Revenues and other income**	**Charges and expenses**
Actis Active Sensors Srl (*)	180.147	158.491	-19.998	112.248	132.246
Elesta Srl (ex IALT Scrl)	2.535.050	1.193.455	58.982	2.149.955	2.090.973
Immobiliare Del.Co. Srl	834.285	801.649	-17.549	139.419	156.968
Quanta Aesthetic Lasers USA, LLC	2.988.543	2.336.658	219.300	9.008.251	8.788.951
Chutian (Tianjin) Lasertechnology Co. Ltd	975.795	714.245	-469	670.224	670.693
Accure Acne, LLC	962.726	2.270.045	-1.164.864	0	1.164.864

(*) Dati al 31 dicembre 2016

Equities in other companies

The increase under the heading of "Other equity investments" is mainly due to the operation made by the Parent Company on December 18th 2017 in which it sold its equity in Imaginalis Srl to Epica International for an amount of 581 thousand Euros with 112 thousand Euros in cash and the rest paid with 493.458 newly issued shares.

Financial receivables/Deferred tax assets/Other non-current receivables and assets (note 4)

Other non-current assets	31/12/2017	31/12/2016	Variation	Var. %
Financial receivables - third parties	313.323	32.688	280.635	858,53%
Deferred tax assets	6.269.095	6.525.995	-256.900	-3,94%
Other non-current assets	12.057.762	10.848.763	1.208.999	11,14%
Total	**18.640.180**	**17.407.446**	**1.232.734**	**7,08%**

The category of "Other non-current assets" is related to the temporary use of cash by the Parent Company for life insurance policies which have as a basis a separate management of securities with capital guaranteed and with the possibility of cashing them in either partially or entirely for the duration of the contract on the condition that at least a year has passed since the policy was stipulated. Since this is a mid-term investment the company decided to classify it among the non-current assets held for sale booking the *fair value* in the assets and the re-evaluation of the same in the income statement and, consequently, to exclude it from the net financial position.

The deferred tax assets amount to about 6.269 thousand Euros; for a complete analysis of this category, please consult the note of this document related to deferred tax assets and liabilities.

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory:

	31/12/2017	31/12/2016	Variation	Var. %
Raw materials, consumables and supplies	31.936.890	32.100.873	-163.983	-0,51%
Work in progress and semi finished products	16.832.644	16.314.365	518.279	3,18%
Finished products and goods	17.797.767	13.723.050	4.074.717	29,69%
Total	**66.567.301**	**62.138.288**	**4.429.013**	**7,13%**

The final inventory amounted to about 66.567 thousand Euros, an increase of 7% over the 62.138 thousand Euros registered for December 31st 2016 which reflects the increase in the volume of business for this period.

The chart below shows the breakdown of the total inventory, distinguishing between the amount of obsolete stock from the gross amount

	31/12/2017	31/12/2016	Variation	Var. %
Gross amount of Inventory	78.580.436	73.277.405	5.303.031	7,24%
Devaluation provision	-12.013.135	-11.139.117	-874.018	7,85%
Total	**66.567.301**	**62.138.288**	**4.429.013**	**7,13%**

The fund is calculated so as to align the stock value with the presumed selling price and recognizing, where necessary the obsolescence and slow rotation. The amount of the fund increased about 874 thousand Euros during the year and its incidence on the gross value of the inventory rose from 15,2% on December 31st 2016 to 15,3% on December 31st 2017.

Accounts receivables (note 6)

Receivables are composed as follows:

	31/12/2017	31/12/2016	Variation	Var. %
Accounts receivable from third parties	79.559.226	61.185.150	18.374.076	30,03%
Accounts receivable from associated	885.882	1.260.495	-374.613	-29,72%
Total	**80.445.108**	**62.445.645**	**17.999.463**	**28,82%**

Accounts receivable from third parties	31/12/2017	31/12/2016	Variation	Var. %
Italy	31.249.701	24.435.904	6.813.797	27,88%
EEC	10.133.886	7.197.204	2.936.682	40,80%
ROW	44.879.700	35.868.047	9.011.653	25,12%
minus: bad debt reserve	-6.704.063	-6.316.007	-388.056	6,14%
Total	**79.559.226**	**61.185.150**	**18.374.076**	**30,03%**

The chart shows an overall increase in the amounts owed by clients.

The chart below shows the operations which took place this year for devaluation of receivables:

	2017
At the beginning of the period	6.316.007
Provision	1.270.593
Amounts utilized and unused amounts reversed	-741.639
Other movements	-78.663
Translation adjustment	-62.235
At the end of the period	**6.704.063**

Breakdown of accounts receivables from third parties is shown below:

Accounts receivable from third parties	31/12/2017	31/12/2016
To expire	55.145.939	40.420.014
Overdue:		
0-30 days	12.175.695	10.152.012
31-60 days	4.121.581	2.919.923
61-90 days	1.499.436	1.607.120
91-180 days	3.161.495	2.792.423
Over 180 days	3.455.080	3.293.658
Total	**79.559.226**	**61.185.150**

The chart below shows the accounts receivables from third parties listed by type of currency:

Accounts receivable in:	31/12/2017	31/12/2016
Euros	47.524.082	37.144.391
USD	6.063.392	6.053.498
Other currencies	25.971.752	17.987.260
Total	**79.559.226**	**61.185.150**

The value in Euros shown in the chart for the receivables originally expressed in US dollars or other currency represents the amount in currency converted at the exchange rate in force on December 31st 2017 and December 31st 2016.

For a detailed analysis of the accounts and financial receivables from associated companies, please refer to the paragraph in the chapter titled "Related parties".

Tax receivables/Other receivables (note 7)

The chart below shows a breakdown of tax receivables and other receivables:

	31/12/2017	31/12/2016	Variation	Var. %
<u>Tax receivables</u>				
VAT receivables	5.195.999	4.351.545	844.454	19,41%
Income tax receivables	3.745.975	861.174	2.884.801	334,98%
Total	**8.941.974**	**5.212.719**	**3.729.255**	**71,54%**

<u>Current financial receivables</u>				
Financial receivables - third parties	154.725	149.849	4.876	3,25%
Financial receivables - associated	473.675	457.481	16.194	3,54%
Total	**628.400**	**607.330**	**21.070**	**3,47%**
<u>Other current receivables</u>				
Security deposits	568.414	276.582	291.832	105,51%
Advance payments to suppliers	5.482.706	3.840.092	1.642.614	42,78%
Other receivables	7.168.251	3.840.026	3.328.225	86,67%
Total	**13.219.371**	**7.956.700**	**5.262.671**	**66,14%**

Total Current financial receivables e Other current receivables	**13.847.771**	**8.564.030**	**5.283.741**	**61,70%**

	31/12/2017	31/12/2016	Variation	Var. %
Current derivative financial instruments (asset)	91.383		91.383	
Total	**91.383**		**91.383**	

The financial year closed with a VAT credit of over 5 million Euros which was mostly a result of the intense export activity of the Group.
Among the income tax receivables we have entered credits derived from the difference between the pre-existing tax credit or down payment and the tax debt which had matured by the date to which the financial statement refers. It also includes the credit due to the Parent Company and to some of the Italian subsidiaries from the tax authorities, for the amount of the reimbursement of the excess IRES taxes paid due to the failure to deduct the relative IRAP from the expenses for personnel and similar, in conformity with art. 2, sub-section 1-quater, D.L. 201/2011.

For a detailed analysis of financial and other receivables from associated companies, please consult the chapter titled "Related parties" in this document.

The increase under the heading of "Other receivables" refers mainly to the Chinese subsidiary Penta-Laser Equipment Wenzhou Co. Ltd.

The heading of "Current derivative financial instruments" includes the evaluation at fair value according to IAS 39 of the derivative contracts stipulated by the subsidiary With Us. In particular:

- The subsidiary in the preceding years has stipulated three *currency rate swap* derivative contracts for covering the risks of euro/yen exchange rates. The first contract expires in August of 2018, notional value on December 31st 2017 was 350.000 Euros, the fair value on December 31st was 28.765 Euros; the second contract expires in March 2019, notional value on December 31st 2017 was 750.000 Euros, the fair value was -678 Euros; the third contract expires in August of 2020, notional value on December 31st 2017 was 1.450.000 Euros and the fair value was 63.296 Euros.

Securities and other current financial assets (note 8)

	31/12/2017	31/12/2016	Variation	Var. %
Securities and other current financial assets				
Other current financial assets	2.036.433		2.036.433	
Total	**2.036.433**		**2.036.433**	

The amount entered under the heading of “Other current financial assets” consists of mutual funds held by the Parent Company El.En. S.p.A. acquired during the year for the purpose of temporary use of cash. These funds are evaluated at the market value on December 31st 2017 with the adaptation of the value registered in the income statement.

Cash and cash equivalents (note 9)

Cash and cash equivalents are composed as follows:

	31/12/2017	31/12/2016	Variation	Var. %
Bank and postal current accounts	97.297.871	97.547.718	-249.847	-0,26%
Cash on hand	53.608	41.727	11.881	28,47%
Total	**97.351.479**	**97.589.445**	**-237.966**	**-0,24%**

For an analysis of the variations in cash and cash equivalents, please refer to the cash flow statement.

Net financial position as of December 31st 2017

The net financial position of the Group as of December 31st 2017 was as follows (data in thousands of Euros):

Net financial position	**31/12/2017**	**31/12/2016**
Cash and bank	97.351	97.589
Financial instruments	2.036	0
Cash and cash equivalents	**99.388**	**97.589**
Current financial receivables	**155**	**150**
Bank short term loan	(8.230)	(7.991)
Part of financial long term liabilities due within 12 months	(932)	(2.621)
Financial short term liabilities	**(9.161)**	**(10.613)**
Net current financial position	**90.381**	**87.127**
Bank long term loan	(3.525)	(1.231)
Other long term financial liabilities	(2.350)	(3.111)
Financial long term liabilities	**(5.875)**	**(4.342)**
Net financial position	**84.506**	**82.784**

The net financial position of the Group increase by about 2 million Euros with respect to the closure of the financial year 2016.

The main cash flows and investments in 2017 were the increase in net working capital, dividends to third parties for a total of 9,4 million Euros and investments in tangible and intangible assets for over 5 million Euros.
The internal growth of the company is the strategic option which the Group is now pursuing: with current expenses for research and development and commercial promotions which are entered in the income statement and temporarily reduce the EBIT, technical investments for the factories, the increase in working capital is the other significant component for the investments sustaining growth.

It should also be recalled that 11,5 million Euros in cash was used for temporary financial investments, the nature of which requires that they be entered into accounts as non-current assets, and consequently excluded from the net financial position.

Information on the Consolidated Statement of financial position - Liabilities

Share Capital and Reserves

The main components of the shareholders' equity are shown below:

Share Capital (note 10)

As of December 31st 2017, the capital stock of the El.En Group, which coincides with that of the Parent Company, was as follows:

Authorized (to stock option plan service)	Euros	2.612.671
Underwritten and deposited	Euros	2.508.671

Nominal value of each share - Euros	***0,13***

Category	**31/12/2016**	**Increase**	**Decrease**	**31/12/2017**
No. of Ordinary Shares	19.297.472	0	0	19.297.472
Total	**19.297.472**	**0**	**0**	**19.297.472**

Shares are nominal and indivisible and each of them gives the holder the right to one vote in all the ordinary and extraordinary assemblies as well as the other financial and administrative rights granted in accordance with the law and the Statute. At least 5% of the net profits of the financial year must be set aside for the legal reserve in accordance with art. 2430 of the civil code. The remainder is distributed to the shareholders, unless the assembly votes otherwise. The Statute does not allow advance payments on the dividends. Dividends not cashed within five years from the date of emission are returned to the Company. No special statutory clauses exist with regard to the participation of shareholders in the remaining assets in the event of liquidation. No statutory clauses exist granting special privileges.

In implementation of the decision of the Extraordinary Shareholders' meeting of the Parent Company El.En. S.p.A. on May 12th 2016, starting on May 30th 2016 operations were begun for the splitting of 4.824.368 ordinary shares of El.En. S.p.A by cancellation of the ordinary shares with a nominal value of 0,52 Euros and issuing of new ordinary shares with a value of 0,13 Euros each.
The splitting operation took place on June 1st 2016 by assigning 4 new ordinary shares of El.En. S.p.A stock for each old ordinary share of El.En. SpA.
The capital stock that remains unchanged at a nominal value of 2.508.671,36 Euros, is therefore represented by 19.297.472 ordinary shares having a nominal value of 0,13 Euros each.

Increase in the capital in the stock option plan service
The extraordinary shareholders' meeting of the Parent Company El.En. S.p.A. held on May 12th 2016, in compliance with art. 2443, II sub-section, CC., voted to authorize the Board of Directors to increase, in one or more operations and even separately, within five years after the authorization, the capital stock up to a maximum of nominal 104.000,00 Euros by issuing new shares intended for underwriting by the beneficiaries of the stock option plan for 2016-2025.
On September 13th 2016, the Board of Directors of the Company, following a recommendation of the Remuneration Committee, voted on the implementation of the stock option plan for 2016-2025 ("Stock Option Plan 2016-2025") in compliance with the mandate conferred to them by the Shareholders' meeting mentioned above and identified the beneficiaries of the plan, the number of options to be assigned, the temporal limits for picking up the options, and the price of underwriting them.
The Board, in compliance with art. 2443, II sub-section, CC., also executed the mandate conferred upon them by the Assembly, to increase, upon payment, entirely and exclusively for use in the stock option plan, separately and with the exclusion of the option right described in art. 2441, sub-section V, CC, the capital stock, by 104.000,00 Euros by issuing 800.000 ordinary shares which can be underwritten by the administrators, collaborators and employees of El.En.

S.p.A. and the companies it controls who are the beneficiaries of the stock options included in the above mentioned Plan.
The options may be picked up by the beneficiaries in conformity to the terms and conditions stated in the regulations of the Plan which was definitively approved on September 13th in two equal sections: the first from September 14th 2019 until December 31st 2025, and the second from September 14th 2020 until December 31st 2025.
The plan will terminate on December 31st 2025 and the options that have not been picked up before that date will expire permanently; the capital will be definitively increased for the amount actually underwritten and released by that date.

Additional paid in capital (note 11)

On December 31st 2017 the share premium reserve, coinciding with that of the Parent Company, amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2016.

Other reserves (note 12)

	31/12/2017	31/12/2016	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	95.059.871	61.267.908	33.791.963	55,15%
Cumulative translation adjustment	-417.403	-50.751	-366.652	722,45%
Stock option/ stock based compensation reserve	2.931.557	2.068.895	862.662	41,70%
Special reserve for grants received	426.657	426.657		0,00%
Other reserves	-126.643	-112.713	-13.930	12,36%
Total	**98.411.341**	**64.137.298**	**34.274.043**	**53,44%**

On December 31st 2017 the "extraordinary reserve" amounted to 95.060 thousand Euros; the increase with respect to December 31st 2016 is due to the allocation of part of the net income for the year by the Parent Company El.En. Spa, in compliance with the resolution taken by the Shareholders' meeting on May 15th 2017.

The reserve for *stock options/stock based compensation* includes the costs that had been determined in compliance with IFRS 2 of the stock option plans assigned by the Parent Company El.En. S.p.A. and those entered by the subsidiary Penta-Laser Equipment Wenzhou Co., Ltd calculated after the increase in capital reserved for managers and underwritten at the end of the year (*stock based compensation).* The evaluation of this latter underwriting occurred according to the methods described in "staff costs" (Note 26).

The conversion reserve summarizes the effects of the variations in the exchange rate on the investments in foreign currency. The effects for the year 2017 are shown in the column " Comprehensive (loss) income " in the shareholders' equity chart.

The reserve for contributions in capital account must be considered a reserve of profits and is unchanged with respect to last year.

The heading "Other reserves" includes among other things the reserve related to the evaluation of the severance indemnity fund in conformity with standard IAS 19.

Treasury Stock (note 13)

The resolution taken by the Shareholders' meeting of the Parent Company El.En. S.p.A on April 28th 2015 to authorize the Board of Directors to purchase treasury stock definitively expired in the month of October 2016 without any purchase having been made. Consequently, at this time, El.En. S.p.A. does not own any treasury stock.

Retained earnings (note 14)

This category includes a synthesis of the contribution of all the consolidated companies to the shareholders' equity of the Group.

Non-current liabilities

Severance indemnity (note 15)

The chart below shows the operations which have taken place during this financial period.

31/12/2016	Provision	(Utilization)	Payment to complementary pension forms, to INPS fund and other movements	31/12/2017
3.860.583	1.541.521	-634.173	-551.394	4.216.537

The severance indemnity represents an indemnity which is matured by the employees during their period of employment and which is paid upon termination of employment.

For IAS purposes the payment of a severance indemnity represents a "long term benefit subsequent to the termination of employment"; this is an obligation of the "defined benefit" type which entails entering a liability similar to that entered for defined benefit pension plans.
As far as the companies located in Italy are concerned, after the modifications to the severance indemnity in conformity with the Law of December 27th 2006 (and later modifications), for IAS 19 purposes, only the liability relative to the matured severance provision left in the company has been evaluated because the quota maturing has been paid to a separate entity (complementary pension type). Also for employees who have explicitly decided to keep the indemnity provision in the company, the indemnity matured since January 1st 2007 has been paid into the treasury Fund managed by INPS. This provision, according to the financial law 2007, guarantees the employees working in the private sector the payment of the severance indemnity for the amount corresponding to the payments deposited to the latter.

The present value of the liabilities for the severance fund that remains in the companies of the Group on December 31st 2017 amounted to 4.201 thousand Euros.

The hypotheses used to establish the indemnity plan are summarized in the chart below.

Financial hypotheses	Year 2016	Year 2017
Annual implementation rate	1,31%	1,30%
Annual inflation rate	0,5% (from 2017 to 2020) 1% (from 2021 to 2023) 1,5% (for the remainder of the projection period)	1,50%
Annual increase rate of salaries (including inflation)	Executives 2,00% White collar workers 0,50% Blue collar workers 0,50%	Executives 2,00% White collar workers 0,50% Blue collar workers 0,50%

The interest rate used to determine the present value of the liability was based on the rate of iBoxx corporate AA 10+ for the amount of 1,30% in conformity with the criteria used last year.

The amount entered in the column "Payment to complementary pension forms, to INPS fund and other movements" of the chart showing the activity in the severance indemnity fund mostly represents the severance indemnity quotas deducted from the fund because they were intended for other additional non-company funds or to the treasury Fund managed by INPS (with particular reference to the Parent Company El.En and the subsidiary Quanta System), in accordance with the choices made by the employees and the amount of actuarial gain or loss shown during the year.

Analysis of deferred tax assets and liabilities (note 4) (note 16)

Deferred tax assets and liabilities are accrued on the temporary differences between assets and liabilities recognized for fiscal purposes and those entered into accounts.

The breakdown is as follows:

	31/12/2016	Provision	(Utilization)	Other movements	Translation adjustment	31/12/2017
Deferred tax assets on inventory devaluation	2.062.039	149.714	(24.141)	-	(11.197)	2.176.415
Deferred tax assets on warranty reserve	425.044	40.765	(11.178)	-	(12.841)	441.789
Deferred tax assets on bad debt reserve	962.780	315.994	(303.746)	-	(6.304)	968.724
Deferred tax assets on losses carryforwards	16.862	-	(3.079)	-	-	13.783
Deferred tax assets on intercompany profits and consolidation adjust.	1.021.877	-	(162.924)	-	(2.217)	856.736
Other deferred tax assets and on IAS adjust.	2.037.393	53.449	(215.256)	31.897	(95.835)	1.811.648
Total	**6.525.995**	**559.922**	**(720.324)**	**31.897**	**(128.394)**	**6.269.095**
Deferred tax liabilities on advance depreciations	135.171	-	-	-	-	135.171
Deferred tax liabilities on grants on capital account	236.049	10.990	(51.971)	-	-	195.068
Other deferred tax liabilities and on IAS adjust.	1.235.826	181.822	(213.720)	-	(51.076)	1.152.851
Total	**1.607.046**	**192.812**	**(265.691)**	**-**	**(51.076)**	**1.483.090**
Net	4.918.949	367.110	(454.633)	31.897	(77.318)	4.786.005

Deferred tax assets amounted to about 6.269 thousand Euros. The deferred tax assets calculated on inventory devaluations of the various companies increased as did the deferred tax assets related to the bad debt reserve and product guarantees. The inter-Group profits decreased and so the consequent deferred tax assets.

Deferred tax liabilities amounted to 1.483 thousand Euros. The variations in the “other deferred tax liabilities” are related, among other things to an evaluation for tax purposes of some LIFO evaluated inventories and to the exchange gain/loss which were not realized. The increase in the heading of “Deferred tax liabilities on grants on capital account” was due to the taxation on some grants in capital account received in the previous years and which, for tax purposes, were deferred in compliance with the laws now in force.

Under the column of “other movements” for both categories we have entered, among other things, the deferred taxes on the severance fund which were entered directly under the heading of *Other Comprehensive Income* (“OCI”).

Other accruals (note 17)

The chart below shows the operations made with other accruals:

	31/12/2016	Provision	(Utilization)	Other movements	Translation adjustment	31/12/2017
Reserve for pension costs and similar	879.676	200.205	-167.312			912.570
Warranty reserve on the products	2.219.152	954.038	-635.245		-76.533	2.461.413
Reserve for risks and charges	415.469		-17.800			397.669
Other minor reserves		25.000				25.000
Total	**3.514.297**	**1.179.243**	**-820.357**		**-76.533**	**3.796.652**

The clients’ agents’ indemnity fund which is included under the heading of “Reserve for pension funds and similar” on December 31st 2017, amounted to 883 thousand Euros as opposed to the 839 thousand Euros on December 31st 2016. According to IAS 37 the amount due must be calculated using actualization techniques in order to estimate as closely as possible the overall costs to be sustained for the payment to the agents of benefits after the termination of employment.

The technical evaluations were made on the basis of the hypotheses described below.

