

QUARTERLY
FINANCIAL
REPORT AS OF
SEPTEMBER 30TH 2018

EL.EN. S.p.A.

Headquarters in Calenzano (Florence), Via Baldanzese, 17

Capital stock: Underwritten and paid : € 2.508.671,36

Registry of Companies in Florence – C.F. 03137680488

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

CORPORATE BOARDS OF THE PARENT COMPANY

(as of the date of approval of the financial statement on September 30th 2018)

Board of Directors

CHAIRMAN

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangioli

BOARD MEMBERS

Fabia Romagnoli

Michele Legnaioli

Alberto Pecci

Board of statutory auditors

CHAIRMAN

Vincenzo Pilla

STATUTORY AUDITORS

Paolo Caselli

Rita Pelagotti

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

Enrico Romagnoli

Independent auditors

Deloitte & Touche S.p.A

EL.EN. GROUP

**QUARTERLY MANAGEMENT
REPORT**

AS OF SEPTEMBER 30th 2018

Quarterly report

Introduction

This quarterly report as of September 30th 2018 for the El.En. Group was drawn up in compliance with the regulations of Borsa Italiana for the companies quoted in the STAR segment (article 2.2.3 subsection 3 letter a), in compliance with Borsa Italiana notice 7587 of April 21st 2016. Consequently, as specified in the above mentioned notice, as far as the contents of the quarterly report drawn up on September 30th 2018 are concerned, we have made reference to the previously in force subsection 5 of Art. 154-ter of Legislative Decree 58 of February 24th 1998. This document contains the information usually included by the company in the preceding quarterly reports.

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

The results as of September 30th 2018 are shown in comparative form with those for the same period last year. All amounts are expressed in thousands of Euros unless otherwise indicated.

Alternative Non-GAAP measures

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

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

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

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

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

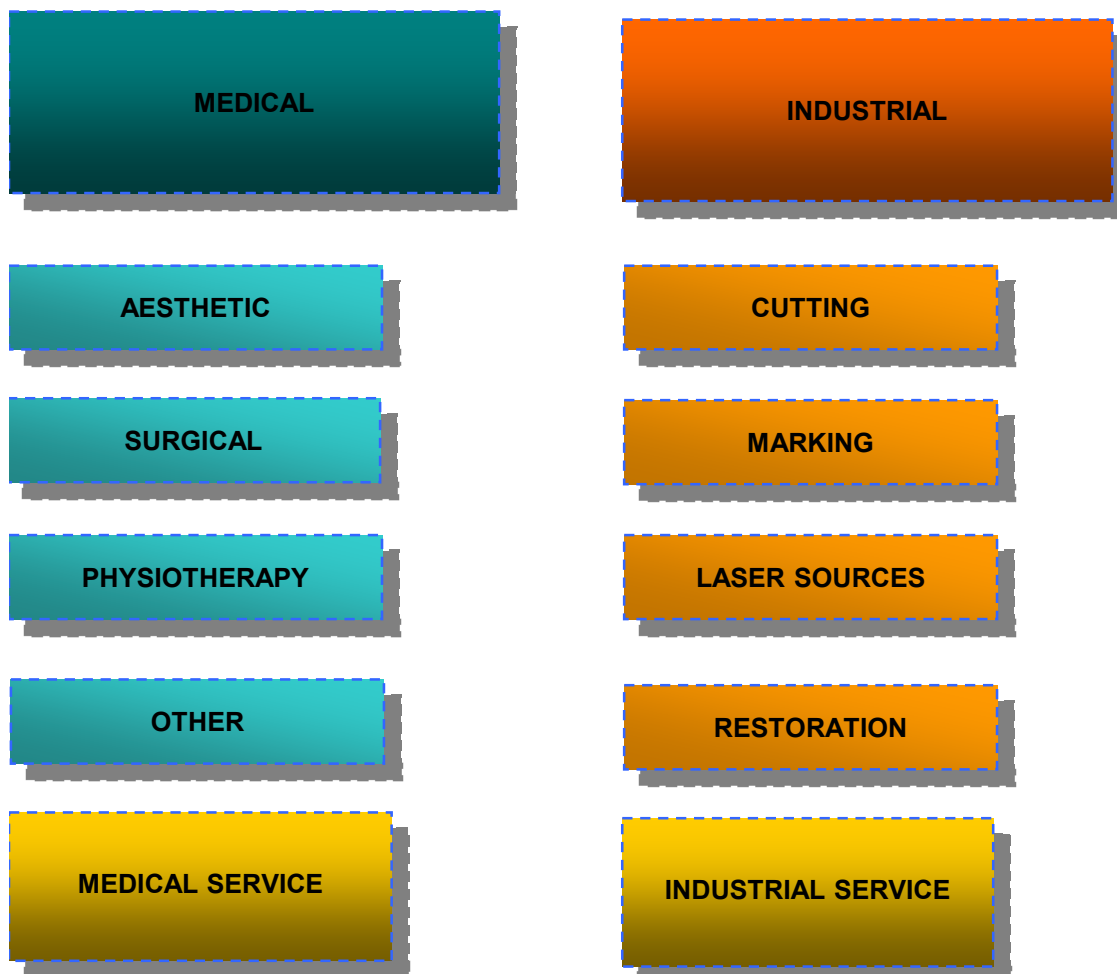
- the **net financial position** which means: cash available + securities entered among current assets + current financial receivables – debts and non-current financial liabilities - current financial debts.