Financial hypotheses	Year 2016	Year 2017
Annual implementation rate	1,31%	1,30%
Annual inflation rate	0,5% (from 2017 to 2020) 1% (from 2021 to 2023) 1,5% (for the remainder of the projection period)	1,50%

The reserve for product guarantees is calculated on the basis of the costs for spare parts and servicing under warranty incurred in the previous financial year, adjusted to the volume of sales of the current financial year.

Financial debts and liabilities (note 18)

Financial m/l term debts	31/12/2017	31/12/2016	Variation	Var. %
Amounts owed to banks	3.525.342	1.231.152	2.294.190	186,34%
Amounts owed to leasing companies	1.278.898	1.872.133	-593.235	-31,69%
Amounts owed to other financiers	1.070.936	1.238.789	-167.853	-13,55%
Total	**5.875.176**	**4.342.074**	**1.533.102**	**35,31%**

The mid- to long-term debts owed to banks as of December 31st 2017 mostly represent the amounts due after one year for:

a) bank financing which was granted to Asclepion GmbH for the construction of the building where the company is now operating and for sustaining their export activities;
b) bank financing granted to With Us divided as shown below:
- 12.515 thousand Yen falling due March 31st 2020 at the annual interest rate of 0,85%;
- 12.500 thousand Yen falling due March 31st 2020 at the annual interest rate of 1,13%
- 65.000 thousand Yen falling due February 28th 2022 at the annual interest rate of 0,60%;

c) bank financing granted to Penta-Laser Equipment Wenzhou Co. Ltd as shown below:
- 7.500 thousand Rmb falling due July 7th 2019 at the annual rate of 4,75%;
- 9.000 thousand Rmb falling due August 2nd 2019 at the annual rate of 4,75%.

The amounts owed to other financiers consist, among others, of the quotas due after more than one year for:

a) Facilitated financing for applied research (FEMTO project) issued by MIUR to the subsidiary Quanta System S.p.A. for a total of 806.300 Euros at the annual interest rate of 0,50% to be paid back in 17 half-yearly installments with the last installment on July 1st 2020;
b) Financing issued by Mediocredito to the subsidiary Lasit for a research project for the amount of 272.000 at the annual rate of 0,36% to be paid back in annual installments starting in March 2018, last installment March 8th 2025;
c) Financing issued by Monte dei Paschi di Siena to the subsidiary Lasit for the purchase of motor vehicles for a total of 114.000 Euros at the rate of Euribor 6M + 2,75% to be paid back in quarterly installments starting on March 2017, last installment September 30th 2021;
d) Facilitated financing for applied research (MILORD project), issued by FidiToscana to the Parent Company El.En. SpA for a total of 488.285,25 Euros, to be paid back in 6 half-yearly installments starting on April 2020, last installment October 31st, 2022.

Current liabilities

Financial debts (note 19)

Below, a breakdown of the financial debts is given:

Financial short term debts	31/12/2017	31/12/2016	Variation	Var. %
Amounts owed to banks	8.229.616	7.991.300	238.316	2,98%
Amounts owed to leasing companies	585.510	610.035	-24.525	-4,02%
Amounts owed to other financiers	346.181	1.734.919	-1.388.738	-80,05%
Total	**9.161.307**	**10.336.254**	**-1.174.947**	**-11,37%**

	31/12/2017	31/12/2016	Variation	Var. %
Current liabilites for derivative financial instruments		276.502	-276.502	-100,00%
Total		**276.502**	**-276.502**	**-100,00%**

The heading of “Amounts owed to banks” is mainly composed of:

- debts for advance payments on invoices of the subsidiary Esthelogue Srl;
- short-term quota on the financing granted to Asclepion (see note 18);
- short term quota on the financing contracted by With Us (see note 18);
- short-term financing contracted by Penta-Laser Equipment Wenzhou Co for about 2.209 thousand Euros (corresponding to about 17,2, million Yuan) 5 million Yuan of which expire in May 2018, at the annual rate of 4,54% and 6,8 million Yuan of which expire in the month of February 2018 at the annual rate of 4,35%; with 4,3 million Yuan coming due in the month of January 2018 at the annual rate of 2,39% and 1.1 million Yuan coming due in June 2018 at the annual rate of 2,32%;
- bank financings contracted by Penta Chutian Laser (Wuhan) Co. Ltd for about 2,9 million Euros, corresponding to about 23 million Yuan of which 22 million at the annual rate of 6,90% and 1 million at the annual rate of the PBC (Central Bank of China) increased by 1,5%;
- bank financing granted to the subsidiary Quanta System SpA by Credem for a total of 1.000.000 Euros at the annual rate of 0,2% granted for operational reasons.

The category of “amounts owed to other financers” includes the short term quotas of the financing described in the preceding note.

The heading of “Current liabilities for derivative financial instruments” included in 2016 the evaluation at fair value according to IAS 39 of the derivatives initiated by With Us, which in 2017 gave rise to a receivable and consequently is commented on in note (7).

Accounts payable (nota 20)

	31/12/2017	31/12/2016	Variation	Var. %
Accounts payable	63.257.059	44.693.970	18.563.089	41,53%
Total	**63.257.059**	**44.693.970**	**18.563.089**	**41,53%**

No significant amounts owed on overdue debts for supplies were recorded at the end of the year.

The increase shown under the heading of “Amounts owed to suppliers” refers mainly to the subsidiary Penta-Laser Equipment Wenzhou Co. Ltd, as a result of the increase in its volume of business.

The chart below shows the accounts payable to third parties for 2017 divided according to the currency.

Accounts payable in:	31/12/2017	31/12/2016
Euros	39.119.306	30.089.677
USD	1.644.590	2.049.391
Other currencies	22.493.163	12.554.902
Total	**63.257.059**	**44.693.970**

On the chart, the value in Euros of the debts originally expressed in US dollars or other currencies represents the amount in currency converted at the exchange rate in force on December 31st 2017 and December 31st 2016.

Income tax payables /Other current payables (note 21)

The income tax debts matured for some of the companies belonging to the Group on December 31st 2017 amounted to 1.654 thousand Euros and are entered net of the down payments and deductions.

The subdivision of the other debts is as follows:

	31/12/2017	31/12/2016	Variation	Var. %
Social security debts				
Debts to INPS	2.608.868	2.432.679	176.189	7,24%
Debts to INAIL	169.451	168.105	1.346	0,80%
Debts to other Social Security Institutions	454.999	373.716	81.283	21,75%
Total	**3.233.318**	**2.974.500**	**258.818**	**8,70%**
Other debts				
Debts to the tax authorities for VAT	2.055.551	792.649	1.262.902	159,33%
Debts to the tax authorities for withholding	1.840.463	1.723.718	116.745	6,77%
Other tax liabilities	223.613	71.876	151.737	211,11%
Debts to staff for wages and salaries	10.250.824	8.457.284	1.793.540	21,21%
Down payments	11.319.402	9.917.872	1.401.530	14,13%
Other debts	12.282.040	11.134.373	1.147.667	10,31%
Total	**37.971.893**	**32.097.772**	**5.874.121**	**18,30%**
Total Social security debts e Other debts	**41.205.211**	**35.072.272**	**6.132.939**	**17,49%**

The amounts owed to staff include, among other things, the debts for deferred salaries of personnel employed as of December 31st 2017.

The entry of "Down payments" consists of down payments received from clients for orders received; the increase refers in particular to the Chinese subsidiaries Penta Chutian Laser (Wuhan) Co., Ltd and Penta-Laser Equipment Wenzhou Co., Ltd.

The entry of "Other debts" includes, among other things, the deferred income calculated on the grants received by the subsidiary Penta Laser Equipment (Wenzhou) Co. Ltd, to sustain the new production center and the research and development activities. This subsidiary company shows the greatest increase in this category.

Analysis of debts by due date

	31/12/2017			31/12/2016		
	<= 1 year	**>1 year <= 5 years**	**> 5 years**	**<= 1 year**	**>1 year <= 5 years**	**> 5 years**
Amounts owed to banks	8.229.616	3.223.652	301.690	7.991.300	843.252	387.900
Amounts owed to leasing companies	585.510	1.278.899	-	610.035	1.872.134	-
Current liabilites for derivative financial instruments	-	-	-	276.502	-	-
Amounts owed to other financiers	346.181	968.091	102.845	1.734.919	939.125	299.664
Accounts payable	63.257.059			44.693.970		
Income tax payables	1.654.248			4.285.066		
Social security debts	3.233.318			2.974.500		
Other debts	37.971.893			32.097.772		
Total	**115.277.825**	**5.470.642**	**404.535**	**94.664.064**	**3.654.511**	**687.564**

Segment information -IFRS8

The segments identified by the Group that are shown below in compliance with IFRS 8, are those shown below along with the amounts associated with them in the financial statement.

31/12/2017		Total	Medical	Industrial	Other
Revenues		307.949	174.416	132.273	1.260
Intersectorial revenues		(1.488)		(228)	(1.260)
Net Revenues		306.461	174.416	132.045	
Other revenues and income		4.264	1.608	2.359	298
Gross Margin		127.284	83.881	43.106	298
	Inc.%	*41%*	*48%*	*32%*	*100%*
Margin		43.385	28.504	14.583	298
	Inc.%	*14%*	*16%*	*11%*	*100%*
Not assigned charges		12.936			
EBIT		30.449			
Net financial income (charges)		(3.365)			
Share of profit of associated companies		(430)	(425)	(0)	(5)
Other Income (expense) net		564			
Income (loss) before taxes		27.217			
Income taxes		6.807			
Income (loss) before minority interest		20.410			
Minority interest		4.776			
Net income (loss)		15.634			

31/12/2016		Total	Medical	Industrial	Other
Revenues		254.135	166.056	86.790	1.289
Intersectorial revenues		(1.489)		(200)	(1.289)
Net Revenues		252.646	166.056	86.590	
Other revenues and income		3.224	805	1.162	1.257
Gross Margin		110.533	81.896	27.380	1.257
	Inc.%	*43%*	*49%*	*31%*	*100%*
Margin		37.995	31.920	4.818	1.257
	Inc.%	*15%*	*19%*	*5%*	*100%*
Not assigned charges		10.401			
EBIT		27.594			
Net financial income (charges)		1.933			
Share of profit of associated companies		186	189	0	(4)
Other Income (expense) net		23.009			
Income (loss) before taxes		52.721			
Income taxes		9.728			
Income (loss) before minority interest		42.993			
Minority interest		2.586			
Net income (loss)		40.408			

31/12/2017	Total	Medical	Industrial	Other
Assets assigned	252.644	129.811	122.833	
Equity investments	3.010	2.747	264	
Assets not assigned	79.292			
Total assets	334.945	132.557	123.097	0
Liabilities assigned	97.772	29.276	68.496	
Liabilities not assigned	32.877			
Total liabilities	130.649	29.276	68.496	0

31/12/2016	Total	Medical	Industrial	Other
Assets assigned	212.939	121.490	91.449	
Equity investments	3.564	3.301	263	
Assets not assigned	84.184			
Total assets	300.687	124.791	91.713	0
Liabilities assigned	74.926	27.378	47.548	
Liabilities not assigned	33.062			
Total liabilities	107.988	27.378	47.548	0

31/12/2017	Total	Medical	Industrial	Other
Changes in fixed assets:				
- assigned	(1.079)	78	(1.157)	
- not assigned	1.003			
Total	(75)	78	(1.157)	0

31/12/2016	Total	Medical	Industrial	Other
Changes in fixed assets:				
- assigned	7.196	2.349	4.847	
- not assigned	(163)			
Total	7.033	2.349	4.847	0

Information according to the geographical area

31/12/2017	Total	Italy	Europe	Row
Revenues	306.461	60.038	52.839	193.584

31/12/2016	Total	Italy	Europe	Row
Revenues	252.646	46.983	43.832	161.831

31/12/17	Total	Italy	Europe	Row
Assets assigned	331.358	227.516	21.148	82.694
Equity investments	3.587	1.852	0	1.735
Total assets	334.945	229.368	21.148	84.429
Liabilities assigned	130.649	66.026	10.066	54.557
Total liabilities	130.649	66.026	10.066	54.557

31/12/16	Total	Italy	Europe	Row
Assets assigned	296.870	212.551	19.048	65.271
Equity investments	3.818	1.491	0	2.326
Total assets	300.687	214.042	19.048	67.597
Liabilities assigned	107.988	58.211	8.474	41.303
Total liabilities	107.988	58.211	8.474	41.303

31/12/17	Total	Italy	Europe	Row
Changes in fixed assets:				
- assigned	(75)	1.073	138	(1.286)
Total	(75)	1.073	138	(1.286)

31/12/16	Totale	Italia	Europa	Row
Changes in fixed assets:				
- assigned	7.033	1.862	7	5.164
Total	7.033	1.862	7	5.164

Information on the consolidated Income Statement

Revenue (note 22)

The chart below shows the sub-division of the sales volume for 2017 among the activity sectors of the Group compared with te same data for last year and shows the good overall growth mainly generated by the the exceedingly rapid expansion of the industrial sector.

	31/12/2017	31/12/2016	Variation	Var. %
Medical	174.415.918	166.056.243	8.359.675	5,03%
Industrial	132.045.100	86.590.015	45.455.085	52,49%
Total revenue	**306.461.018**	**252.646.258**	**53.814.760**	**21,30%**

Other income (note 23)

The analysis of the other income is as follows:

	31/12/2017	31/12/2016	Variation	Var. %
Insurance refunds	56.663	19.633	37.030	188,61%
Recovery of expenses	1.136.511	954.059	182.452	19,12%
Capital gains on disposal of fixed assets	108.879	66.555	42.324	63,59%
Other income	2.962.265	2.183.205	779.060	35,68%
Grants related to income		450	-450	-100,00%
Total	**4.264.318**	**3.223.902**	**1.040.416**	**32,27%**

The heading of “Recovery of expenses” refers mainly to reimbursements for shipping costs.
The entry “Other income” consists for the most part of grants for research projects for 298 thousand Euros and federal grants related both to the new production center and to the research projects for an amount of about 2.419 thousand Euros entered by the Chinese subsidiary Penta Laser Equipment Wenzhou Co. Ltd.

Costs for the purchase of goods (note 24)

The analysis is shown on the following chart:

	31/12/2017	31/12/2016	Variation	Var. %
Purchases of raw materials and finished products	162.880.401	125.729.268	37.151.133	29,55%
Packagings	1.369.890	1.380.002	-10.112	-0,73%
Shipping charges on purchases	1.049.000	1.093.446	-44.446	-4,06%
Other purchase expenses	464.330	624.697	-160.367	-25,67%
Other purchases	930.818	808.192	122.626	15,17%
Total	**166.694.439**	**129.635.605**	**37.058.835**	**28,59%**

The costs for purchase of goods as of December 31st 2017 were 166.694 thousand Euros compared with 129.635 thousand Euros, showing an increase of 28,59% over last year.

Direct services/ Other operating services and charges (note 25)

Breakdown of this category is shown on the chart below:

	31/12/2017	31/12/2016	Variation	Var. %
Direct services				
Outsourced processing	5.604.215	5.407.506	196.709	3,64%
Technical services	785.371	803.106	-17.735	-2,21%
Shipment charges on sales	2.680.101	2.467.625	212.476	8,61%
Commissions	11.617.279	10.296.139	1.321.140	12,83%
Royalties	1.590	3.847	-2.257	-58,67%
Travel expenses for technical assistance	992.558	936.622	55.936	5,97%
Other direct services	936.955	774.644	162.311	20,95%
Total	**22.618.069**	**20.689.489**	**1.928.580**	**9,32%**
Other operating services and charges				
Maintenance and technical assistance on equipment	651.369	493.028	158.341	32,12%
Commercial services and consulting	1.480.981	1.408.386	72.595	5,15%
Legal and administrative services and consulting	1.479.368	1.271.406	207.962	16,36%
Audit fees	342.590	291.038	51.552	17,71%
Insurances	783.861	728.558	55.303	7,59%
Travel and accommodation expenses	3.690.174	3.167.691	522.483	16,49%
Trade shows	3.183.987	3.063.723	120.264	3,93%
Promotional and advertising fees	4.869.071	4.431.622	437.449	9,87%
Expenses related to real estate	2.147.943	1.985.945	161.998	8,16%
Other taxes	537.939	333.087	204.852	61,50%
Vehicles maintenance expenses	1.416.846	1.199.828	217.018	18,09%
Office supplies	440.473	403.142	37.331	9,26%
Hardware and Software assistance	633.089	520.777	112.312	21,57%
Bank charges	334.185	292.306	41.879	14,33%
Leases and rentals	2.478.693	2.259.544	219.149	9,70%
Salaries and indemnity to the Board of Directors and Board of Auditors	2.486.675	2.550.416	-63.741	-2,50%
Temporary employment	500.915	412.860	88.055	21,33%
Other services and charges	9.609.824	7.216.539	2.393.285	33,16%
Total	**37.067.983**	**32.029.896**	**5.038.087**	**15,73%**

The most significant change in the category of “Direct services” are related to “Shipment charges on sales” and “Commissions” due to the increase in production and sales and the costs for “Other direct services” for the increase in technical and marketing consultants.

The single most important entries under the category of “Other operating services and charges” are represented by the promotional and publicity expenses, travels, trade shows, while for the heading “Other services and charges” the main costs refer to the cost for technical and scientific consultants for an amount of 1.715 thousand Euros and for study and research for an amount of about 2.169 thousand Euros.
For the costs of Research and Development, please consult the Management Report.

Future commitments for use of goods belonging to others

The chart below shows a summary of the obligations that the Group will have for the use of goods belonging to others.

Operating lease commitments	31/12/2017	31/12/2016
<= 1 year	1.577.710	1.729.292
>1 year <= 5 years	2.173.232	2.683.138
> 5 years	88.856	137.211
Total	3.839.798	4.549.641

Staff costs (note 26)

The chart below shows the costs for staff:

	31/12/2017	31/12/2016	Variation	Var. %
Wages and salaries	41.240.340	35.713.798	5.526.542	15,47%
Social security contributions	9.573.815	8.743.265	830.550	9,50%
Severance indemnity	1.491.155	1.327.477	163.678	12,33%
Staff costs for stock options/stock based compensation	1.492.825	206.899	1.285.926	621,52%
Other costs	292.846	124.249	168.597	135,69%
Total	**54.090.981**	**46.115.688**	**7.975.293**	**17,29%**

The costs for personnel was 54.091 thousand Euros, showing an increase of 17,3% over the 46.116 thousand Euros for last year. The increase was due mainly to the increase in the number of employees both in the subsidiaries in Italy and abroad which rose from 1.093 employees as of December 31st 2016 to 1.212 on December 31st 2017.

The entry of "Stock costs for stock options/stock based compensation" includes the figurative costs for the stock options assigned by the Parent Company to some employees of the Group and to the figurative costs accounted by the subsidiary Penta Laser Wenzhou and related to the increase in capital made at the end of the year and reserved to some of the managers. The evaluation related to this latter underwriting was determined by actualizing, using a rate that reflects the risk profiles specific to the sectors to which they belong, the expected cash flows on the basis of economic projections which reflect the inertial strategies in the market of industrial lasers.

Depreciation, amortization and other accruals (note 27)

The table below shows the breakdown for this category:

	31/12/2017	31/12/2016	Variation	Var. %
Amortization of intangible assets	330.996	292.123	38.873	13,31%
Depreciation of tangible assets	3.502.195	3.305.191	197.004	5,96%
Devaluation (Rival.) of fixed assets	60.900	63.391	-2.491	-3,93%
Accrual for bad debts	1.175.918	397.737	778.181	195,65%
Accrual for risks and charges	605.891	735.207	-129.316	-17,59%
Total	**5.675.900**	**4.793.649**	**882.251**	**18,40%**

The accrual for bad debts showed an increase with respect to last year due to the increase in devaluations made for cautionary purposes on some of the receivables.

Financial income and charges and Exchange gain (loss)(note 28)

The breakdown of the category is as follows:

	31/12/2017	31/12/2016	Variation	Var. %
Financial income				
Interests on bank and postal deposits	527.334	367.790	159.544	43,38%
Dividends from other investments	10.506		10.506	
Financial income from associated companies	13.773	6.621	7.152	108,02%
Interests from current securities and financial assets	209.199	203.356	5.843	2,87%
Capital gain and other income from current securities and financial assets	21.553	50.163	-28.610	-57,03%
Other financial income	123.600	79.883	43.717	54,73%
Total	**905.965**	**707.813**	**198.152**	**27,99%**
Financial charges				
Interests on bank debts and on short term loans	299.253	395.596	-96.343	-24,35%
Interests on bank debts and on other m/l term loans	7.939	13.408	-5.469	-40,79%
Capital losses and other charges on current securities and financial assets		899	-899	-100,00%
Other financial charges	317.940	211.450	106.490	50,36%
Total	**625.132**	**621.353**	**3.779**	**0,61%**
Exchange gain (loss)				
Exchange gains	760.601	4.071.886	-3.311.285	-81,32%
Exchange losses	-4.773.078	-2.042.346	-2.730.732	133,71%
Gains on derivative financial instruments	366.644		366.644	
Losses on derivative financial instruments		-182.582	182.582	-100,00%
Total	**-3.645.833**	**1.846.958**	**-5.492.791**	**-297,40%**

The “interests from current securities and financial assets” refer to the maturity of the interest on the insurance policies underwritten by the Parent Company. The “interests on bank debts and on short term loans” refers mainly to overdrafts granted by credit institutions to some of the foreign subsidiaries.

The category of “Other financial charges” includes the amount of about 50 thousand Euros for the interests charges deriving from the application of the IAS 19 accounting standard to the severance indemnity; the “gain on derivative financial instruments” are related to the evaluation of the derivative currency swap rate contracts stipulated by the subsidiary With Us in conformity with IAS 39.

Other non-operating income and charges (note 29)

	31/12/2017	31/12/2016	Variation	Var. %
Other non operating charges				
Capital losses on equity investments		3.653	-3.653	-100,00%
Devaluation of equity investment		7.003	-7.003	-100,00%
Total		**10.656**	**-10.656**	**-100,00%**
Other non operating income				
Capital gains on equity investments	563.655	23.017.500	-22.453.845	-97,55%
Other non recurring income		1.682	-1.682	-100,00%
Total	**563.655**	**23.019.182**	**-22.455.527**	**-97,55%**

It should be recalled that in the month of April of last year the Parent Company El.En S.p.A. sold 998.628 Cynosure Inc. (Nasdaq CYNO) shares on the stock market, at the price of about 45,10 US dollars a share, net of sales commissions, for a total amount of 45 million US dollars. The gross consolidated capital gains registered in the income statement for this operation was registered under the heading of “capital gains on equity investments” for the amount of 23 million Euros.

Income taxes (nota 30)

	31/12/2017	31/12/2016	Variation	Var. %
IRES and other foreign income taxes	6.464.213	9.175.237	-2.711.024	-29,55%
IRAP Tax	957.604	907.044	50.560	5,57%
Deferred IRES taxes	68.633	-126.121	194.754	-154,42%
Deferred IRAP taxes	18.889	19.158	-269	-1,40%
Income tax receivable	-805.988	-221.452	-584.536	263,96%
Other income tax	101.946	-4.987	106.933	-2144,24%
Previous years tax	2.052	-20.540	22.592	-109,99%
Total	**6.807.349**	**9.728.339**	**-2.920.990**	**-30,03%**

The costs for current and deferred taxes this year is 6.807.349 Euros.

The chart below shows the reconciliation between the theoretical fiscal aliquots and the actual aliquot limited to the income tax of the companies (IRES) and similar.

	2017	2016
Profit/loss before taxes	27.217.469	52.721.468
Theoretical IRES Aliquot	24,00%	27,50%
Theoretical IRES	6.532.192	14.498.404
Higher (lower) fiscal incidence of the foreign companies with respect to the theoretical aliquot	(333.520)	509.697
One time income tax charges	2.052	(20.540)
Tax credits	(805.988)	(221.452)
Participation exemption	(127.527)	(6.012.441)
Higher (lower) fiscal incidence of Italian companies with respect to the theoretical aliquot	(544.428)	(449.609)
Higher (lower) fiscal incidence due to the effects of consolidation	1.108.074	411.476
Actual IRES	5.830.856	8.715.535
Actual IRES aliquot	21,42%	16,53%

The tax rate for 2016 was positively influenced by the partial exemption (PEX) of the capital gains earned from the sale of the last block of Cynosure shares.

Earnings per share (note 31)

The average weighted number of shares in circulation this year remained constant and amounted to 19.297.472 ordinary shares. The profits per share on December 31st 2017 therefore amounted to 0,81 Euros. The diluted profit per share, which takes into consideration also the stock option assigned last year, was 0,78 Euros.

Dividends distributed (note 32)

The shareholders' meeting of El.En. S.p.A. held on May 12th 2016 voted to distribute a dividend of 1,20 Euros per share for each of the 4.824.368 shares in circulation on the date the coupon came due. The dividend that was paid amounted to 5.789.241,60 Euros.

The shareholders' meeting of El.En. S.p.A. held on May 15th 2017 voted to distribute a dividend of 0,40 Euros per share for each of the 19.297.472 shares in circulation on the date the coupon came due. The dividend that was paid amounted to 7.718.988,80 Euros.

Other components of the statement of comprehensive income (note 33)

With reference to December 31st 2016 the entry in the category of "Unrealized gain (loss) on investment available for sale" (-23.776 thousand Euros) is related to the release of the reserve created for the evaluation at fair value (net of fiscal effects) of the remaining 998.628 Cynosure shares which were sold in the month of April 2016.

Non-recurring significant, atypical and unusual events and operations (note 34)

In compliance with Consob Communication DEM/6064293 of July 28th 2006, we declare that last year and during this year the Group did not conduct any significant non-recurring, atypical or unusual operations, as defined in the aforementioned Communication.

Information about related parties (note 35)

Related parties are identified in compliance with the international accounting standard IAS 24. In particular, the following subjects are considered related parties:
- the subsidiary and associated companies;
- the members of the Board of Directors and Board of Statutory Auditors of the Parent company, the General Manager and the other executive directors with strategic responsibilities;
- the individuals holding shares in the Parent company El. En. S.p.A;
- the legal bodies of which a significant number of shares is owned by one of the main shareholders of the Parent company, by a member of the Board of Directors of the Parent company, by a member of the Board of Statutory Auditors, by any other of the executives with strategic responsibilities.

One of the Managing Directors, the majority shareholder of the Parent company, has an outright ownership of a 25% quota of Immobiliare del Ciliegio Srl, also a shareholder of the Parent Company.
All the transactions with related parties took place at normal market conditions.

In particular, the paragraphs below give important information about the related parties.

<u>The Members of the Board of Directors and the Board of Statutory Auditors and other strategic executives of the Parent Company</u>

In compliance with *Consob regulation 11971/99 (Regolamento Emittenti*) the salaries paid to the members of the Board of Directors and the Board of Statutory Auditors, the General Director and the managers with strategic responsibilities and the equities held by them are shown in the "Report on Remuneration ex artt. 123-*ter* T.U.F. e 84-*quater* Reg. Consob 11971/1999" which, in compliance with the law is made available and can be consulted on the internet site www.elengroup.com – section "Investor relations/Governance/Company documents".

It should be noted that to the President of the technical and scientific committee of El.En. S.p.A., Professor Leonardo Masotti, was paid a fixed amount of 7.000 Euros, besides the incentive bonus of 44.406,00 Euros. Moreover, as president of the Board of Directors of Deka MELA S.r.l. he received a salary of 21.000 Euros and, as a member of the Board of Directors of With Us Co. Ltd he received the amount of 1.500 thousand yen. As part of the stock option plan for 2016-2025, he received the options that were granted to him when the plan was set up, as per the information report issued in compliance with art. 84-*bis Regolamento Emittenti Consob*, deposited at company Headquarters and published on the internet site www.elengroup.com in the section called "Investor Relations/Governance/Company Documents/Stock option plan 2016-2015" as well as the authorized storage site www.emarketstorage.com.

<u>Physical persons possessing an equity in El.En. SpA</u>
Besides the members of the Board of Directors, of the Board of Statutory Auditors and the President of the technical and scientific committee, the partner Carlo Raffini to whom the Parent Company El.En. assigned a specific professional task for the entire year, received a salary of 32.000 Euros; moreover, for a similar task performed for the subsidiaries Deka M.E.L.A. Srl and Ot-las (ex Cutlite Penta Srl) he received 20.000 Euros.

<u>Subsidiary companies</u>
Normally the operations and the reciprocal amounts due among the companies of the Group that are included in the area of consolidation are eliminated when drawing up the consolidated financial statements, and consequently they are not described here.

<u>Associated companies</u>
All of the transactions involving payables and receivables, costs and revenue, and all financing and guarantees granted to the associated companies during 2017 are clearly shown in detail.
The prices for the transfer of goods are determined in accordance with what normally occurs on the market. The above mentioned inter-Group transactions therefore reflect the trends in market prices although they may differ slightly from them depending on the commercial policy of the Group.

The tables below show an analysis of the transactions which occurred between associated companies both as regards commercial exchanges as well as payables and receivables.

	Financial Receivables		Accounts receivable	
Associated companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Actis Srl	30.000		8.003	
Immobiliare Del.Co. Srl	31.565			
Elesta Srl			353.068	
Quanta Aesthetic Lasers USA, LLC	349.574		521.007	
Accure LLC	62.536		3.804	
Total	**473.675**	**-**	**885.882**	**-**

Associated companies:	Sales	Service	Total
Actis Srl	11.565		11.565
Elesta Srl	614.253	3.503	617.756
Quanta Aesthetic Lasers USA, LLC	4.324.263	24.142	4.348.406
Total	**4.950.081**	**27.645**	**4.977.727**

Associated companies:	Other revenues
Elesta Srl	8.038
Actis Srl	1.328
Quanta Aesthetic Lasers USA, LLC	5.653
Total	**15.019**

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl	1.500	30.000		31.500
Quanta Aesthetic Lasers USA, LLC	6.194	80.852		87.047
Total	**7.694**	**110.852**	**-**	**118.547**

The amounts shown in the above chart refer to operations that are inherent to the ordinary operations of the company.

The table below shows the incidence which transactions with related parties have had on the economic and financial situation of the Group.

Impact of related parties transactions	**Total**	**related parties**	**Inc %**
Impact of related parties transactions on the statement of financial position			
Equity investments	3.587.275	2.537.355	70,73%
Receivables LT	313.323	-	0,00%
Accounts receivable	80.445.108	885.882	1,10%
Other current receivables	13.847.771	473.675	3,42%
Non current financial liabilities	5.875.176	-	0,00%
Current financial liabilities	9.161.307	-	0,00%
Accounts payable	63.257.059	-	0,00%
Other current payables	41.205.211	-	0,00%
Impact of related parties transactions on the income statement			
Revenues	306.461.018	4.977.726	1,62%
Other revenues and income	4.264.318	15.019	0,35%
Purchase of raw materials	166.694.439	7.694	0,00%
Direct services	22.618.069	-	0,00%
Other operating services and charges	37.067.983	110.852	0,30%
Financial charges	625.132	-	0,00%
Financial income	905.965	13.773	1,52%
Income taxes	6.807.349		0,00%

RISK FACTORS AND PROCEDURES FOR THE MANAGEMENT OF FINANCIAL RISKS

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

The main financial instruments of the Group include checking accounts and short-term deposits, short and long-term financial liabilities, leasing, financial instruments and hedging derivatives contracts.
Besides these, the Group also has payables and receivables derived from its activity.
The main financial risks to which the Group is exposed are those related to currency exchange, credit, cash and interest rates.

Currency risk
The Group is exposed to the risk caused by fluctuations in the exchange rates of the currencies used for some of the commercial and financial transactions. These risks are monitored by the management which takes all the necessary measures to reduce them.
Since the Parent Company prepares its consolidated financial statements in Euros, the fluctuations in the Exchange rates used to convert the data in the statements of the subsidiaries originally expressed in foreign currency may negatively influence the results of the Group, the consolidated financial position and the consolidated shareholders' equity as expressed in Euros in the consolidated statements of the Group.

With Us Co. Ltd. in preceding years stipulated three derivatives of the type called "currency rate swap" in order to hedge the risk in currency exchange for purchases in Euro.

Operation	Notional value	*Fair value*
Currency swap	€ 350.000	€ 28.765
Currency swap	€ 750.000	-€ 678
Currency swap	€ 1.450.000	€ 63.296
Total	**€ 2.550.000**	**€ 91.383**

Credit risks
As far as the commercial transactions are concerned, the Group operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance. There are no significant concentrations of credit risks within the Group. The devaluation provision which is accrued at the end of the year represents about 8% of the total accounts receivable from third parties. For an analysis of the due dates on accounts receivable from third parties, please consult the relative note in the consolidated financial statement.

As far as guarantees granted to third parties are concerned:

the Parent Company El.En. S.p.A. has underwritten:
- in 2013, a bank guarantee for a maximum of 50 thousand Euros as a guarantee for customs duties as per ex art. 34 of the T.U.L.D., payable for temporary imports, with expiration date in June 2018 with possibility of extension annually.
-in 2014 a bank guarantee for a maximum of 253 thousand Euros as a guarantee for the restitution of the amount requested as a down payment on the "BI-TRE" research project, which was accepted for a grant in the Bando Regionale 2012 approved by the Regione Toscana with *Decreto Dirigenziale* n. 5160 on November 5th 2012, with expiration date in February 2018.
The subsidiary Deka M.E.L.A. S.r.l. in 2016 underwrote a bank guarantee for a maximum of 127.925 Euros as a guarantee for the final reimbursement of the amount require as a down payment for the project POR FESR 2014 – 2020 Strategic Research and Development project phase 2, admitted for contributions by the *Bando Unico* approved by the Region of Tuscany with Decree 3389 on July 30th 2014, with expiration date in May 2020.

The Chinese subsidiary Penta-Laser Equipment (Wenzhou) obtained two types of financing for the construction of the new factory and for the purchase of the equipment by taking out a mortgage for an overall amount of about 30 million RMB.

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

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

Financial Instruments (note 37)

Fair value

The table below shows a comparison by category between book value and fair value of all the financial instruments of the Group.

	Book value 31/12/2017	Book value 31/12/2016	Fair value 31/12/2017	Fair value 31/12/2016
Financial assets				
Non current financial receivables	313.323	32.688	313.323	32.688
Current financial receivables	628.400	607.330	628.400	607.330
Securities and other non-current financial assets	12.055.531	10.846.332	12.055.531	10.846.332
Securities and other current financial assets	2.036.433	-	2.036.433	-
Cash and cash equivalents	97.351.479	97.589.445	97.351.479	97.589.445
Financial debts and liabilities				
Non current financial liabilities	5.875.176	4.342.074	5.875.176	4.342.074
Current financial liabilities	9.161.307	10.612.756	9.161.307	10.612.756

Fair value hierarchy

The Group uses the following hierarchy in order to determine and to document the fair value of the financial instruments based on evaluation techniques:

Level 1: quoted prices (not rectified) in a market which is active for identical assets and liabilities.
Level 2: other techniques for which all the input which have a significant effect on the registered fair value can be observed, either directly or indirectly.
Level 3: techniques which use input which have a significant effect on the registered fair value which are not based on observable market data.

As of December 31st 2017, the Group holds the following securities evaluated at fair value:

	Level 1	Level 2	Level 3	Total
Investment contracts		12.055.531		12.055.531
Mutual funds	2.036.433			2.036.433
Currency swap		91.383		91.383
Total	**2.036.433**	**12.146.913**		**14.183.346**

Other information (note 38)

Information supplied in compliance with art. 149-duodecies of the *Regolamento Emittenti Consob*

In compliance with article 149-*duodecies* of the *Regolamento Emittenti Consob*, the chart below shows the amounts for the year 2017 related to auditing services and for those other than the ones conducted by Deloitte & Touche S.p.A for the Parent Company and for some of the Italian and foreign subsidiaries.

	Company providing the service	Receiver	note	2017 fees (Euros)
Audit	Deloitte & Touche SpA	Parent Company		62.314
	Deloitte & Touche SpA	Italian subsidiaries		55.676
	Deloitte & Touche SpA	Foreign subsidiaries		18.289
	Rete Deloitte	Foreign subsidiaries		68.745
Certification services	Deloitte & Touche SpA	Parent Company	(1)	15.000
Other services	Deloitte & Touche SpA	Parent Company	(2)	18.000
				238.024

(1) Inspection of the non-financial statement
(2) Assistance in drawing up the sustainability declaration on December 31st 2016.

The remuneration shown in the chart that are related to Italian compagnie include the adaptation on the basis of the ISTAT index ; they are shown net of the reimbursements for the expenses sustained and the supervision fee paid to Consob.

Average number of employees

Personnel	Average of the period	31/12/2017	Average of previous period	31/12/2016	Variation	Var. %
Total	**1.153**	**1.212**	**1.029**	**1.093**	**119**	**10,89%**

For the Board of Directors
Managing Director– Ing. Andrea Cangioli

Declaration of the consolidated financial statement in conformity with art. 81-ter CONSOB regulation n. 11971 of May 14th 1999 and later modifications and additions

1. We the undersigned, Andrea Cangioli as managing director, and Enrico Romagnoli as executive officer responsible for the preparation of the financial statements of El.En. SpA, in conformity with art. 154-bis, comma 3 and 4, of Legislative Decree no. 58 of February 24th 1998, declare:

- the conformity in relation to the characteristics of the company and
- the actual application of the administrative and accounting procedures used in drawing up the consolidated financial statement, during 2017.

2. No significant aspect emerged concerning the above

3. We also declare that:

3.1 the consolidated financial statement dated December 31st 2017:

a) is drawn up in conformity with the applicable international accounting standards recognized by the European Union in conformity with Regulation (CE) n. 1606/2002 of the European Parliament and the Commission, in July 19th 2002;

b) corresponds to the figures in the ledgers and accounting books;

c) is suitable to supply a true and correct representation of the capital, economic and financial situation of the issuer and of the other companies included in the scope of consolidation.

3.2 The Management Report contains a reliable analysis of the trends and results of the activities as well as the situation of the quoted company and the group of companies included in the scope of consolidation, together with a description of the principal risks and uncertainties which they are exposed.

Calenzano, March 15th 2018

Managing director	Executive officer responsible for the preparation of the financial statements
Ing. Andrea Cangioli	Dott. Enrico Romagnoli

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
EL.EN. S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of EL.EN. S.p.A. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of EL.EN. S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimate of inventory provision

Description of key audit matters

The closing inventories of the El.En. Group as at December 31, 2017 are Euro 66,567 thousand, net of a provision for inventory writedowns of Euro 12,013 thousand which, as explained in Note 5 to the financial statements, was estimated to align the value of the inventories with their net realizable value, taking into account obsolete and slow-moving inventories.

The valuation process for the provision is complex, and is based on assumptions regarding possible excess inventories with respect to their future use and net realizable value. The valuations are based on estimates influenced by future expectations referring primarily to the rate of disposal of articles in stock and by market conditions.

Given the significant amount of the inventories recognized in the financial statements and the uncertainties relating to the valuation process, we consider the estimate of the inventory provision to be a key audit matter.

Audit procedures performed

Our audit included the following procedures, among others:

- obtaining an understanding of the significant controls put into place by the El.En. Group to detect and monitor obsolete and/or slow-moving inventories and to estimate the inventory provision;
- checking the implementation of such controls;
- examining the appropriateness of the methods adopted by Management for the estimate with respect to the accounting principles adopted;
- analyzing the criteria and assumptions used by Management to estimate the provision;
- verifying the accuracy and completeness of the information used for the estimate;
- analyzing the reasonableness of the main assumptions adopted for the estimate by Management regarding the parameters for future use of the inventories, and the net realizable value by analyzing the supporting evidence;
- processing and analyzing the data and comparing it with the estimated data in order to assess whether the estimate made by Management is reasonable.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of EL.EN. S.p.A. has appointed us on May 15, 2012 as auditors of the Company for the years from December 31, 2012 to December 31, 2020.

Deloitte.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of EL.EN. S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of EL.EN. Group as at December 31, 2017 including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of EL.EN. Group as at December 31, 2017 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of EL.EN. Group as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

The Directors of EL.EN. S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

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.

El. En. S.p.A.
Headquarters: Via Baldanzese 17 Calenzano (FI)
Register of Companies, Florence n. 03137680488

Report of the Board of Statutory Auditors to the Shareholders' Meeting on the consolidated financial statement as of December 31st 2017**.**

To the shareholders of the Parent Company El.En. S.p.A.

Consolidated financial statement as of December 31st 2017.

In compliance with Legislative Decree 58/1998 and D.Lgs. n. 39/2010, the legal auditing of the consolidated financial statement has been assigned to the Independent auditors charged with the legal auditing of the financial statement of the Parent Company El.En. S.p.A.

The Board of Statutory Auditors conducted its supervising activity on the financial statement as of December 31st 2017 and on the Management Report for 2017 (related also to the consolidated financial statement) in compliance with the standards issued by the *Consiglio Nazionale dei Dottori Commercialisti* (National Commission of Certified accountants) and by the *Consiglio Nazionale dei Ragionieri* (now called the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*).

The consolidated financial statement of the Group includes a certificate written by the managing director and the executive responsible for the preparation of the financial statements in compliance with art. 154-bis D.Lgs n.58/1998.

The consolidated financial statement was submitted for auditing to Deloitte & Touche S.p.A., which expressed an opinion without criticism and declared that it was a true and correct representation of the financial situation, as of December 31st 2017, of the economic results and the cash flow for the year in conformity with the International Financial Reporting Standards used by the European Union as well as the regulations issued in implementation of art, 9 of Legislative Decree 38/2005;

The financial statement is in conformity with the regulations which govern the criteria used for drawing it up and is presented with clarity and represents in a true and correct way the economic and financial situation, the economic results and the cash flow of the El.En. Group.

The Board of Statutory Auditors examined the financial reports of the companies included in the area of consolidation that had been examined by the respective controlling bodies and by the Independent auditors when the control procedures were implemented during the auditing phase of the consolidated financial statement.

The Board of Statutory Auditors verified the correspondence of the criteria utilized for determining the area of consolidation and the principles of consolidation now used; these principles are described in the Notes to the financial statement which supplies full and complete information concerning their application.

The Board of Auditors considers that the internal procedures adepte by the Parent Company in order to comply with art. 15 of the Market Regulations which was adopted with vote 20249 on December 28th 2017 (in place of the preceding art 36 Market Regulations adopted with vote no. 16191 in 2007) in relation to the regulations concerning the conditions for quotation of companies controlling companies that have been founded or that are regulated according to the laws of countries that do not belong to the European Union and are of significant importance in the consolidated financial statement, are adequate.

The consolidated financial statement of the Group was drawn up in conformity with the IFRS international accounting principles. After European regulation n. 1606 of July 2002 came into effect, starting on January 1st 2005 the El.En. Group, in fact, adopted the International Accounting Principles (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Commission.

The Management Report is consistent with the data and results of the consolidated financial statement and supplies ample information on the economic and financial position of the Group.

In the Management Report the directors supply ample information concerning the significant events that involved the El.En. Group during 2017 and early 2018.

Supervision of the observance of the Legislative Decree, 30th December 2016 n. 254 – Consolidated Non-financial Statement.

In compliance with art. 3 sub-section 7 of Legislative Decree. 254/2016, art. 2403 c.c. and art. 149 TUF, the Board of Auditors has supervised the observance of the regulations established by this decree regarding the rules concerning the Consolidated Non-Financial Statement (NFS) which has been compiled by the Company in relation to the companies belonging to the industrial Group constituted by El.En. and by its subsidiaries.

The Board of Auditors therefore has supervised the adequacy of the procedure, the processes and the structure which govern the production, reporting, measuring and representation of the results and information of a non-financial nature as well as the adequacy of the organizational, administrative and reporting and controlling organization set up by the Company for the purpose of providing a correct and complete representation in the NFS of the activities of the Company, its results and its impact in relation to non-financial topics described in art. 3, sub-section 1, of D.Lgs. 254/2016.

The NFS has been drawn up in conformity with the “GRI Sustainability Reporting Standards” published by the Global Reporting Initiative (GRI), which constitute a model that is universally accepted for reporting the economic, environmental and social performance of an organization, according to the “core” option, i.e., using indicators that are universally applicable and considered important for most organizations.

The Independent Auditors Deloitte & Touche S.p.A., has issued its own report on the consolidated non-financial statement in compliance with art. 3, C.10, D.Lgs. 254/2016 and art. 5 Consob Regulations n. 20267 and concluded that they are unaware of any elements in the NFS of the Group that are not in conformity with the GRI standards.

Conclusions
The Board of Auditors, in relation to this task, has taken note of the results of the supervision effected by the Independent Auditors and believes that the Consolidated Financial Statement of the El.En. Group has been drawn up in conformity with the regulations that govern it; they further believe that the first consolidated non-financial statement drawn up for the financial year 2017 gives adequate information concerning the annual results in terms of sustainability performance achieved this year by the company and by its subsidiaries.

Florence, March 30th 2018.

Board of Auditors

Dott. Vincenzo Pilla, president of the Board of Auditors.
Dott. Paolo Caselli, acting auditor
Dott.ssa Rita Pelagotti, acting auditor

EL.EN. SpA
SEPARATE FINANCIAL STATEMENT
AS OF DECEMBER 31st 2017

ACCOUNTING CHARTS AND NOTES

Statement of financial position

Assets	Note		31/12/2017		31/12/2016
Intangible assets	1		223.149		216.684
Tangible assets	2		13.239.359		12.678.838
Equity investments	3				
- in subsidiary companies		15.765.822		15.569.217	
- in associated companies		388.405		388.405	
- other		1.024.498		577.647	
Total Equity investments			17.178.725		16.535.269
Deferred tax assets	4		2.532.100		2.736.861
Other non-current assets	4		12.058.639		10.849.440
Total non current assets			**45.231.972**		**43.017.092**
Inventories	5		21.415.446		22.177.629
Accounts receivable	6				
- third parties		7.693.984		6.155.016	
- subsidiary companies		28.542.363		26.683.758	
- associated companies		315.291		753.074	
Total Accounts receivable			36.551.638		33.591.848
Tax receivables	7		4.009.505		2.489.021
Other receivables	7				
- third parties		910.230		678.295	
- subsidiary companies		5.527.825		5.640.319	
- associated companies		61.565		61.565	
Total Other receivables			6.499.620		6.380.179
Securities and other current financial assets	8		2.036.433		-
Cash and cash equivalents	9		43.373.454		57.213.388
Total current assets			**113.886.096**		**121.852.065**
Total Assets			**159.118.068**		**164.869.157**

Liabilities	Note		31/12/2017		31/12/2016
Share capital	10		2.508.671		2.508.671
Additional paid in capital	11		38.593.618		38.593.618
Other reserves	12		98.828.744		64.188.040
Treasury stock	13		-		-
Retained earnings / (accumulated deficit)	14		(984.283)		(984.283)
Net income / (loss)			41.146		41.510.952
Total shareholders' equity			**138.987.896**		**145.816.998**
Severance indemnity	15		888.612		945.174
Deferred tax liabilities	16		475.974		684.644
Other accruals	17		578.044		489.156
Financial debts and liabilities	18				
- third parties		488.285		488.285	
Total Financial debts and liabilities			488.285		488.285
Total non current liabilities			**2.430.915**		**2.607.259**
Financial liabilities	19				
- third parties		-		6	
Total Financial liabilities			-		6
Accounts payable	20				
- third parties		12.476.422		10.999.163	
- subsidiary companies		900.560		751.273	
Total Accounts payable			13.376.982		11.750.436
Income tax payables	21		-		648.725
Other current payables	21				
- third parties		4.300.223		4.023.681	
- subsidiary companies		22.052		22.052	
Total Other current payables			4.322.275		4.045.733
Total current liabilities			**17.699.257**		**16.444.900**
Total Liabilities and Shareholders' equity			**159.118.068**		**164.869.157**

Income Statement

Income Statement	Note	31/12/2017		31/12/2016	
Revenues	22				
- third parties		19.694.707		22.178.924	
- subsidiary companies		33.805.833		34.676.494	
- associated companies		560.076		436.020	
Total Revenues			54.060.616		57.291.438
Other revenues and income	23				
- third parties		417.207		1.115.787	
- subsidiary companies		388.050		390.248	
- associated companies		9.238		4.903	
Total Other revenues and income			814.495		1.510.938
Revenues and income from operating activity			**54.875.111**		**58.802.376**
Purchase of raw materials	24				
- third parties		25.896.381		25.115.457	
- subsidiary companies		1.542.023		2.135.859	
Total Purchase of raw materials			27.438.404		27.251.316
Changes in inventory of finished goods			(539.469)		450.966
Change in inventory of raw material			1.179.467		2.192.551
Direct services	25				
- third parties		3.986.988		4.197.465	
- subsidiary companies		82.626		41.564	
Total Direct services			4.069.614		4.239.029
Other operating services and charges	25				
- third parties		6.857.056		6.083.389	
- subsidiary companies		37.834		37.115	
- associated companies		30.000		54.000	
Total Other operating services and charges			6.924.890		6.174.504
Staff cost	26		15.519.164		13.120.994
Depreciation, amortization and other accruals	27		1.263.312		1.357.916
EBIT			**(980.271)**		**4.015.100**
Financial charges	28				
- third parties		(13.058)		(21.924)	
- subsidiary companies		(117.898)		(11.773)	
Total Financial charges			(130.956)		(33.697)
Financial income	28				
- third parties		643.800		519.702	
- subsidiary companies		1.957.091		1.050.699	
- associated companies		300		304	
Total Financial income			2.601.191		1.570.705
Exchange gain (loss)	28		(2.610.088)		2.361.603
Other non operating charges	29		(100.000)		(428.315)
Other non operating income	29		563.655		36.507.176
Income (loss) before taxes			**(656.469)**		**43.992.572**
Income taxes	30		(697.615)		2.481.620
Income (loss) for the financial period			**41.146**		**41.510.952**

Statement of comprehensive income

	31/12/2017	31/12/2016
Reported net (loss) income (A)	41.146	41.510.952
Other income/(loss) that will not be entered in income statement net of fiscal effects:		
Measurement of defined-benefit plans	(13.922)	(64.610)
Other income/(loss) that will be entered in income statement net of fiscal effects:		
Unrealized gain (loss) on investment AFS		(37.083.465)
Total other income/(loss), net of fiscal effectes (B)	(13.922)	(37.148.075)
Total comprehensive (loss) income (A) + (B)	27.224	4.362.877

Cash flow statement

Cash Flow Statement	Note	31/12/17	Related parties	31/12/16	Related parties
Operating activity					
Income (loss) for the financial period		**41.146**		**41.510.952**	
Amortizations and depreciations	27	1.194.190		1.185.118	
Gain/Loss on investment AFS	29	(563.655)		(36.507.176)	
Re-Devaluations of equity investments	29			424.662	424.662
Stock Option		666.058		257.616	
Employee severance indemnity	15	(74.880)		(34.995)	
Provisions for risks and charges	17	88.887		(2.738)	
Bad debts provision	6	(818.943)	(683.000)	292.443	244.982
Deferred income tax assets	4	209.157		(355.085)	
Deferred income tax liabilities	16	(208.670)		45.678	
Stocks	5	762.182		2.830.196	
Accounts receivable	6	(2.140.846)	(737.823)	1.055.188	(3.078.429)
Tax receivables	7	(1.520.484)		2.128.251	
Other receivables	7	(964.054)	(799.008)	(332.523)	(240.753)
Accounts payable	20	1.626.547	149.287	(408.602)	77.464
Income Tax payables	21	(648.725)		(671.582)	
Other payables	21	276.543		51.469	(8.476)
Cash flow generated by operating activity		**(2.075.547)**		**11.468.873**	
Investment activity					
Tangible assets	2	(1.576.156)		(692.333)	
Intangible assets	1	(185.022)		(177.559)	
Equity investments, securities and other financial activities	3-4-8	(3.128.828)		41.559.092	453.417
Financial receivables	7	844.615	911.503	(716.959)	(778.026)
Cash flow generated by investment activity		**(4.045.391)**		**39.972.240**	
Financing activity					
Non current financial liabilities	18			488.285	
Current financial liabilities	19	(6)		(1.509.994)	
Dividends distributed	31	(7.718.989)		(5.789.242)	
Cash flow from financing activity		**(7.718.995)**		**(6.810.950)**	
Increase (decrease) in cash and cash equivalents		**(13.839.933)**		**44.630.163**	
Cash and cash equivalents at the beginning of the financial period		**57.213.388**		**12.583.225**	
Cash and cash equivalents at the end of the financial period		**43.373.455**		**57.213.388**	

All of the cash and cash equivalents consist of cash on hand and balance in the checking accounts of the banks.
Interest earned during this financial period amounts to 728 thousand Euros, of which 95 thousand Euros from subsidiary companies.
Income taxes for this financial year were 53 thousand Euros.

Changes in the Shareholders' equity

Total shareholders' equity	**31/12/2015**	**Net income allocation**	**Dividends distributed**	**Other movements**	**Comprehensive income (loss)**	**31/12/2016**
Share capital	2.508.671					2.508.671
Additional paid in capital	38.593.618					38.593.618
Legal reserve	537.302					537.302
Treasury stock						
Other reserves:						
Extraordinary reserve	60.749.843	518.065				61.267.908
Special reserve for grants received	426.657					426.657
Other reserves	38.846.624			257.624	-37.148.075	1.956.173
Retained earnings / (accumulated deficit)	-984.282	5.789.242	-5.789.242	-1		-984.283
Net income / (loss)	6.307.307	-6.307.307			41.510.952	41.510.952
Total shareholders' equity	146.985.740		-5.789.242	257.623	4.362.877	145.816.998

Total shareholders' equity	**31/12/2016**	**Net income allocation**	**Dividends distributed**	**Other movements**	**Comprehensive income (loss)**	**31/12/2017**
Share capital	2.508.671					2.508.671
Additional paid in capital	38.593.618					38.593.618
Legal reserve	537.302					537.302
Treasury stock						
Other reserves:						
Extraordinary reserve	61.267.908	33.791.963				95.059.871
Special reserve for grants received	426.657					426.657
Other reserves	1.956.173			862.663	-13.922	2.804.914
Retained earnings / (accumulated deficit)	-984.283	7.718.989	-7.718.989			-984.283
Net income / (loss)	41.510.952	-41.510.952			41.146	41.146
Total shareholders' equity	145.816.998		-7.718.989	862.663	27.224	138.987.896

NOTES TO THE FINANCIAL STATEMENT

INFORMATION ON THE COMPANY

El.En. SpA is a corporation which was founded and is registered in Italy. Headquarters of the company are in Calenzano (Florence), Via Baldanzese 17.
Ordinary stock of the company is quoted on the MTA which is managed by Borsa Italiana SpA.
The El.En. Financial Statement was examined and approved by the Board of Directors on March 15th 2018.

The amounts shown in this statement are in Euros unless otherwise indicated.

PRINCIPLES USED FOR DRAWING UP THE STATEMENT AND ACCOUNTING STANDARDS

PRINCIPLES USED FOR DRAWING UP THE FINANCIAL STATEMENT

The financial statement for the 2017 which represents the separate financial statement of El.En. S.p.A. is drawn up on the basis of the principle of historical cost with the exception of a few categories of financial instruments for which the evaluation has been made on the basis of the principle of *fair value*.

This separate Financial Statement consists of:

- the Statement of financial position,
- the Income statement,
- the statement of comprehensive income
- the Cash flow statements
- the Statement of changes in the Shareholders' equity,
- the Explanatory Notes which follow.

The economic information given refers to the financial years 2017 and 2016. The financial information on the other hand refer to the situations on December 31st 2017 and December 31st 2016.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The statement as of December 31st 2017 has been formulated using the International Accounting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union, including all of the international standards which are subject to interpretation (International Accounting Standards - IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the former Standing Interpretations Committee (SIC) besides the revised standards which came into effect this year.

ACCOUNTING STANDARDS AND EVALUATION CRITERIA

The accounting principles used for drawing up this financial report are in compliance with the accounting standards used for drawing up the financial report on December 31st 2016 with the exception of the new principles and those revised by the International Accounting Standards Board and the interpretations of the International Financial Reporting Interpretations Committee as described in the consolidated financial statement for the El.En. Group in the specific chapter titled "Accounting standards and evaluation criteria applied starting on January 1st 2017" which should be consulted for further details:

USE OF ESTIMATES

In applying the IFRS, the drawing up of the Separate Financial Statement requires estimates and assumptions to be made which affect the assets and liability figures of the financial statement and relative information and potential assets and liabilities at the date of reference. The definitive results could differ from such estimates. The estimates are used to enter the provisions for risks on receivables, for obsolescence of stocks, amortization and depreciation, devaluation of assets, stock options, employee benefits, taxes and other provisions and funds. The estimates and assumptions are periodically reviewed and the effects of any variation are reflected in the Income statement.

ACCOUNTING POLICIES

A) INTANGIBLE FIXED ASSETS WITH A FINITE AND INDEFINITE LIFE

Intangible assets are those assets lacking an identifiable physical consistency able to produce future economic benefits. They are entered at the historical purchase cost, shown net of the amortization applied in the course of the financial years and directly ascribed to the single headings. The company has chosen to maintain historical cost, rather than fair value, as the measurement criteria for intangible fixed assets. In the case in which, independently of the amortization already entered, there should be a loss of value, the fixed asset is correspondingly devalued; if, in subsequent financial years the reasons for the devaluation should cease to exist, the value is restored to a maximum limit of its original value, adjusted only by the amortization.

The costs incurred internally for the development of new products and services constitute, depending on the individual case, tangible or intangible assets generated internally and are entered in the assets only where all the following conditions are satisfied: 1) where the technical possibility or intention to complete the asset so as to make it available for use or sale exists; 2) where there is a capacity for the company to use or sell the asset; 3) the existence of a market for the products and services deriving from the asset, or of utility for internal purposes; 4) the ability of the asset to generate future economic benefits; 5) the availability of sufficient technical and financial resources to complete the development and sale or internal use of the products and services deriving from it; 6) reliable assessment of the costs attributable to the asset during its development. The capitalization of development costs includes only the expenses incurred which may be directly attributed to the development process. Research costs are entered in the Income statement in the financial year in which they are incurred. The Other Intangible Fixed Assets with a finite useful life are assessed at purchase or production cost and amortized at a constant rate during their estimated useful life.

Goodwill and other activities which have an indefinite life are not subject to systematic amortization but to an annual impairment test.

B) TANGIBLE FIXED ASSETS

The assets have been entered at the purchase cost or production cost, inclusive of accessory charges, net of depreciation. Ordinary maintenance expenses have been entirely entered in the Income Statement. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and depreciated according to the residual possibility of use of the said item**.**

The company uses the method of original cost as opposed to fair value as the assessment criteria for tangible fixed assets. Specifically, in accordance with such standards, the value of land and of the buildings constructed on it is separated and only the building is depreciated.

B) TANGIBLE FIXED ASSETS

The assets have been entered at the purchase cost or production cost, inclusive of accessory charges, net of depreciation. Ordinary maintenance expenses have been entirely entered in the Income Statement. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and depreciated according to the residual possibility of use of the said item**.**

The company uses the method of original cost as opposed to fair value as the assessment criteria for tangible fixed assets. Specifically, in accordance with such standards, the value of land and of the buildings constructed on it is separated and only the building is depreciated.

The aliquots used for depreciation are shown on the chart below:

Description	*Depreciation percentage*
Buildings	
- buildings	3.00%
Plants and machinery	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
- other plants and machinery	15.50%
Industrial and commercial equipment	
- miscellaneous and minute equipment	25.00%
- kitchen equipment	25.00%
Other goods	
- motor vehicles	25.00%
- forklift	20.00%
- lightweight constructions	10.00%
- electronic office equipment	20.00%
- furniture	12.00%

C) FINANCIAL CHARGES

Financial charges are registered in the Income statement at the time in which they are sustained.

D) LOSSES IN VALUE OF ASSETS

At each date referred to in the financial year shown, the tangible and intangible assets with a finite life have been assessed for the purposes of identifying any indicators of loss in value. The recoverable value of the goodwill and intangible assets with an indefinite life, where present, have been estimated at each date of reference. If there is any indication of a reduction in value the presumed cashing-in value is estimated.

The presumed cashing-in value is the higher of the two variables, net sales price and utility value. In determining the utility value, expected future flows of funds are discounted using a pre-tax discount rate which reflects the current market value of the money rate referred to the investment period and specific risks of the business. For a business not generating highly independent flows of funds, the cashing-in value is determined in relation to the cash-generating unit which the said business belongs to. A loss of value is entered in the Income statement wherever the value entered for the asset or the relative cash generating unit which it is allocated to, is higher than the presumed cashing-in value. Value losses are readjusted wherever the causes which have generated them cease to exist.

E) FINANCIAL ASSETS: EQUITIES

According to IAS 27, the equities in subsidiary companies, in entities jointly controlled and in associated companies not classified as available for sale (IFRS 5) must be entered into accounts at cost or in conformity with IAS 39. In the separate financial statement of El.En. SpA the cost criteria has been used.

Since the necessary conditions exist, a consolidated financial statement has been drawn up.

F) FINANCIAL INSTRUMENTS

Equities in other companies

The equities in other companies which are not subsidiaries or associated (usually with an ownership of less than 20%) are classified at the time of purchase, among the financial assets "available for sale" or among the assets "evaluated at fair value through the Income statement" with the current or non-current assets. Changes in the value of equities that are classified as available for sale are entered into a reserve of the shareholders' equity which will be entered into the Income statement at the time of sale. Changes in the value of the equities classified as assets evaluated at fair value through the Income statement are entered directly into the Income Statement. These equities are evaluated at cost according to IAS 39.

Accounts receivable

The receivables are entered at cost (identified using the nominal value) net of any value losses, corresponding to their presumed cashing-in value.

Other financial assets

Financial assets are added and removed from the financial statement according to the date of negotiation and are initially evaluated at cost, inclusive of the charges directly connected with the acquisition. At the subsequent dates of the financial statement, the financial assets to be held until expiry date are shown at cost amortized according to the effective interest rate method, net of any devaluation applied to reflect value losses.

Financial assets other than those held until expiration are classified as held for negotiation or available for sale and are estimated at fair value each financial year with attribution respectively in the Income statement under the heading "Financial Revenue (Charges)" or in a special reserve of the Shareholders' equity, in the latter case until such time as they are cashed-in or until they have suffered a loss in value.

Cash and cash equivalents

This heading includes cash reserves and bank accounts and other short-term financial investments with a high level of availability which can be easily converted into cash at a negligible risk of varying in value.

Treasury stock

Treasury stock is entered against shareholders' equity. No profit/loss is shown in the Income statement for the purchase, sale, issue or cancellation of treasury stock.

Trade payables

Commercial payables, the due date of which falls within the normal commercial terms, are not actualized and are entered at cost (identified as their nominal value).

Financial liabilities

Financial liabilities are initially entered at fair value net of the transaction costs directly attributable to them. Subsequently, financial liabilities are estimated with the criteria of amortized cost, using the effective original interest rate method.

Derivatives and measurement of hedging operations

Fair value hedge: if a derivative financial instrument is designated as a hedge against fluctuations in the fair value of an asset or a liability that is entered in the statements, attributed to a particular risk which can affect the income statement, the profit or loss derived from the later evaluations of the current value of the hedging instrument are shown in the income statement. The profit or loss on the amount that is hedged that can be attributed to the risk that is hedged, modify the book value of that amount and are shown in the income statement.

Cash flow hedge: if an instrument is designated as a cash flow hedge against the variations in the cash flow of an asset or a liability entered into accounts or a planned operation that is highly likely to take place and which could have an effect on the income statement, the effective portion of the profits or losses is shown in the shareholders' equity. The profit or loss accumulated are subtracted from the shareholders' equity and entered into the income statement at the same time that the operation being hedged is recorded. The profit and loss associated with a hedge or with that part of the hedge that has become ineffective are immediately entered into the income statement. If a hedging instrument or a hedging relation are closed but the operation that is being hedged has not yet been concluded, the profits and losses accumulated and up to that time entered in the shareholders' equity, are registered in the income statement as soon as the operation is concluded. If the operation being hedged is no longer considered likely to take place, the profits and losses which have not yet been realized and are suspended in the shareholders' equity, are entered immediately in the income statement.

Held for trading: (instruments for negotiation) these are derivative financial instruments for the purpose of speculation or negotiation. They are evaluated at fair value and the variations must be entered in the income statement.

G) INVENTORY

Stocks of raw materials and finished products are evaluated at the cost or market value; the cost is determined using the method of average weighted cost. The evaluation of inventories is based on the basis of the direct costs of the raw materials and the labor and the indirect costs of production (variable and fixed). Devaluation provisions are also set aside for materials, finished products, spare parts and other supplies considered obsolete or with a slow turnover bearing in mind the possibilities of reuse and sale.
Inventory stocks of works in progress are evaluated on the basis of production costs, with reference to the average weighted cost.

H) RETIREMENT FUNDS AND EMPLOYEE BENEFITS

SEVERANCE INDEMNITY

Up until December 31st 2006 the severance indemnity fund was considered a defined benefit plan. The regulating of this fund was changed by law no. 296 of December 27th 2006 (*Legge Finanziaria* 2007) and later decrees and regulations issued during the first months of 2007. On the basis of these modifications, and with particular reference to companies with at least 50 employees, this institution is now considered a defined benefit plan exclusively for the amounts which matured before January 1st 2007 (and not yet liquidated in the financial statement) whereas for the quotas which mature after that date, it is considered a defined contribution plan.
For defined benefit plans, the amount already matured is projected to estimate the amount to be paid at the moment of termination of the employment contract and subsequently recalculated, using the "Projected unit credit method". This kind of accounting methodology is based on theories of a demographic and financial nature so as to make a reasonable estimate of the amount of benefits which each employee has already matured on the basis of the work done.
By means of the actuarial estimate, the *current service cost* which defines the amount of rights matured during the financial year by employees is entered under the "staff costs" heading of the Income Statement and the interest cost, which constitutes the figurative charge which the company would have to pay if it took out a loan equal to the severance indemnity on the market, is entered among the "Financial income (charges)".
The actuarial gain and losses accumulated up until last year which reflect the effects of changes in the actuarial hypotheses used, were entered pro-quota in the Income Statement for the rest of the average working life of the employees when their net value not entered at the end of the preceding year exceeded the value of the liability by 10% (so-called corridor method).

In compliance with the transition rules stipulated by IAS 19 in paragraph 173, the Group applied the amendment to IAS 19 starting on January 1st 2013 retroactively, re-determining the amounts of the financial position shown on January 1st 2012 and December 31st 2012, as though the amendment had always been applied.

For defined contribution plans the company pays its contribution to a public or private pension fund on an obligatory, contractual or voluntary basis. Once the contributions have been paid, the company has no further obligations. The contributions they have paid are entered into the Income Statement when owed.

STOCK OPTION PLANS

The costs of the work performed by the employees and paid for through stock option plans is determined on the basis of the fair value of the options granted to the employees at the date of assignment.

In comparison to other standard models, the stock option plan approved by El.En. S.p.A. may be considered as an "exotic" option since the right to pick up the option can be exercised only after the vesting period and may occur at any time during the exercise period.

The plan that is used at El.En. is, in concept comparable to two distinct options which could be defined as "*American forward start*". The fair value of an "*American forward start*" option can be obtained by combining a neutral risk approach to determine the value of the stock expected at the beginning of the exercise period and, afterwards, by using a model of the *binomial tree* type to exploit the American type option.

In order to evaluate it an estimate of the volatility of the stock must be made, as well as the risk-free interest rate and the expected dividend rate of the stock.

In compliance with the regulations described in the International Accounting Standard IFRS2, all the significant parameters of the model have been followed observing the conditions of the financial markets and the trend of the El.En. stock on the date that the option rights were assigned.

I) PROVISIONS FOR LIABILITIES AND CONTINGENCIES

The Company has shown the provisions for future contingencies wherever, in the face of a legal or implicit obligation to third parties, it is probable that the Company will have to use its resources to honor such an obligation and when a reliable estimate of the amount of the obligation itself can be made. Variations in such estimates are reflected in the Income statement for the financial year in which the variation takes place.

L) REVENUE RECOGNITION

The revenue from the sale of goods is recorded when the significant risks and benefits of the ownership of the goods are transferred to the purchaser, which is normally the time when they are delivered or shipped.

Financial revenue and charges are entered on the basis of interest matured on the net value of the relative financial asset or liability using the actual interest rate.

The dividends from equities are entered according to the cash basis.

M) ENTRIES IN FOREIGN CURRENCY

Assets and liabilities in foreign currency, with the exception of real estate, are entered at the exchange rate in effect on the day that the financial period was closed and the relative profits and losses are entered into the Income statement.

N) GRANTS

Contributions, from both public and third party private bodies are entered when there is reasonable certainty of receiving them and of satisfying the conditions for obtaining them. Contributions received for specific expenses are shown among the other liabilities and credited to the Income statement at the moment in which the conditions for entering them are satisfied. Contributions received for specific assets, the value of which is entered among the tangible or intangible assets, are shown either as direct reduction of the assets themselves or among the other liabilities and are credited to the Income statement in relation to the period of depreciation of the assets they refer to.

Grants in operating account are shown entirely in the Income Statement at the moment in which the conditions for entering them are satisfied.

O) TAXES

Current income taxes for the financial year have been entered according to the aliquots and regulations currently in force on the basis of a realistic estimate of taxable income for the period. The fiscal debts for these taxes are entered among the tax debts net of any down payments.

Deferred income tax assets and liabilities have been calculated on the basis of differences of a temporary nature between assets and liabilities recognized for tax purposes and the corresponding figures on the financial statements applying the current tax rate in force or essentially in force at the date of reference. Deferred tax assets have been entered as assets when it is probable that they will be recovered, in other words, when it appears likely that the entity of the taxable amount in the future will be sufficient to recover the assets. The possibility of recuperating the deferred tax assets is re-examined at the closing of each financial year.

STOCK OPTION PLANS

El.En. S.p.A.

The chart below shows information related to the stock option plan approved during 2016 by El.En. S.p.A., for the purpose of promoting employee incentive and loyalty.

	Max. expiration date	Outstanding options	Options issued	Options cancelled	Options exercised	Expired option not exercised	Outstanding options	Exercisable options	Exercise price
		01/01/2017	01/01/2017 - 31/12/2017	01/01/2017 - 31/12/2017	01/01/2017 - 31/12/2017	01/01/2017 - 31/12/2017	31/12/2017	31/12/2017	
Plan 2016-2025	31-dic-25	800.000					800.000		€ 12,72

This plan has two different tranches which have different vesting and exercise periods and consequently is based on a concept equivalent to two distinct options which could be defined as "*American forward start*".
The fair value of an "*American forward start*" option can be obtained by combining a neutral risk approach in order to determine the expected value of the stock at the start of the exercise periods and, later, using a binomial tree type model to exploit the American type option.

For the purpose determining the fair value, the following hypotheses have been formulated:

Risk free rate: 0,338492%
Historical volatility: 0,28489
Interval of time used to calculate the volatility: last year of trading.

The overall *fair value* of the stock options is 2.942.080 Euros.

During 2017 the average price recorded for El.En. stock was about 26,30 Euros.

For the characteristics of the stock option plan and the increase in capital that was approved for implementing it, please consult the description in Note (10) of this report.

Information on the Statement of financial position - Assets

Non-current assets

Intangible assets (note 1)

Breakdown of changes occurring in intangible fixed assets during the period is shown on the chart below:

	31/12/2016	Increase	Decrease	Revaluation / Devaluation	Other movements	Depreciation	31/12/2017
Research and development costs	99.219	86.325				-99.447	86.096
Patents and rights to use patents of others	20.315					-10.157	10.157
Concessions, licences, trade marks and similar rights	55.450	54.709				-48.007	62.152
Other intangible assets	16.700	37.789				-20.944	33.544
Intangible assets under construction and advance payments	25.000	6.200					31.200
Total	**216.684**	**185.023**				**-178.555**	**223.149**

Under the heading of Research and Development Costs we have entered the costs sustained for the development of new prototypes; under the heading of Concessions, licenses, trademarks and similar rights" we have entered the costs sustained for the acquisition of new software licenses; the residual heading of "Other intangible assets" is mainly composed of the costs of creating new software.

Tangible fixed assets (note 2)

Breakdown of changes occurring in the tangible fixed assets is shown on the chart below:

Cost	**31/12/2016**	**Increase**	**(Disposals)**	**Revaluation / Devaluation**	**Other movements**	**31/12/2017**
Lands	2.255.359					2.255.359
Buildings	11.869.367	151.843	-43.550			11.977.659
Plants & machinery	2.458.756	65.153				2.523.909
Industrial and commercial equipment	5.230.397	243.240	-154.850			5.318.787
Other assets	2.076.784	357.611	-181.902		46.634	2.299.128
Tangible assets under construction and advance payments		848.626			-46.634	801.992
Total	**23.890.663**	**1.666.473**	**-380.302**			**25.176.834**

Accumulated depreciation	**31/12/2016**	**Depreciations**	**(Disposals)**	**Revaluation / Devaluation**	**Other movements**	**31/12/2017**
Lands						
Buildings	3.167.205	357.052				3.524.257
Plants & machinery	1.775.681	200.985				1.976.666
Industrial and commercial equipment	4.651.066	289.743	-137.454			4.803.354
Other assets	1.617.873	167.855	-152.529			1.633.198
Tangible assets under construction and advance payments						
Total	**11.211.825**	**1.015.635**	**-289.983**			**11.937.475**

Net value	**31/12/2016**	**Increase**	**(Disposals)**	**Revaluation / Devaluation / Depreciations**	**Other movements**	**31/12/2017**
Lands	2.255.359					2.255.359
Buildings	8.702.162	151.843	-43.550	-357.052	-1	8.453.402
Plants & machinery	683.075	65.153		-200.985		547.243
Industrial and commercial equipment	579.331	243.240	-17.396	-289.743	1	515.433
Other assets	458.911	357.611	-29.373	-167.855	46.636	665.930
Tangible assets under construction and advance payments		848.626			-46.634	801.992
Total	**12.678.838**	**1.666.473**	**-90.319**	**-1.015.635**	**2**	**13.239.359**

According to the accounting standards being used, the value of the land is separated from the value of the buildings that are located on it and the land is not amortized because it is considered an element with an unlimited useful life. The value of the land on December 31st 2017 was 2.255 thousand Euros.
The heading of "Buildings" includes the building complex in Via Baldanzese a Calenzano (Florence), where the Company operates along with the subsidiaries Deka M.E.L.A. Srl, Ot-las (ex Cutlite Penta Srl), Esthelogue Srl and Pharmonia Srl, the building complex in Via Dante Alighieri also in Calenzano, the first one purchased in 2008 and the second one acquired in 2014 and the building in the city of Torre Annunziata purchased in 2006 for the research, development and production activities of the subsidiary Lasit SpA. In the "Increase" column we have entered the costs for the modernization of some of the buildings located in via Baldanzese.

The increase under the heading of "Industrial and commercial equipment" is due mainly to the capitalization of lasers made by the Company, while the increases under the heading "Other assets" refers mainly to the purchase of new motor vehicles, furniture, light constructions and electronic machinery.
The amounts entered in the column of "Disposals" in the category of "Industrial and Commercial equipment" and "Other assets" refers to the scrapping or sale of assets.

The amount entered in the heading of "Tangible assets under construction and advance payments" refers to the costs sustained for further improvements and remodeling of the headquarters in via Baldanzese, now in progress.

Equity investments (note 3)

Equities in subsidiary companies

Company name	Headquarters	Percentage held	Book value	Equity 31/12/2017	Result 31/12/2017	Share of equity	Difference
Ot-Las S.r.l.	Calenzano (ITA)	96,65%	2.529.450	6.225.547	2.609.682	6.016.991	3.487.541
Deka Mela S.r.l.	Calenzano (ITA)	85,00%	1.470.097	12.774.463	2.083.465	10.858.294	9.388.197
Esthelogue S.r.l.	Calenzano (ITA)	50,00%	269.003	979.261	445.732	489.631	220.628
Deka Sarl	Lione (FRA)	100,00%	145.283	192.116	-125.053	192.116	46.833
Lasit S.p.A.	Torre Annunziata (ITA)	70,00%	1.071.621	4.447.806	1.846.957	3.113.464	2.041.843
Quanta System S.p.A.	Milano (ITA)	100,00%	7.976.743	19.300.007	6.610.441	19.300.007	11.323.264
Asclepion GmbH	Jena (GER)	50,00%	1.082.593	14.183.015	2.605.767	7.091.508	6.008.915
BRCT Inc.	New York (USA)	100,00%	1.128.446	1.602.011	2.696	1.602.011	473.565
Deka Japan Co., Ltd	Tokyo (JAP)	55,00%	42.586	963.938	200.497	530.166	487.580
Cutlite do Brasil Ltda	Blumenau (BRAZIL)	98,27%	0	-655.094	-609.837	-643.761	-643.761
Pharmonia S.r.l.	Calenzano (ITA)	100,00%	50.000	291.987	9.458	291.987	241.987
Total			15.765.822	60.305.057	15.679.805	48.842.413	33.076.591

The percentage of ownership in Cutlite do Brasil rose from 68,56% to 98,27% due to the withdrawal of the minority shareholders and the consequent decrease in capital stock which occurred in November.

Equities in associated companies

Company name	Headquarters	Percentage held	Book value	Equity 31/12/2017	Result 31/12/2017	Share of equity	Difference
Actis S.r.l. (*)	Calenzano (ITA)	12,00%	1.240	21.656	-19.998	2.599	1.359
Elesta S.r.l.	Calenzano (ITA)	50,00%	112.965	1.341.596	58.982	670.798	557.833
Immobiliare Del.Co. S.r.l.	Solbiate Olona (ITA)	30,00%	274.200	32.636	-17.549	9.791	-264.409
Total			388.405	1.395.888	21.435	683.188	294.783

(*) Data as of December 31st 2016

The data related to the associated company "Immobiliare Del.Co. S.r.l.", show a difference between the purchase price and the corresponding quota of the shareholders' equity which is due to the greater value implicit in the lands and buildings that are owned, as emerged during the voluntary re-evaluation of this real estate conducted by the associated company in conformity with D.L. 185/08.

The chart below shows a summary of the data related to the associated companies:

	Total Assets	Total liabilities	Net income (Loss)	Revenues and other income	Charges and expenses
Actis Active Sensors Srl (*)	180.147	158.491	-19.998	112.248	132.246
Elesta Srl (ex IALT Scrl)	2.535.050	1.193.455	58.982	2.149.955	2.090.973
Immobiliare Del.Co. Srl	834.285	801.649	-17.549	139.419	156.968

(*) Data as of December 31st 2016

Equities in other companies

The increase in the “Equities in other companies” is mainly due to the operation conducted by the Company on December 18th 2017 with which it sold its equity in Imaginalis Srl to Epica International Inc. for an amount of about 581 thousand Euros, of which 112 thousand Euros in cash and the rest by means of 493.458 newly issued shares.

Composition of equity investments

Equity investments	31/12/2016			Movements of the period			31/12/2017		
	Cost	Reval./(Deval.)	Balance 31/12/2016	Changes	Reval./(Deval.)	Other movements	Balance 31/12/2017	Reval./(Deval.)	Cost
- in subsidiary companies									
Deka Mela S.r.l.	1.440.443		1.440.443	29.654			1.470.097		1.470.097
Ot.-Las S.r.l.	2.797.791	-309.746	2.488.045	41.405			2.529.450	-309.746	2.839.196
Esthelogue S.r.l.	1.832.803	-1.574.583	258.220	10.783			269.003	-1.574.583	1.843.586
Deka Sarl	2.844.901	-2.710.401	134.500	10.783			145.283	-2.710.401	2.855.684
Lasit S.p.A.	1.050.054		1.050.054	21.567			1.071.621		1.071.621
Quanta System S.p.A.	7.938.003		7.938.003	38.740			7.976.743		7.976.743
BRCT Inc.	1.128.446		1.128.446				1.128.446		1.128.446
Asclepion GmbH	1.038.921		1.038.921	43.672			1.082.593		1.082.593
Cutlite do Brasil Ltda	3.384.919	-3.384.919						-3.384.919	3.384.919
Deka Japan Co., Ltd	42.586		42.586				42.586		42.586
Pharmonia S.r.l.	50.000		50.000				50.000		50.000
Total	23.548.867	-7.979.649	15.569.217	196.604	0	0	15.765.822	-7.979.649	23.745.471

Equity investments	31/12/2016			Movements of the period			31/12/2017		
	Cost	Reval./(Deval.)	Balance 31/12/2016	Changes	Reval./(Deval.)	Other movements	Balance 31/12/2017	Reval./(Deval.)	Cost
- in associated companies									
Actis S.r.l.	1.240		1.240				1.240		1.240
Elesta S.r.l.	741.712	-628.747	112.965				112.965	-628.747	741.712
Immobiliare Del.Co. S.r.l.	274.200		274.200				274.200		274.200
Total	1.017.152	-628.747	388.405	0	0	0	388.405	-628.747	1.017.152

Equity investments	31/12/2016			Movements of the period			31/12/2017		
	Cost	Reval./(Deval.)	Balance 31/12/2016	Changes	Reval./(Deval.)	Other movements	Balance 31/12/2017	Reval./(Deval.)	Cost
- other									
Concept Laser Solutions GmbH	19.000	0	19.000	0	0	0	19.000	0	19.000
Consorzio Energie Firenze	1.000	0	1.000	0	0	0	1.000	0	1.000
CALEF	3.402	0	3.402	0	0	0	3.402	0	3.402
R&S	516	0	516	0	0	0	516	0	516
R.T.M. S.p.A.	364.686	-364.686	0	0	0	0	0	-364.686	364.686
Hunkeler.it S.r.l.	112.100	0	112.100	0	0	0	112.100	0	112.100
Imaginalis S.r.l.	17.000	0	17.000	-17.000	0	0	0	0	0
EPICA International Inc.	424.628	0	424.628	463.851	0	0	888.480	0	888.480
Total	942.332	-364.686	577.647	446.851	0	0	1.024.498	-364.686	1.389.184

Financial charges during this year on amounts entered among the assets

No financial charges were entered for the items listed among the assets.

Financial receivables/Deferred tax assets/ Other non-current assets and receivables (note 4)

Other non-current assets	**31/12/2017**	**31/12/2016**	**Variation**	**Var. %**
Deferred tax assets	2.532.100	2.736.861	-204.761	-7,48%
Other non-current assets	12.058.639	10.849.440	1.209.199	11,15%
Total	**14.590.739**	**13.586.301**	**1.004.438**	**7,39%**

The entries under the heading of "Other non-current assets" refer to temporary uses of cash made by the company for life insurance policies which are based on a management that is separate with securities with guaranteed capital and with the possibility of cashing them in, either totally or partially, during the period of the contract, on the condition that at least one year has elapsed since the policies have been stipulated. Since this is a mid-term investment the company has decided to classify them among the non-current assets held for sale and enter them into accounts at the fair value of the policies in the assets and the re-evaluation of the policies in the income statement and, consequently, to exclude them from the net financial position.

For an analysis of the entry "Deferred tax assets", refer to the chapter on "deferred tax assets and liabilities".

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory:

	31/12/2017	31/12/2016	Variation	Var. %
Raw materials, consumables and supplies	11.013.381	12.192.848	-1.179.467	-9,67%
Work in progress and semi finished products	6.973.910	6.224.585	749.325	12,04%
Finished products and goods	3.428.155	3.760.196	-332.041	-8,83%
Total	**21.415.446**	**22.177.629**	**-762.183**	**-3,44%**

The chart shows a decrease in inventory of about 3,4%; it should be recalled that the amounts shown in the chart are net of the devaluation fund as shown in the chart below:

	31/12/2017	31/12/2016	Variation	Var. %
Gross amount of Inventory	27.361.943	28.272.932	-910.989	-3,22%
Devaluation provision	-5.946.496	-6.095.303	148.807	-2,44%
Total	**21.415.447**	**22.177.629**	**-762.182**	**-3,44%**

The fund is calculated in order to align the inventory value with that with which the inventory could presumably be sold by recognizing obsolescence or slow turnover The incidence of the obsolescence fund on the gross value of the inventory on December 31st 2017 was about 22% , substantially unchanged with respect to December 31st 2016.

Accounts receivable (note 6)

Receivables are composed as follow:

	31/12/2017	31/12/2016	Variation	Var. %
Accounts receivable from third parties	7.693.984	6.155.016	1.538.968	25,00%
Accounts receivable from subsidiaries	28.542.363	26.683.758	1.858.605	6,97%
Accounts receivable from associated	315.291	753.074	-437.783	-58,13%
Total	**36.551.638**	**33.591.848**	**2.959.790**	**8,81%**

Accounts receivable from third parties	31/12/2017	31/12/2016	Variation	Var. %
Italy	1.856.194	1.315.329	540.865	41,12%
EEC	1.617.435	1.170.170	447.265	38,22%
ROW	4.694.191	4.279.297	414.894	9,70%
minus: bad debt reserve	-473.836	-609.779	135.943	-22,29%
Total	**7.693.984**	**6.155.016**	**1.538.968**	**25,00%**

The accounts receivable from subsidiary and associated companies are inherent to the ordinary operations.

The chart below shows the changes in the provisions for bad debts which occurred during this year.

	2017
At the beginning of the period	609.779
Provision	-77.134
Amounts utilized and unused amounts reversed	-58.809
At the end of the period	**473.836**

The chart below shows the accounts receivable from third parties divided according to the type of currency.

Accounts receivable in:	**31/12/2017**	**31/12/2016**
Euros	4.275.805	2.702.526
USD	3.418.179	3.452.491
Total	**7.693.984**	**6.155.016**

The amount in Euros shown in the chart of the receivables originally expressed in US dollars or other currencies represents the amount in currency converted at the exchange rate in force on December 31st 2017 and December 31st 2016.

The chart below shows the analysis of the accounts receivable from third parties and from subsidiary companies for 2017 and for 2016:

Accounts receivable from third parties	**31/12/2017**	**31/12/2016**
To expire	4.405.269	3.733.895
Overdue:		
0-30 days	1.790.692	1.088.658
31-60 days	157.848	248.479
61-90 days	238.558	64.979
91-180 days	383.570	279.512
Over 180 days	718.047	739.495
Total	**7.693.984**	**6.155.016**

Accounts receivable from subsidiaries	**31/12/2017**	**31/12/2016**
To expire	8.755.220	7.780.111
Overdue:		
0-30 days	778.768	798.907
31-60 days	512.737	472.903
61-90 days	610.875	717.600
91-180 days	1.786.134	1.920.340
Over 180 days	16.098.629	14.993.897
Total	**28.542.363**	**26.683.758**

For a detailed analysis of the accounts receivable from subsidiary and associate companies, refer to the chapter in the information sheet on related parties.

Tax receivables/Other receivables (note 7)

The chart below shows a breakdown of tax receivables and other receivables:

	31/12/2017	31/12/2016	Variation	Var. %
Tax receivables				
VAT receivables	1.431.751	2.018.332	-586.581	-29,06%
Income tax receivables	2.577.754	470.689	2.107.065	447,66%
Total	**4.009.505**	**2.489.021**	**1.520.484**	**61,09%**
Current financial receivables				
Financial receivables - third parties	130.180	63.292	66.888	105,68%
Financial receivables - subsidiaries	4.330.690	5.242.192	-911.502	-17,39%
Financial receivables - associated	61.565	61.565		0,00%
Total	**4.522.435**	**5.367.049**	**-844.614**	**-15,74%**
Other current receivables				
Security deposits	21.380	21.350	30	0,14%
Advance payments to suppliers	170.193	141.655	28.538	20,15%
Other receivables	588.477	451.998	136.479	30,19%
Other receivables from subsidiary companies	1.197.135	398.127	799.008	200,69%
Total	**1.977.185**	**1.013.130**	**964.055**	**95,16%**
Total Current financial receivables e Other current receivables	**6.499.620**	**6.380.179**	**119.441**	**1,87%**

The amount entered among the "tax receivables" related to Value Added Tax (VAT) is the natural effect of the large amount of exports which characterize the sales volume of the company
The "income tax receivables" mostly refer to the entry of tax credits derived from the difference between the pre-existing tax credits/down payments and the tax debt which came due on the date of the financial statement; it also includes the amount of the reimbursement from the tax authorities for the excess IRES taxes paid due to the failure to deduct the IRAP related to the expenses for employees and similar in conformity with art. 2, sub-section 1-quater, D.L. 201/2011.

The financial receivables are related to short-term financing issued to subsidiary and associated companies in order to provide for normal operational activities. The main financial receivables issued to subsidiary companies are the following:

Group companies	amount (/1000)	Currency	Annual rate
Asclepion Laser Technologies GmbH	985	Eur	BCE + 1%
Ot-las S.r.l.	500	Eur	BCE + 1%
Esthelogue S.r.l.	1.627	Eur	BCE + 1% (up to 1.065 thousand Euros) 4% (over 1.065 thousand Euros)
BRCT Inc.	952	USD	2,50%
Deka Medical Inc.	267	USD	2,50%

For further details on the financial receivables from subsidiaries and associated companies, please see the chapter, regarding "related parties".

The entry of "Other receivables from subsidiary companies" entered in the section "Other current receivables" is related to the receivable from Ot-las (ex Cutlite Penta srl) and from Esthelogue srl, as part of the adhesion to the national fiscal consolidated (procedure as per articles 117 and following of the TU 917/86 and D.M. activated June 9th 2004).

Securities and other current financial assets (note 8)

	31/12/2017	31/12/2016	Variation	Var. %
Securities and other current financial assets				
Other current financial assets	2.036.433		2.036.433	
Total	**2.036.433**		**2.036.433**	

The amount entered under the heading of “Securities and other current financial assets” is made up of mutual funds that had been acquired by the Company for the purpose of a temporary use of cash.

Cash and cash equivalents (note 9)

Cash and cash equivalents is composed as follows:

	31/12/2017	31/12/2016	Variation	Var. %
Bank and postal current accounts	43.368.631	57.205.579	-13.836.948	-24,19%
Cash on hand	4.823	7.809	-2.986	-38,24%
Total	**43.373.454**	**57.213.388**	**-13.839.934**	**-24,19%**

For an analysis of the variations in cash and cash equivalents, please refer to the cash flow statements.

Net financial position as of December 31st 2017

The net financial position as of December 31st 2017 is composed as follows (in thousands of Euros).

Net financial position	31/12/2017	31/12/2016
Cash and bank	43.373	57.213
Financial instruments	2.036	0
Cash and cash equivalents	**45.410**	**57.213**
Current financial receivables	**130**	**63**
Financial short term liabilities	**0**	**(0)**
Net current financial position	**45.540**	**57.277**
Other long term financial liabilities	(488)	(488)
Financial long term liabilities	**(488)**	**(488)**
Net financial position	**45.052**	**56.788**

The net financial position decreased by about 11,7 million Euros with respect to December 31st 2016 and was registered about 45 million Euros. The Company paid dividends for an amount of about 7,7 million Euros this year.

As already mentioned in the preceding note, 11,5 million Euros (of which 1 million this year and the rest in the preceding years) was used for temporary financial investments, the nature of which require that they be entered among the non-current assets and be excluded from the net financial position.

Financial receivables from subsidiaries and associated companies for an amount of 4.392 thousand Euros have been excluded from the net financial position because they are related to the policy of financial assistance to the companies of the Group (for details, please consult the information on related parties).
In continuation of past policy, it was deemed opportune to exclude this financing from the net financial position shown above.

Information on the Statement of financial position - Liabilities

Share Capital and Reserves

The main components of the shareholders' equity are shown on the chart below:

Share Capital (note 10)

As of December 31st 2017, the capital stock of El.En. was as follows

Authorized (to stock option plan service)	Euros	2.612.671
Underwritten and deposited	Euros	2.508.671

Nominal value of each share - Euros	***0,13***

Category	31/12/2016	Increase	Decrease	31/12/2017
No. of Ordinary Shares	19.297.472	0	0	19.297.472
Total	**19.297.472**	**0**	**0**	**19.297.472**

Shares are nominal and indivisible and each of them gives the holder the right to one vote in all the ordinary and extraordinary assemblies as well as the other financial and administrative rights granted in accordance with the law and the Statute. At least 5% of the net operating profits of the financial year must be set aside for the legal reserve in accordance with art. 2430 of the civil code. The remainder is distributed to the shareholders, unless the assembly votes otherwise. The Statute does not allow advance payments on the dividends. Dividends not cashed within five years from the date of emission are returned to the Company. No special statutory clauses exist with regard to the participation of shareholders in the remaining assets in the event of liquidation. No statutory clauses exist granting special privileges.

In implementation of the decision of the Extraordinary Shareholders' meeting of the El.En. S.p.A. on May 12th 2016, starting on May 30th 2016 operations were begun for the splitting of 4.824.368 ordinary shares of El.En. S.p.A by cancellation of the ordinary shares with a nominal value of 0,52 Euros and issuing of new ordinary shares with a value of 0,13 Euros each.
The splitting operation took place on June 1st 2016 by assigning 4 new ordinary shares of El.En. S.p.A stock for each old ordinary share of El.En. SpA.
The capital stock, which remains unchanged at a nominal value of 2.508.671,36 Euros, is therefore represented by 19.297.472 ordinary shares having a nominal value of 0,13 Euros each.

Increase in the capital in the stock option plan service
The extraordinary shareholders' meeting of the El.En. S.p.A. held on May 12th 2016, in compliance with art. 2443, II sub-section, CC., voted to authorize the Board of Directors to increase, in one or more operations and even separately, within five years after the authorization, the capital stock up to a maximum of nominal 104.000,00 Euros by issuing new shares intended for underwriting by the beneficiaries of the stock option plan for 2016-2025.

On September 13th 2016, the Board of Directors of the Company, following a recommendation of the Remuneration Committee, voted on the implementation of the stock option plan for 2016-2025 ("Stock Option Plan 2016-2025") in compliance with the mandate conferred to them by the Shareholders' meeting mentioned above and identified the beneficiaries of the plan, the number of options to be assigned, the temporal limits for picking up the options, and the price of underwriting them.
The Board, in compliance with art. 2443, II sub-section, CC., also executed the mandate conferred upon them by the Assembly, to increase, upon payment, entirely and exclusively for use in the stock option plan, separately and with the exclusion of the option right described in art. 2441, sub-section V, CC, the capital stock, by 104.000,00 Euros by issuing 800.000 ordinary shares which can be underwritten by the administrators, collaborators and employees of El.En. S.p.A. and the companies it controls who are the beneficiaries of the stock options included in the above mentioned Plan.

The options may be picked up by the beneficiaries in conformity to the terms and conditions stated in the regulations of the Plan which was definitively approved on September 13th in two equal sections: the first from September 14th 2019 until December 31st 2025, and the second from September 14th 2020 until December 31st 2025.
The plan will terminate on December 31st 2025 and the options that have not been picked up before that date will expire permanently; the capital will be definitively increased for the amount actually underwritten and released by that date.

Additional paid in capital (note 11)

On December 31st 2017 the share premium reserve amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2016.

Other reserves (note 12)

	31/12/2017	31/12/2016	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	95.059.871	61.267.908	33.791.963	55,15%
Stock option/ stock based compensation reserve	2.931.557	2.068.895	862.662	41,70%
Special reserve for grants received	426.657	426.657		0,00%
Other reserves	-126.643	-112.722	-13.921	12,35%
Total	**98.828.744**	**64.188.040**	**34.640.704**	**53,97%**

On December 31st 2017 the “extraordinary reserve” amounted to 95.060 thousand Euros; the increase with respect to December 31st 2016 is due to the allocation of part of the net income for the year by the company, in compliance with the resolution taken by the Shareholders’ meeting on May 15th 2017.

The reserve for stock options includes the costs that had been determined in compliance with IFRS 2 of the stock option plans assigned by El.En. S.p.A. The increase is due to the quota that matured on December 31st 2017 for the stock option plan 2016-2025 described above.

The reserve for contributions in capital account must be considered a reserve of profits and is unchanged with respect to last year.

The heading of “Other reserves” includes among other things the reserve related to the evaluation of the severance indemnity fund in conformity with IAS 19.

Treasury Stock (note 13)

The resolution taken by the Shareholders’ meeting of the company on April 28th 2015 to authorize the Board of Directors to purchase treasury stock definitively expire in the month of October 2016 without any purchase having been made. Consequently, at this time, the Company does not own any treasury stock.

Retained earnings (note 14)

This category includes the rectifications in the shareholders’ equity which were a consequence of the adoption of the international accounting standards and the entry of the capital gains earned after the sale of the treasury stock which took place in February 2005 and, in a minimal quantity, the sale of treasury stock in October 2012.

Availability and possibility of utilization of the reserves

SHAREHOLDERS' EQUITY:	31/12/2017	Possibility of utilization	Portion available	Utilized in the previous two periods for covering losses	Utilized in the previous two periods for other purposes
Share capital	2.508.671				
Additional paid in capital	38.593.618	ABC	38.593.618		
Legal reserve	537.302	B	537.302		
Reserve for treasury stock					
Other reserves:					
Extraordinary reserve	95.059.871	ABC	95.059.871		
Reserve for contribution on capital account	426.657	ABC	426.657		
Retained earnings	-984.283	ABC	-984.283		
Other reserves	2.804.914	AB	13.392		
			133.646.557		
Portion not distributable					
Portion distributable			**133.646.557**		

Legend: A) increase in capital; B) for covering losses; C) for distribution to partners

Non-current liabilities

Severance indemnity (note 15)

The chart below shows the operations which have taken place during this financial period.

31/12/2016	Provision	(Utilization)	Payment to complementary pension forms, to INPS fund and other movements	31/12/2017
945.174	623.913	-368.624	-311.851	888.612

The severance indemnity represents an indemnity which is matured by the employees during their period of employment and which is paid upon termination of employment.

For IAS purposes the payment of a severance indemnity represents a "long term benefit subsequent to the termination of employment"; this is an obligation of the "defined benefit" type which entails entering a liability similar to that entered for defined benefit pension plans. After the modifications to the severance indemnity in conformity with the Law of December 27th 2006 (and later modifications), for IAS purposes, only the liability relative to the matured severance fund left in the company has been evaluated because the quota maturing has been paid to a separate entity (complementary pension type). Also for employees who have explicitly decided to keep the indemnity fund in the company, the indemnity matured since January 1st 2007 has been paid into the treasury Fund managed by INPS. This fund, according to the financial law 2007, guarantees the employees working in the private sector the payment of the severance indemnity for the amount corresponding to the payments deposited to the latter.

The current value of the severance fund indemnity remaining with the company as of December 31st 2017 was 891 thousand Euros.

The hypotheses used to establish the indemnity plan are summarized in the chart below:

Financial hypotheses	Year 2016	Year 2017
Annual implementation rate	1,31%	1,30%
Annual inflation rate	0,5% (from 2017 to 2020) 1% (from 2021 to 2023) 1,5% (for the remainder of the projection period)	1,50%
Annual increase rate of salaries (including inflation)	Executives 2,00% White collar workers 0,50% Blue collar workers 0,50%	Executives 2,00% White collar workers 0,50% Blue collar workers 0,50%

The interest rate used to determine the current value of the liability was based on the rate of iBoxx corporate AA 10+ for the amount of 1,30% in conformity with the criteria used last year.

Analysis of deferred tax assets and liabilities (note 4) (note 16)

Deferred tax assets and liabilities are accrued on the temporary differences between assets and liabilities recognized for fiscal purposes and those entered into accounts.
The analysis is shown on the chart below.

	31/12/2016	Provision	(Utilization)	Other movements	31/12/2017
Deferred tax assets on inventory devaluation	1.435.780	-	(24.141)	-	1.411.639
Deferred tax assets on warranty reserve	117.738	-	(3.600)	-	114.138
Deferred tax assets on bad debt reserve	1.050.937	-	(157.245)	-	893.691
Other deferred tax assets and on IAS adjust.	132.406	-	(24.171)	4.397	112.632
Total	**2.736.861**	**-**	**(209.157)**	**4.396**	**2.532.100**
Deferred tax liabilities on advance depreciations	135.114	-	-	-	135.114
Deferred tax liabilities on grants on capital account	236.049	-	(51.971)	-	184.078
Other deferred tax liabilities and on IAS adjust.	313.481	-	(156.699)	-	156.782
Total	**684.644**	**-**	**(208.670)**	**-**	**475.974**
Net	2.052.217	-	(487)	4.396	2.056.126

Deferred tax assets amounted to about 2,5 million Euros. The main variations this year are due to the decrease in deferred tax assets calculated on bad debt reserve.

Deferred tax liabilities amounted to 476 thousand Euros and refer, among other things, to the postponement of the taxation of some grants in capital account which have been received and, for fiscal purposes, have been deferred, as provided for by the law.

Under the heading of “Other movements” for both categories we have entered, among other things, the deferred taxes on the value adjustments made on the severance indemnity fund and entered into accounts directly in the Other Comprehensive Income (“OCI”).

Other accruals (note 17)

The chart below shows the operations made with other accruals.

	31/12/2016	Provision	(Utilization)	Other movements	31/12/2017
Reserve for pension costs and similar	67.155	3.887			71.043
Warranty reserve on the products	422.001	-15.000			407.001
Other minor reserves		100.000			100.000
Total	**489.156**	**88.887**			**578.044**

In the entry “reserve for pension costs and similar” the TFM (severance indemnity fund for the directors) and the indemnity fund for clients’ agents are included.

The product guarantee fund is calculated on the basis of the costs for spare parts and assistance sustained the preceding year, adjusted to the sales volume of the current year.

According to IAS 37, the amount owed to the agents must be calculated using the actualization techniques to estimate as precisely as possible, the overall cost to be sustained for the payment of benefits to the agents after the termination of employment.

The accrual under the heading of “Other minor reserves” refers to the reserve for losses on equity in Cutlite Do Brasil, which, during the year, registered losses that eroded its capital.

The technical evaluations are made on the basis of the hypotheses described below:

Financial hypotheses	Year 2016	Year 2017
Annual implementation rate	1,31%	
Annual inflation rate	0,5% (from 2017 to 2020)	1,30%
	1% (from 2021 to 2023)	1,50%
	1,5% (for the remainder of the projection period)	

Financial debts and liabilities (note 18)

The chart below shows the breakdown of the amounts owed:

Financial m/l term debts	31/12/2017	31/12/2016	Variation	Var. %
Amounts owed to other financiers	488.285	488.285		0,00%
Total	**488.285**	**488.285**		**0,00%**

The amount entered under the heading of “Amounts owed to other financers” is related to the facilitated financing for applied research (MILORD project), issued by FidiToscana to the Company and reimbursable in 6 quarterly installments, starting on April 2020 with the last installment on October 31st 2022.

Current liabilities

Financial debts (note 19)

Financial short term debts	31/12/2017	31/12/2016	Variation	Var. %
Amounts owed to banks		6	-6	-100,00%
Total		**6**	**-6**	**-100,00%**

Accounts Payable (note 20)

For a detailed analysis of the accounts payable to the subsidiary and associated companies, refer to the chapter with the information sheet relative to related parties.

	31/12/2017	31/12/2016	Variation	Var. %
Accounts payable	12.476.422	10.999.163	1.477.259	13,43%
Amounts owed to subsidiary companies	900.560	751.273	149.287	19,87%
Total	**13.376.982**	**11.750.436**	**1.626.546**	**13,84%**

The chart below shows a detailed breakdown of the accounts payable to third parties divided according to the type of currency:

Accounts payable in:	31/12/2017	31/12/2016
Euros	11.780.536	9.991.635
USD	652.964	924.464
Other currencies	42.922	83.063
Total	**12.476.422**	**10.999.163**

On the chart, the value in Euros of the debts originally expressed in US dollars or other currencies represents the amount in currency converted at the exchange rate in force on December 31st 2017 and on December 31st 2016.

Income tax payables /Other current payables (note 21)

The breakdown of the other current payables is the following:

	31/12/2017	31/12/2016	Variation	Var. %
Social security debts				
Debts to INPS	938.699	934.868	3.831	0,41%
Debts to INAIL	66.428	64.967	1.461	2,25%
Debts to other Social Security Institutions	145.232	122.841	22.391	18,23%
Total	**1.150.359**	**1.122.676**	**27.683**	**2,47%**
Other debts				
Debts to the tax authorities for withholding	771.382	672.935	98.447	14,63%
Other tax liabilities	2.439	2.204	235	10,66%
Debts to staff for wages and salaries	1.831.929	1.536.474	295.455	19,23%
Down payments	29.349	45.631	-16.282	-35,68%
Other debts to subsidiary companies	22.052	22.052		0,00%
Other debts	514.765	643.761	-128.996	-20,04%
Total	**3.171.916**	**2.923.057**	**248.859**	**8,51%**
Total Social security debts e Other debts	**4.322.275**	**4.045.733**	**276.542**	**6,84%**

The "Debts to staff for wages and salaries" includes, among other things, the debts for deferred salaries matured by employees as of December 31st 2017.

Analysis of debts according to due date

	31/12/2017			31/12/2016		
	<= 1 year	>1 year <= 5 years	> 5 years	<= 1 year	>1 year <= 5 years	> 5 years
Amounts owed to banks				6		
Amounts owed to other financiers		488.285			325.523	162.762
Accounts payable	12.476.422			10.999.163		
Amounts owed to subsidiary companies	922.612			773.325		
Income tax payables				648.725		
Social security debts	1.150.359			1.122.676		
Other debts	3.149.864			2.901.004		
Total	**17.699.257**	**488.285**		**16.444.889**	**325.523**	**162.762**

Information on the Income Statement

Revenue (note 22)

	31/12/2017	31/12/2016	Variation	Var. %
Medical	43.111.271	46.935.635	-3.824.364	-8,15%
Industrial	10.949.345	10.355.803	593.542	5,73%
Total revenue	**54.060.616**	**57.291.438**	**-3.230.822**	**-5,64%**

The revenue of 54 million Euros showed a decrease of 5,6% with respect to that shown on December 31st 2016. The reduction of about 3,2 million Euros can be attributed exclusively to the medical sector. In this sector, the surgical segment showed a decrease which was entirely due to the drop in sales registered in the United States, which was in part expected as a consequence of the stabilization of the market and the scheduled reduction of the inventory by our exclusive distributor, Cynosure/Hologic; the decrease was attenuated in the third and fourth quarters but, in any case, remains significant. The results in all of the other segments of the medical sector were positive. The trend in the industrial sector was also good; in this sector El.En had to stop the manufacture of high powered CO_2 laser sources (over 2 kW) while the production for mid-powered sources (from 150 W to 1,5kW) continues to increase.

Subdivision of revenue by geographical area

	31/12/2017	31/12/2016	Variation	Var. %
Italy	35.483.771	35.086.629	397.142	1,13%
Europe	7.691.020	6.518.079	1.172.941	18,00%
ROW	10.885.825	15.686.730	-4.800.905	-30,60%
Total revenue	**54.060.616**	**57.291.438**	**-3.230.822**	**-5,64%**

The Italian market remained the most prevalent and is composed mainly of the Italian companies belonging to the Group, although it should be noted that a large part of the production invoiced to the Italian companies of the Group is exported abroad.

Other income (note 23)

Analysis of the other income is as follows:

	31/12/2017	31/12/2016	Variation	Var. %
Insurance refunds	621		621	
Recovery of expenses	154.470	106.764	47.706	44,68%
Capital gains on disposal of fixed assets	34.152	15.973	18.179	113,81%
Other income	625.252	1.388.201	-762.949	-54,96%
Total	**814.495**	**1.510.938**	**-696.443**	**-46,09%**

Under the heading of "Other income" we have entered grants of about 148 thousand Euros, as final payment for the co-financed research project BI-TRE – Biophotonics Technologies for Tissue Repair – which was accepted by the *Bando Regionale* 2012 approved by the Regione Toscana with *Decreto Dirigenziale* n. 5160 on November 5th 2012

Costs for the purchase of goods (note 24)

The analysis of these purchases is shown on the chart below.

	31/12/2017	31/12/2016	Variation	Var. %
Purchases of raw materials and finished products	26.614.743	26.291.266	323.477	1,23%
Packagings	378.079	450.223	-72.144	-16,02%
Shipping charges on purchases	215.183	243.072	-27.889	-11,47%
Other purchase expenses	204.009	251.249	-47.240	-18,80%
Other purchases	26.390	15.506	10.884	70,19%
Total	**27.438.404**	**27.251.318**	**187.088**	**0,69%**

Direct services/ other operating services and charges (note 25)

Breakdown of this category is shown on the chart below:

	31/12/2017	31/12/2016	Variation	Var. %
Direct services				
Outsourced processing	2.993.320	3.214.260	-220.940	-6,87%
Technical services	154.903	117.605	37.298	31,71%
Shipment charges on sales	281.013	237.646	43.367	18,25%
Commissions	125.466	112.354	13.112	11,67%
Royalties	1.440	3.817	-2.377	-62,27%
Travel expenses for technical assistance	173.919	155.907	18.012	11,55%
Other direct services	339.553	397.440	-57.887	-14,56%
Total	**4.069.614**	**4.239.029**	**-169.415**	**-4,00%**
Other operating services and charges				
Maintenance and technical assistance on equipment	406.525	253.897	152.628	60,11%
Commercial services and consulting	109.633	79.067	30.566	38,66%
Legal and administrative services and consulting	351.655	324.583	27.072	8,34%
Audit fees	112.301	86.528	25.773	29,79%
Insurances	194.445	223.486	-29.041	-12,99%
Travel and accommodation expenses	488.208	429.737	58.471	13,61%
Trade shows	337.458	339.448	-1.990	-0,59%
Promotional and advertising fees	203.841	206.058	-2.217	-1,08%
Expenses related to real estate	712.912	641.386	71.526	11,15%
Other taxes	74.154	74.728	-574	-0,77%
Vehicles maintenance expenses	271.077	241.580	29.497	12,21%
Office supplies	59.389	50.053	9.336	18,65%
Hardware and Software assistance	188.431	176.151	12.280	6,97%
Bank charges	38.830	50.111	-11.281	-22,51%
Leases and rentals	377.235	247.040	130.195	52,70%
Salaries and indemnity to the Board of Directors and Board of Auditors	758.939	891.214	-132.275	-14,84%
Temporary employment	138.972	62.611	76.361	121,96%
Other services and charges	2.100.885	1.796.826	304.059	16,92%
Total	**6.924.890**	**6.174.504**	**750.386**	**12,15%**

Under the heading of "Other services and charges" we have included the costs for technical and scientific consulting and costs for studies and research for the amount of 274 thousand Euros. For the costs of research and development, please consult the relative paragraphs in the Management Report.

Future commitments for use of goods belonging to others

The chart below shows a summary of the obligations that the Company will have for the use of goods belonging to others.

Operating lease commitments	**31/12/2017**	**31/12/2016**
<= 1 year	261.915	277.181
>1 year <= 5 years	435.396	406.588
> 5 years	934	53.586
Total	**698.245**	**737.355**

These costs are mostly related to leasing contracts for company vehicles.

Staff costs (note 26)

The chart below shows the costs for staff:

	31/12/2017	**31/12/2016**	**Variation**	**Var. %**
Wages and salaries	11.236.415	9.567.090	1.669.325	17,45%
Social security contributions	3.138.894	2.865.039	273.855	9,56%
Severance indemnity	611.510	544.278	67.232	12,35%
Staff costs for stock options/stock based compensation	532.345	144.587	387.758	268,18%
Total	**15.519.164**	**13.120.994**	**2.398.170**	**18,28%**

The increase in staff costs was due to the increase in the number of employees which during the year, rose from 215 in 2016 to 234 employees as of December 31st 2017, and was meant to re-enforce some of the key company functions.

Depreciation, amortization and other accruals (note 27)

The table below shows the breakdown for this category:

	31/12/2017	**31/12/2016**	**Variation**	**Var. %**
Amortization of intangible assets	178.555	160.338	18.217	11,36%
Depreciation of tangible assets	1.015.635	1.024.780	-9.145	-0,89%
Accrual for bad debts	84.122	182.798	-98.676	-53,98%
Accrual for risks and charges	-15.000	-10.000	-5.000	50,00%
Total	**1.263.312**	**1.357.916**	**-94.604**	**-6,97%**

Financial income and charges (note 28)

The breakdown of the category is as follows:

	31/12/2017	31/12/2016	Variation	Var. %
Financial income				
Interests on bank and postal deposits	396.761	257.513	139.248	54,07%
Dividends	1.862.500	950.000	912.500	96,05%
Dividends from other investments	10.506		10.506	
Financial income from subsidiary companies	94.591	100.699	-6.108	-6,07%
Financial income from associated companies	300	304	-4	-1,32%
Interests from current securities and financial assets	209.199	203.281	5.918	2,91%
Capital gain and other income from current securities and financial assets	21.553	50.163	-28.610	-57,03%
Other financial income	5.781	8.745	-2.964	-33,89%
Total	**2.601.191**	**1.570.705**	**1.030.486**	**65,61%**
Financial charges				
Interests on bank debts and on short term loans		757	-757	-100,00%
Capital losses and other charges on current securities and financial assets		899	-899	-100,00%
Financial charges - subsidiary companies	117.898	11.773	106.125	901,43%
Other financial charges	13.058	20.268	-7.210	-35,57%
Total	**130.956**	**33.697**	**97.259**	**288,63%**
Exchange gain (loss)				
Exchange gains	310.827	3.342.160	-3.031.333	-90,70%
Exchange losses	-3.343.201	-856.648	-2.486.553	290,27%
Other exchange gains (losses)	422.286	-123.909	546.195	-440,80%
Total	**-2.610.088**	**2.361.603**	**-4.971.691**	**-210,52%**

During this year dividends from subsidiaries were entered into accounts for an amount of about 1.863 thousand Euros distributed by the subsidiary Deka M.E.L.A. S.r.l. for 723 thousand Euros, by the subsidiary Lasit S.p.A. for 140 thousand Euros, by Quanta System S.p.A. for 1 million Euros.

The entry "other financial charges" includes the entering into accounts of interest charges derived from the application of IAS 19 to the severance indemnity for an amount of about 12 thousand Euros.

The entry "Financial charges – subsidiary companies" represents the cost of the actualization of the inter-Group accounts receivable from the subsidiary Ot-las S.r.l. and from the subsidiary Penta-Chutian Laser (Wuhan) Co. Ltd, which we expect will be collected over a period of years.

Other net income and charges (note 29)

	31/12/2017	31/12/2016	Variation	Var. %
Other non operating charges				
Capital losses on equity investments		3.653	-3.653	-100,00%
Accrual for losses in group companies	100.000		100.000	
Devaluation of equity investment		424.662	-424.662	-100,00%
Total	**100.000**	**428.315**	**-328.315**	**-76,65%**
Other non operating income				
Capital gains on equity investments	563.655	36.507.176	-35.943.521	-98,46%
Total	**563.655**	**36.507.176**	**-35.943.521**	**-98,46%**

The amount shown under the heading of "Accrual for losses in group companies" is related to the subsidiary Cutlite do Brasil Ltda.

The heading of “Devaluation of equity investments” in 2016 included the devaluation operation conducted directly on the value of the equity held in Cutlite do Brasil.

The “Other non-operating income” in 2016 was related to the capital gains earned from the sale of 998.628 shares of Cynosure Inc..

The “Capital gains on equity investments” is related to the capital gains earned from the sale of the entire equity held in Imaginalis S.r.l..

Income taxes (note 30)

	31/12/2017	31/12/2016	Variation	Var. %
IRES and other foreign income taxes		2.586.304	-2.586.304	-100,00%
IRAP Tax	53.181	236.283	-183.102	-77,49%
Deferred IRES taxes	5.820	-311.240	317.060	-101,87%
Deferred IRAP taxes	-5.333	1.833	-7.166	-390,94%
Charges (Income) for IRES from tax consolidation	-746.295		-746.295	
Other income tax	-4.987	-4.987		0,00%
Previous years tax		-26.573	26.572	-100,00%
Total	**-697.615**	**2.481.620**	**-3.179.235**	**-128,11%**

Income taxes for this year were -698 thousand Euros as opposed to the 2.482 thousand Euros for last year.

The chart below shows the reconciliation between the theoretical fiscal aliquots and the actual aliquot limited to the income tax of the companies (IRES).

	2017	2016
Profit/loss before taxes	(656.469)	43.992.572
Theoretical IRES Aliquot	24,00%	27,50%
Theoretical IRES	(157.553)	12.097.957
One time income tax charges	(1)	(26.573)
Tax credit		
Charges (income) for IRES from fiscal consolidation	(746.295)	
Participation exemption	(127.527)	(9.537.500)
Higher (lower) fiscal incidence with respect to the theoretical aliquot	285.912	(290.381)
Actual IRES	(745.464)	2.243.504
Actual IRES aliquot	113,56%	5,10%

The *tax rate* for this year was significantly influenced by some components of the revenue which were not entirely subject to taxation, like, for example, the dividends cashed in and the capital gains earned from the sale of an equity which benefits from the PEX partial exemption. Moreover, the negative amount before tax registered by the Company generated a tax income due to the benefit which had matured as part of the so-called fiscal consolidated with the subsidiaries Ot-las S.r.l. (ex Cutlite Penta S.r.l.) and Esthelogue S.r.l. Last year the low tax rate was mainly due to the PEX facilitations which benefitted the sizeable capital gains earned from the sale of the last block of Cynosure shares.

The break-down of the deferred tax assets and liabilities is shown in the chart for the preceding note (16). The amount of income taxes includes the balance related to this financial year.

Dividends distributed (note 31)

The shareholders' meeting of El.En. Spa which met on May 12th 2016 voted to distribute dividends for the amount of 1,20 Euro per share in circulation on the date the coupon came due. The total amount of the dividend that was paid was 5.789.241,60 Euros.

The shareholders' meeting of El.En. S.p.A. which was held on May 15th 2017 voted to distribute dividends for an amount of 0,40 Euros each of the 19.297.472 shares in circulation (after the splitting of the shares, details of which are given in note 10 of this document) on the date the coupon came due. The total amount of the dividend paid was 7.718.988,80 Euros.

Non-recurring significant, atypical and unusual events and operations (note 32)

For the year 2017 and for the same period last year the company did not conduct any non-recurring, significant, atypical or unusual operations as specified by the Consob Communication of July 28th 2006 n. DEM/6064293.

Information about related parties (note 33)

Related parties are identified in compliance with the international accounting standard IAS 24. In particular, the following subjects are considered related parties:
- the subsidiary and associated companies;
- the members of the Board of Directors and Board of Statutory Auditors of the company, the General Manager and the other executive directors with strategic responsibilities;
- the individuals holding shares in the El. En. S.p.A;
- the legal bodies of which a significant number of shares is owned by one of the main shareholders of the company, by a member of the Board of Directors of the company, by a member of the Board of Statutory Auditors, by General Manager and by any other of the executives with strategic responsibilities.

One of the Managing Directors, the majority shareholder of the company, has an outright ownership of a 25% quota of Immobiliare del Ciliegio Srl, also a shareholder of the company.
All the transactions with related parties took place at normal market conditions.

In particular, the paragraphs below give important information about the related parties.

The Members of the Board of Directors, the Board of Statutory Auditors, the General Manager and other strategic executives of the Company

In compliance with *Consob regulation 11971/99 (Regolamento Emittenti*) the salaries paid to the members of the Board of Directors and the Board of Statutory Auditors, the General Director and the managers with strategic responsibilities and the equities held by them are shown in the "Report on Remuneration ex artt. 123-*ter* T.U.F. e 84-*quater* Reg. Consob 11971/1999" which, in compliance with the law is made available and can be consulted on the internet site www.elengroup.com – section "Investor relations/Governance/Company documents".

It should be noted that to the President of the technical and scientific committee of El.En. S.p.A., Professor Leonardo Masotti, was paid a fixed amount of 7.000 Euros, besides the incentive bonus of 44.406,00 Euros. Moreover, as president of the Board of Directors of Deka MELA S.r.l. he received a salary of 21.000 Euros and, as a member of the Board of Directors of With Us Co. Ltd he received the amount of 1.500 thousand yen. As part of the stock option plan for 2016-2025, he received the options that were granted to him when the plan was set up, as per the information report issued in compliance with art. 84-*bis Regolamento Emittenti Consob*, deposited at company Headquarters and published on the internet site www.elengroup.com in the section called "Investor Relations/Governance/Company Documents/Stock option plan 2016-2015" as well as the authorized storage site www.emarketstorage.com.

Physical persons possessing an equity in El.En. SpA
Besides the members of the Board of Directors, of the Board of Statutory Auditors and the President of the technical and scientific committee, the partner Carlo Raffini to whom the Parent Company El.En. assigned a specific professional task for the entire year, received a salary of 32.000 Euros; moreover, for a similar task performed for the subsidiaries Deka M.E.L.A. Srl and Ot-las (ex Cutlite Penta Srl) he received 20.000 Euros.

Subsidiary and associated companies
El. En. SpA controls a Group of companies which operate in the same macro-sector of lasers, to each of which is reserved a special field of application and a particular function on the market.

The integration of different products and services offered by the Group generates frequent commercial transactions between the various companies belonging to the Group. Most of the inter-Group commercial transactions involve the production by El. En. SpA of mid- and high-powered CO_2 laser sources which constitute a fundamental component in the products manufactured by Ot-las Srl (ex Cutlite Penta Srl), and Lasit SpA. Medical laser equipment manufactured by El. En. SpA is also involved in inter-Group commercial transactions which are, in part, sold to Deka M.E.L.A. Srl, to Esthelogue Srl, to Deka Sarl, to ASA Srl and to Asclepion Laser Technologies GmbH, which organize their distribution.

The prices for the transfer of goods are established on the basis of what normally occurs on the market. The intercompany transactions therefore reflect market trends, from which they may different slightly in accordance with the commercial policies of the company.
It should be mentioned that in October of 2002 El. En. SpA acquired, free of charge, from Deka Mela Srl a license for the use of the same brand name for marketing the laser equipment produced by El. En. for the dental-medical and aesthetic sector in some European and non-European countries.

The tables below show an analysis of the transactions which have taken place with the subsidiary and associated companies both for sales, purchases, accounts and financial payables and receivables.

Subsidiary companies:	Financial receivables < 1 year	Financial receivables > 1 year	Other receivables < 1 year	Other receivables > 1 year	Accounts receivable < 1 year	Accounts receivable > 1 year
Asclepion Laser Technologies GmbH	984.966				605.338	
Deka MELA Srl					6.319.779	
Ot-las Srl	500.000		830.977		13.520.844	
Esthelogue Srl	1.627.287		366.158		2.995.121	
Deka Sarl					1.420.013	
BRCT Inc.	951.614				35.783	
Lasit Spa					141.541	
Quanta System SpA					43.754	
ASA Srl					294.847	
Cutlite do Brasil Ltda					283.959	
Penta-Chutian Laser (Wuhan) Co. Ltd					3.648.296	
Penta-Laser Equipment (Wenzhou) Co. Ltd					46.323	
Deka Medical Inc	266.822				2.899.502	
Pharmonia Srl					1.220	
JenaSurgical GmbH					43.434	
- Bad debt reserve					-3.757.391	
Total	**4.330.690**		**1.197.135**		**28.542.363**	

Associated companies:	Financial receivables < 1 year	Financial receivables > 1 year	Accounts Receivable < 1 year	Accounts Receivable > 1 year
Actis Srl	30.000		8.003	
Immobiliare Del.Co. Srl	31.565			
Elesta Srl			307.288	
Total	**61.565**		**315.291**	

Subsidiary companies:	Financial payables < 1 year	Financial payables > 1 year	Other payables < 1 year	Other payables > 1 year	Accounts Payable < 1 year	Accounts Payable > 1 year
Asclepion Laser Technologies GmbH					26.921	
Deka MELA Srl					10.843	
Ot-las Srl			20.575		312.772	
Esthelogue Srl			1.477			
Lasit Spa					350.138	
Quanta System SpA					70.209	
ASA Srl					35	
Cutlite do Brasil Ltda					19.210	
Deka Medical Inc					94.009	
Penta-Chutian Laser (Wuhan) Co. Ltd					9.686	
Penta-Laser Equipment (Wenzhou) Co. Ltd					6.738	
Total			**22.052**		**900.560**	

Subsidiary companies:	Purchase raw materials	Services	Other	Total
Deka MELA Srl	22.883	27.766		50.649
Ot-las Srl	672.537	58.198		730.735
Esthelogue Srl	3.357			3.357
Deka Sarl		5.177		5.177
Lasit Spa	349.793			349.793
Quanta System SpA	192.842	17.699		210.542
Asclepion Laser Technolohies GmbH	286.962	9.017		295.979
ASA Srl	29			29
With Us Co Ltd	5.683			5.683
Cutlite do Brasil Ltda		2.601		2.601
Penta-Laser Equipment Wenzhou Co. Ltd	6.738			6.738
Jena Surgical GmbH	1.200			1.200
Total	**1.542.023**	**120.459**		**1.662.482**

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl		30.000		30.000
Total		**30.000**		**30.000**

Subsidiary companies:	Sales	Services	Total
Deka MELA Srl	25.703.062	663.355	26.366.417
Otlas Srl	3.272.946	855.264	4.128.209
Esthelogue Srl	42.393	68.145	110.538
Deka Sarl	1.139.762	43.367	1.183.129
Lasit Spa	10.373	310	10.683
Asclepion Laser Technologies GmbH	167.029	413.592	580.620
Quanta System SpA	36.272	8.694	44.966
ASA Srl	884.680	1.766	886.446
Penta-Laser Equipment (Wenzhou) Co. Ltd	167.225		167.225
Cutlite do Brasil Ltda	94.973		94.973
Pharmonia Srl		2.000	2.000
Jena Surgical GmbH	222.933	7.694	230.627
Total	**31.741.647**	**2.064.186**	**33.805.832**

Associated companies:	Sales	Service	Total
Elesta Srl	556.573	3.503	560.076
Total	**556.573**	**3.503**	**560.076**

Subsidiary companies:	Other revenues
Deka MELA Srl	128.342
Otlas Srl	121.569
Esthelogue Srl	17.009
Lasit Spa	105.535
Quanta System SpA	84
Asclepion Laser Technologies GmbH	1.190
Cutlite Do Brasil Ltda	80
JenaSurgical GmbH	14.242
Total	**388.050**

Associated companies:	Other revenues
Elesta Srl	8.038
Actis Srl	1.200
Total	**9.238**

The amounts shown on the charts above refer to transactions which are inherent to the ordinary operations of the company.

The other revenue refers, among other things to the rents charged to Deka M.E.L.A. Srl and to Ot-Las Srl for the portions of the buildings in Calenzano which they occupy and to Lasit Spa for the factory at Torre Annunziata.

Moreover, we have entered into accounts approx. 95 thousand Euros in interest earned on the financing granted to subsidiary companies.

Among the "Other receivables" we have entered receivables from the fiscally consolidated companies Ot-las S.r.l. and Esthelogue S.r.l. for an amount of 1.197 thousand Euros.

The chart below shows the incidence that the operations with related parties had on the economic and financial situation of the Company.

Impact of related parties transactions	Total	related parties	Inc %
Impact of related parties transactions on the statement of financial position			
Equity investments	17.178.725	16.154.227	94,04%
Accounts receivable	36.551.638	28.857.654	78,95%
Other current receivables	6.499.620	5.589.390	86,00%
Non current financial liabilities	488.285	-	0,00%
Accounts payable	13.376.982	900.560	6,73%
Other current payables	4.322.275	22.052	0,51%
Impact of related parties transactions on the income statement			
Revenues	54.060.616	34.365.909	63,57%
Other revenues and income	814.495	397.288	48,78%
Purchase of raw materials	27.438.404	1.542.023	5,62%
Direct services	4.069.614	82.626	2,03%
Other operating services and charges	6.924.890	67.834	0,98%
Financial charges	130.956	117.898	90,03%
Financial income	2.601.191	1.957.391	75,25%
Income taxes	(697.615)		0,00%

Risk factors and Procedures for the management of financial risks (note 34)

Operating risks
Since the company is fully aware of the potential risks derived from the particular type of product made by the Company, already in the earliest phases of planning and research, they operate so as to guarantee the safety and quality, which is also certified, of the product put on the market. There are marginal residual risks for leaks caused by improper use of the product by the end-user or by negative events which are not covered by the types of insurance policies held by the Company.
The main financial instruments of the Company include checking accounts and short-term deposits, securities and short and long-term financial liabilities.
Besides these, the Group also has payables and receivables derived from its activity.
The main financial risks to which the Company is exposed are those related to currency exchange, credit, cash and interest rates.

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

Credit risks
As far as the commercial transactions are concerned, the company operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance. The devaluation fund which is accrued at the end of the year represent about 6% of the total accounts receivable from third parties. For an analysis of receivables overdue from third parties, see the description in the relative note (6) of this document.

As far as financial receivables are concerned, they refer mostly to financing granted to subsidiaries and associated companies.

As far as guarantees from third parties are concerned the Parent Company El.En. S.p.A. has underwritten:

- in 2013, a bank guarantee for a maximum of 50 thousand Euros as a guarantee for customs duties as per ex art. 34 of the T.U.L.D., payable for temporary imports, with expiration date in June 2018 with possibility of extension annually.

-in 2014 a bank guarantee for a maximum of 253 thousand Euros as a guarantee for the restitution of the amount requested as a down payment on the “BI-TRE” research project, which was accepted for a grant in the Bando Regionale 2012 approved by the Regione Toscana with *Decreto Dirigenziale* n. 5160 on November 5th 2012, with expiration date in February 2018.

Cash and interest rate risks
The cash risk represents the risk that the financial resources available might be inadequate to cover the debts coming due. At this time the Company possesses a large amount of cash and the net financial position was very positive at the end of the year. For this reason we believe that these risks are adequately covered.

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

Financial Instruments (note 35)

Fair value

The table below shows a comparison by category between book value and fair value of all the financial instruments of the Company.

	Book value 31/12/2016	Book value 31/12/2015	Fair value 31/12/2016	Fair value 31/12/2015
Financial assets				
Current financial receivables	4.522.435	5.367.049	4.522.435	5.367.049
Securities and other non-current financial assets	12.055.531	10.846.332	12.055.531	10.846.332
Securities and other current financial assets	2.036.433	-	2.036.433	-
Cash and cash equivalents	43.373.454	57.213.388	43.373.454	57.213.388
Financial debts and liabilities				
Non current financial liabilities	488.285	488.285	488.285	488.285
Current financial liabilities	-	6	-	6

Fair value hierarchy

The Company uses the following hierarchy in order to determine and to document the fair value of the financial instruments based on evaluation techniques:

Level 1: quoted prices (not rectified) in a market which is active for identical assets and liabilities.
Level 2: other techniques for which all the input which have a significant effect on the registered fair value can be observed, either directly or indirectly.
Level 3: techniques which use input which have a significant effect on the registered fair value which are not based on observable market data.

As of December 31st 2017 the Company possesses the following securities evaluated at fair value:

	Level 1	Level 2	Level 3	Total
Investment contracts		12.055.531		12.055.531
Mutual funds	2.036.433			2.036.433
Total	**2.036.433**	**12.055.531**		**14.091.964**

Other information (note 36)

Remuneration of directors and statutory auditors

	31/12/2017	31/12/2016	Variation	Var. %
Remuneration of directors	666.639	810.918	-144.279	-17,79%
Remuneration of statutory auditors	72.800	72.800	0	0,00%
Total	**739.439**	**883.718**	**-144.279**	**-16,33%**

Information supplied in compliance with art. 149-duodecies of the Regolamento Emittenti Consob

In compliance with article 149-*duodecies* of the *Regolamento Emittenti Consob*, the chart below shows the amounts for the year 2017 related to auditing services.

	Company providing the service	Receiver	note	2017 fees (Euros)
Audit	Deloitte & Touche SpA	El.En. SpA		62.314
Certification servises	Deloitte & Touche SpA	El.En. SpA	(1)	15.000
Other services	Deloitte & Touche SpA	El.En. SpA	(2)	18.000
				95.314

(1) Revision of the Non-Financial Statement
(2) Assistance in drawing up the sustainability declaration for the December 31st 2016 financial statement

The honorariums shown are net of reimbursements for the expenses sustained and the contributions for supervision of the Consob.

Average number of employees subdivided by category

Personnel	Average of the period	31/12/2017	Average of previous period	31/12/2016	Variation	Var. %
Executives	15	14	14	15	-1	-6,67%
Middle managers	16	16	16	16	0	0,00%
White collar workers	111	119	104	103	16	15,53%
Blue collar workers	83	85	78	81	4	4,94%
Total	**225**	**234**	**211**	**215**	**19**	**8,84%**

For the Board of Directors
Managing Director – Ing. Andrea Cangioli

Declaration of the separate financial statement in conformity with art. 81-ter CONSOB regulation n. 11971 of May 14^{th} 1999 and later modifications and additions

1. We the undersigned, Andrea Cangioli as managing director, and Enrico Romagnoli as executive officer responsible for the preparation of the financial statements of El.En. S.p.A., in conformity with art. 154-bis, sub-section 3 and 4, of Legislative Decree no. 58 of February 24^{th} 1998, declare:

- the conformity in relation to the characteristics of the company and
- the actual application of the administrative and accounting procedures used in drawing up the separate financial statement, during 2017.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the separate financial statement dated December 31^{st} 2017:

a) is drawn up in conformity with the applicable international accounting standards recognized by the European Union in conformity with Regulation (CE) n. 1606/2002 of the European Parliament and the Commission, in July 19^{th} 2002;

b) corresponds to the figures in the ledgers and accounting books;

c) is suitable to supply a true and correct representation of the capital, economic and financial situation of the company;

3.2 the Management Report contains a reliable analysis of the trends and results of the activity as well as the situation of the issuing company and the group of companies included in the area of consolidation, together with a description of the principal risks and uncertainties to which they are exposed:

Calenzano, March 15^{th} 2018

Managing Director	Executive officer responsible for the preparation of the financial statements
Ing. Andrea Cangioli	Dott. Enrico Romagnoli

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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
EL.EN. S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of El.En. S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimate of inventory provision

Description of key audit matters

The closing inventories of the El.En. S.p.A. as at December 31, 2017 are Euro 21,415 thousand, net of a provision for inventory writedowns of Euro 5,946 thousand which, as explained in Note 5 to the financial statements, was estimated to align the value of the inventories with their net realizable value, taking into account obsolete and slow-moving inventories.

The valuation process for the provision is complex, and is based on assumptions regarding possible excess inventories with respect to their future use and net realizable value. The valuations are based on estimates influenced by future expectations referring primarily to the rate of disposal of articles in stock and by market conditions.

Given the significant amount of the inventories recognized in the financial statements and the uncertainties relating to the valuation process, we consider the estimate of the inventory provision to be a key audit matter.

Audit procedures performed

Our audit included the following procedures, among others:

- obtaining an understanding of the significant controls put into place by the Company to detect and monitor obsolete and/or slow-moving inventories and to estimate the inventory provision;

- checking the implementation of such controls;

- examining the appropriateness of the methods adopted by Management for the estimate with respect to the accounting principles adopted;

- analyzing the criteria and assumptions used by Management to estimate the provision;

- verifying the accuracy and completeness of the information used for the estimate;

- analyzing the reasonableness of the main assumptions adopted for the estimate by Management regarding the parameters for future use of the inventories, and the net realizable value by analyzing the supporting evidence;

- processing and analyzing the data and comparing it with the estimated data in order to assess whether the estimate made by Management is reasonable.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of EL.EN. S.p.A. has appointed us on May 15, 2012 as auditors of the Company for the years from December 31, 2012 to December 31, 2020.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of EL.EN. S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of EL.EN. S.p.A. as at December 31, 2017, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of EL.EN. S.p.A. as at December 31, 2017 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of EL.EN. S.p.A. as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

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.

El. En. S.p.A.
Headquarters: Via Baldanzese 17 Calenzano (Florence, Italy)
Registry of companies, Florence n. 03137680488

Report of the Board of Statutory Auditors in conformity with art. 2429 c.c. and art. 153 of D. Lgs. n. 58 /1998

To shareholders,
the Board of Directors of El.En. S.p.A. herewith presents to the Assembly of the company the proposed company report as of December 31st 2017 which was consigned to the Board of Statutory Auditors on March 15th 2018.

During the financial year 2017 the Board of Statutory Auditors conducted its activity in compliance with the regulations of the "*Testo Unico delle disposizioni in materia di intermediazione finanziaria*" (rules for financial intermediaries) D. Lgs. February 24th 1998 n. 58, D.Lgs. January 27th 2010 n. 39 and in conformity with the operating principles of the Board of Statutory Auditors recommended by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (National Council of Business Administrators and Accountants) for the companies quoted on the stock market and with Consob Communication of April 6th 2001, modified and integrated with communication DEM/ 3021582 of April 4th 2003 and subsequently with communication DEM/6031329 of April 7th 2006.

In compliance with D.Lgs. n.58 of February 24th 1998 and D. Lgs. Of January 27th 2010 no. 39, it should be noted that the activity of account control on the financial statement is responsibility of the Independent Auditors Deloitte & Touche S.p.A . which was confirmed for the auditing of the financials for 2012 – 2020, by the shareholders' meeting which met on May 15th 2012, subject to the approval of the Board of Statutory Auditors.

1. Appointment and activities of the Board of Auditors
The Board of Auditors was nominated by the Shareholders' meeting held on May 12th 2016 for the duration of three years and therefore, until the date of the assembly convened for the approval of the financials related to the year 2018, in the persons of Vincenzo Pilla (President), Paolo Caselli and Rita Pelagotti (Acting auditors). During 2017 the Board of Auditors conducted the activities assigned to them by holding 7 meetings and has participated with one or more of their members in all of the meetings to which it has been called and precisely: 1 shareholders' meeting, 5 Board meetings, 6 meetings of the Risks and Controls Commission and 2 meetings of the Nominations Committee and one meeting of the Remuneration Committee.

2. Activities supervising the observance of the law and the company statutes
The Board of Auditors has periodically obtained from the administrators, also through their participation in the meetings of the Shareholders, the Board of Directors, and the various commissions, information on the activities conducted and on the main economic and financial operations that have been approved and implemented this year, made by the Company and the companies belonging to the Group, also in compliance with art. 150 of TUF, subsection 1. On the basis of the information received, they can reasonably affirm that the activities voted and carried out are in conformity with the law and with the company Statute and are not manifestly imprudent, risky or in potential conflict of interest or in contrast with the decisions made by the Assembly or of a nature to compromise the shareholders' equity. Moreover, the operations which are potentially in conflict of interest have been voted in conformity with the law, the regulations and the company statutes.

The Board of Auditors has supervised the observance by the Company of the obligations for supplying information in accordance with the laws regarding information that is regulated, confidential or required by the supervising authorities, all in conformity with the programs and contents indicated by Consob.

Among the significant events related to 2017 (described in the Management Report for 2017) that the Board of Auditor's deems important to recall considering their relevance, are the following::

- The equity of the subsidiary Cutlite Penta S.r.l. in the constitution of Laser Emme S.r.l. by acquiring 19% for a total of 7.600 Euros;
- The increase in the equity by El.En. S.p.a. of the subsidiary Cutlite do Brasil which rose from 68,56% to 98,27% after the recession of the minority shareholder.
- The re-organization process of the activities in the industrial sector of the Group during which the subsidiary Cutlite Penta: (i) conferred to a newly created company all of its activities for systems for laser cutting (ii) and

was renamed Ot-las S.r.l., (iii) the name Cutlite Penta was given to the new company. The new company called Cutlite Penta will be effective starting in January 2018.

3. Supervising activity of the respect of the principles of correct administration and the adequacy of the organizational structure

The Board of Auditors has acquired knowledge and has supervised the adequacy of the organizational structure, the respect of the standards of correct administration, the adequacy of the instructions given by the Company to its subsidiaries in compliance with art. 114, sub-section 2 of the TUF, by acquiring information from the persons responsible for the correct functioning of the company and by meetings held with the Independent Auditors as part of the reciprocal exchange of relevant data and information.

The Board of Directors approved the modifications of the organizational structure of El.En. S.p.A. which created the new position of General Director in the person of Paolo Salvadeo, to be effective on July first 2017. The organizational arrangement was deemed to be adequate overall in terms of structure, procedure and competency in relation to the dimensions of the company and the type of activity they conduct. From the exchange of information which took place between the Board of Auditors (or single auditors) of the subsidiaries Quanta System S.p.a., Lasit S.p.a., Ot-las S.r.l. (ex Cutilite Penta S.r.l.), Deka MELA S.r.l. no critical elements emerged.

The Management Report, which contains information received during the meetings of the Board of Directors and from the General manager, the General Director, the management, the Boards of Auditors of the subsidiary companies, and the Independent Auditors did reveal the existence of any unusual and/or atypical operation with the companies of the Group, with third parties or with related parties.

The Board of Auditors has correctly fulfilled their duty to conduct a periodical self-evaluation regarding its composition, independence and size.

Moreover, the periodical verification regarding the composition, dimension and functioning of the Board of Directors and the committees, with particular reference to the independent administrators was conducted and on the basis of what was referred, no particular issues emerged.

The Board of Auditors also took the necessary measures to verify the respect of the requirement to issue a periodical information and of the monitoring activity conducted by the various company functions and in this regard no particular issues emerged.

4. Supervising activity on the system of internal controls and risk management.

The Board of Auditors supervised the adequacy of the systems of internal control and risk management by:

- Meeting with the top management of El.En. S.p.a. for the purpose of examining the system of internal controls and risk management;
- Holding periodical meeting with the internal auditors for the purpose of evaluating the methods used for planning the work, based on the identification and evaluation of the main risks present in the processes and the organizational units;
- Examining the periodical reports made by the Control managers and the periodical information sheets issued regarding the outcome of the monitoring activity on the implementing of the corrective actions that were required.
- Acquiring information from the managers responsible for the company functions of El.En. S.p.a. and the Group in order to examine the results of the verifications they had conducted, also for the purpose of issuing information reports, in relation to the activity monitoring the company risks.
- Meeting with the controlling bodies of the subsidiary companies in compliance with sub-sections 1 and 2 of art. 151 of the TUF during which the Board of Auditors acquired information on the events deemed to be significant which involved the companies of the Group and the systems of internal controls;
- Having joint encounters with the Supervising body ex D.Lgs 231/2001 of El.En. S.p.a.;
- Having discussions about the results of the work of the Independent Auditors;
- Participating regularly in the work of the Control and Risks Commission of El.En. S.p.a. and when so required by the topics, by joint discussions on them with the commission.

While conducting their control activities the Board of Auditors has maintained continuous contact with the control managers.

The Internal Audit function of El En spa operates on the basis of an annual plan. The annual plan defines which activities and processes will be subjected to a risk-based verification. The plan was approved by the Board of Directors who voted on November 14th 2017.

The activities conducted by the function during the year covered the entire range of the scheduled activities. No

significant issues emerged from this activity.
The Board of Auditors recognizes the fact that annual reports of the Control Functions conclude with a favorable opinion concerning the overall organization of the internal controls.
On the basis of the activity conducted, the information acquired and the contents of the report made by the control functions, the Board of Auditors believes that there are no issues sufficiently critical to invalidate the organization of the system of internal controls and risk management.

5. Supervising activity of the administrative accounting system and on the process of financial information

The Board of Auditors, in its function as Committee for internal controls and auditing, in compliance with art. 19 D.Lgs. n. 39/2010, has monitored the process and verified the effectiveness of the system of internal controls and risk management as far as the financial information reports are concerned.
The Board of Auditors, on the occasion of the appointment by the Board of Directors of the Executive officer responsible for the preparation of the financial statements, gave their favorable opinion in compliance with art. 154-bis D. Lgs. 58/98.
The Board of Auditors has periodically met with the Executive officer responsible for the preparation of the financial statements in order to exchange information concerning the administrative-accounting system and the reliability of this latter for the purpose of correct representation of the management facts. The Board of Auditors has also examined the statements of the General Manager and the Executive officer responsible for the preparation of the financial statements in compliance with art. 154 bis of the TUF.
The Board of Auditors did not find any evidence of defects which could invalidate the opinion of adequacy and effectiveness in the application of the administrative accounting procedures.
During the periodical meetings with the Board of Auditors, the managers of the Independent Auditors did not report any critical situations inherent to the administrative and accounting procedures of the Company that could invalidate the internal controls system.

6. Supervising activity on the operations with related parties and inter-Group.

The main operations conducted with related parties and inter-Group are reported in the Explanatory notes to the financial statement.
The Board of Auditors recalls that, in compliance with the resolution voted on November 12th 2010 by the Board of Directors, the Commission for Controls and Risks also conducts the functions related to operations with related parties and monitoring of situations of conflict of interest that have been assigned to it by the role attributed to independent administrators by art. 4, sub-section 3 Regulations for Related Parties Consob and the new *Regolamento interno relativo alle operazioni con parti correlate* of El.En. S.p.a. which was approved on the same date.
The Board of Auditors also supervised conformity with the procedures with related parties to the present day laws now in force and their correct application.
They found that, from the information received from the administrators and from the conversations with representatives of the auditing company, there were no atypical or unusual operations conducted with companies of the Group, related parties or third parties during 2017 or after the closure of the financial year.
In compliance with art. 4 sub-section 6 of the Consob regulations containing instructions regarding operations with related parties (adopted with resolution 17221 on March 12th 2010 and later modified) they supervised the conformity of the procedures used by the Company (by means of the approval of the special regulations) to the principles indicated in the Consob Regulations mentioned above as well as the observance of their rules.
The Board of Auditors has verified the adequacy, on the basis of the evaluation method being used of the process used for the impairment tests in order to be able to identify the existence of any losses of long-duration in value that are entered among the assets of the company.
The Board of Auditors believes that the internal procedure used by the Parent Company for the purpose of complying with art. 15 of the Market Regulations, which was adopted with resolution n. 20249 of December 28th 2017 (after the preceding art. 36 of Market Regulations, which had been adopted with resolution n. 16191 in 2007), in relation to the regulations governing the conditions for quotation of parent companies controlling other companies that are founded or regulated by the laws of countries that do not belong to the European Union and are of significant importance for the consolidated financial statements, are adequate.

7. Methods for the effective implementation of the rules of Corporate Governance

While carrying out its functions, the Board of Auditors, in compliance with art. 2403 of the Civil Code and with art. 149 of the TUF, supervised the methods for the effective implementation of the rules for Corporate Governance in accordance with the ethics code which El.En. has declared that they follow. El.En. S.p.a. adheres to the Self-disciplining Code promoted by the Borsa Italiana S.p.A.; the Board of Directors has nominated two independent administrators and has set up the following committees: Nominations Committee, Remuneration Committee, and the Controls and Risks Committee, and in conformity with art. 123-bis of the TUF has issued the annual "Report on Corporate Governance and Ownership" in which they supply information concerning:

- The practices of corporate governance that are actually applied;
- The main characteristics of the system for internal controls and risk management;
- The mechanisms relating to the functioning of the Shareholders' meeting, its main powers, the rights of the shareholders and the ways in which they can exercise them;
- The composition and the functioning of the administrative and controlling bodies and the independent commissions as well as all of the other information to be supplied in conformity with art. 123-bis del TUF.

The Board of Directors approved the Report on Corporate Governance and Ownership" on March 15th 2018.
The Board of Auditors has verified the correct application by the Board of Directors of the criteria and the procedures adopted to evaluate the independence the independent administrators in compliance with. 3.C.5 of the Self-Disciplining Code . The Board of Auditors also verified the respect of the criteria for independence of its own members both in the appointment phase and afterwards as required by art. 10.C.2 of the Self-Disciplining code.

8. Supervision activity of the auditing of accounts
In compliance with art. 19 del D.Lgs. 39/2010 the Board of Auditors identifies itself also in the Committee for internal controls and Auditing and has conducted the required activity of supervision on the auditing of the annual accounts and the consolidated accounts.
The Board of Auditors met periodically with the Independent Auditors, Deloitte & Touche S.p.A. also in conformity with art. 150, sub-section 3, of the TUF for the purpose of a reciprocal exchange of information. During these meetings, the Independent Auditors did not discover any acts or facts that they deemed inappropriate or irregular or that required specific reporting in compliance with art. 155, sub-section 2 of the TUF.
The Board of Auditors met with Deloitte on January 26th 2017 and examined the Deloitte's annual Auditing Plan of El.En. S.p.a. 2017 for their professional opinion on the consolidated half-yearly financial statement of the El.En. Group. The auditing company issued a report on the auditing of the half-yearly financial statement without finding any defects.
The proposed financial statement for the financial year ending on December 31st 2017, including the Management Report drawn up by the administrators, as well as the declaration of the Managing Director and the Executive officer responsible for the preparation of the financial statements, was brought in for the approval of the Board of Directors at a meeting held on March 15th 2018 and was entirely placed at the disposal of the Board of Auditors, in preparation for the shareholder's meeting convened for April 27th 2018 for the first convocation and May 15th for the second convocation.
On March 30th 2018 the Independent Auditors, in compliance with art 14 del D.Lgs. 39/2010 and art. 10 of the Regulations (EU) n. 537/2014 issued the auditing reports on the financial statement of El.En. S.p.a. and the consolidated financial statement of the El.En. Group for the year ending on December 31st 2017.
As far as the opinions and attestations are concerned, the Independent Auditors in their report on the auditing of the financials:

- Issued an opinion stating that the separate financial statement of El.En. S.p.a. gives a true and correct representation of the statement of financial position as of December 31st 2017, of the economic result and the cash flow for the year ending on that date in conformity with the International Financial Reporting Standards used by the European Union as well as the regulations issued in implementation of art. 9 of the D.Lgs. 38/2005;
- Issued an opinion on the consistency in which it was demonstrated that the Management Report and some of the specific information contained in the report on the Corporate Governance and Ownership are consistent with the Separate financial statement of El.En. S.p.a. dated December 31st 2017 and have been drawn up in conformity with the law;
- Declared, as far as any errors in the Management Report are concerned (art. 14, co. 2, letter e) D.Lgs 39/2010), on the basis of their knowledge and understanding of the Company and its relative context, that they have nothing to report.

The Independent Auditors presented a declaration of independence to the Board of Auditors, in compliance with art. 6 of the Regulations (EU) n. 537/2014, from which it emerged that there were no situations which might compromise the independence.
The Independent Auditors, Deloitte, was also charged with the following tasks during 2017, the costs for which, as

reported in the attachment to the financial statement in compliance with art. 149 *duodecies* of the *Regolamento Emittenti*, have been entered in the income statement.

Type of service	**Company performing the service**	**Client**	**note**	**2017 fees (thousands of euros)**
Audit	Deloitte & Touche SpA	El.En. SpA		81
Certification services	Deloitte & Touche SpA	El.En. SpA	(1)	15
Other services	Deloitte & Touche SpA	El.En. SpA	(2)	18
		Totale		**114**

(1) Revision of the non-financial statement

(2) Methodological assistance in relation to the sustainability report with the financial statement on December 31st 2016.

9. Remuneration policies

The Board of Auditors verified the company processes which have led to the definition of the remuneration policies of the company, in particular in relation to the Managing Director, the General Director and the managers with strategic responsibilities. The Nominations committee and the Remuneration committee reported to the Board of Directors meeting held on March 15th 2018.

10. Omissions, reprehensible facts, opinions given and initiatives undertaken

During the financial year 2017 the Board of Auditors did not receive any reports in conformity with art. 2408 C.C. nor did it receive complaints from third parties.

The Board of Auditors released the required opinions in conformity with the laws now in force.

During the activity they conducted and on the basis of the information received they found no omissions, reprehensible facts, irregularities or, in any case, circumstances that were sufficiently significant so as to require being reported to the supervising authorities or mentioned in this report.

11. Conclusions

In consideration of the above, the Board of Auditors, on the basis of the reports drawn up by the Independent Auditors, and having taken due note of the certifications issued jointly by the Managing Director and the Executive officer responsible for the preparation of the financial statements, express their favorable opinion for the approval of the financial statement of El.En. S.p.a. dated December 31st 2017 and for the destination of the net income for the period as proposed by the Board of Directors.

Florence, March 30th 2018

The Board of Auditors

Dott. Vincenzo Pilla, President of the Board of Auditors

Dott. Paolo Caselli, Acting auditor

Dott.ssa Rita Pelagotti, Acting auditor