Description of the activities of the Group

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

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

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



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

The division of the Group into 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 that has been registered recently in the industrial sector, particularly in 2017, which was much greater than that forecast by market researchers, is mainly due to the transformation of the most important market for laser processing in the manufacturing sector, that is, the cutting of sheet metal and metal parts, and our ability to profit from this particular situation. The main reason for this transformation was caused by the technological shift which saw the fiber laser sources replace and quickly render obsolete, the high powered CO₂ laser sources which had been used up to that time for this kind of cutting. The laser sources in fiber made it possible for users to reduce costs while at the same time offering easier installation and maintenance with the possibility of installing laser power that were unthinkable with the CO₂ laser sources. The purchase and running of high-powered systems (more than 4 kW) which up until two years ago was prohibitively expensive for most potential users is now accessible to a growing number of clients and can reach powers of up to 10/12 kW.

The high productivity of laser cutting systems equipped with high-powered optical fiber sources is reshaping the market by replacing traditional technologies for metal cutting like punches which for cutting and piercing require utensils that have no flexibility and become worn out over time. Along with the amplification of the market, the improved performance of the systems which are now available have brought about the rapid obsolescence of the systems that are presently operating in the field and have accelerated the market for the replacement and up-dating of the vast number of systems already installed.

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

Group financial highlights

The El.En. Group closes the third quarter of 2018 with a record sales volume of 82,8 million for the quarter and ends the first nine months of the year with a sales volume of 243,4 million, showing a growth of 11,5% with respect to the same period last year. The EBIT for the first nine months was slightly over 20 million Euros and showed a decrease with respect to the record of 22,2 million Euros registered on September 30th 2017. The incidence of the EBIT on the sales volume improved during the quarter and on a progressive basis, reached 8,2%.

The financial income contributed for 522 thousand Euros to the result; in the preceding periods it had been severely penalized by the difference in the exchange rates that had been generated by the strengthening of the Euro in relation to the other main currencies. Consequently, the pre-tax income reached 19,9 million Euros and exceeds that registered in September of 2017 by 4,2%.

The sales volume of the Group, therefore, confirms its rapid growth which is aligned with the forecasts which were communicated and up-dated in the half-yearly report. On the other hand, the EBIT continues to register a delay with respect to the growth forecasts. We will analyze the various aspects of this trend which showed a reduction in the sales margins and an increase in the marketing expenses made to sustain the commercialization, while the staff costs increased to a lesser extent than the increase in the sales volume.

The general economic trend remains favorable overall and has made it possible to obtain excellent results in some of our areas of activity.

Excellent results were obtained in the surgical sector where the systems sold in the urology segment under the brand names of Quanta System and Jena Surgical showed significant increases in sales of the applications for benign hyperplasia of the prostate and lithotripsy. Analogously, the OEM equipment supplied to partners among the world leaders in the field of surgical devices and equipment contributed significantly to the increase in the sales volume for this segment, and registered , as is usual for OEM (original equipment manufacturers) sales because of their very nature, a sales margin that is lower than that for the systems marketed under our brand names.

In the physical therapy sector ASA continues to register a consistent growth which it augments with the launching of new products. In early 2018 they introduced on the market the Hiro TT, an innovation that was the result of their collaboration with El.En., and which combines the emission of high-powered Nd:YAG with a cutaneous cooling system which improves its performance. In fact, this week at the MEDICA fair in Düsseldorf they presented the diode system MiS – MLS® High Peak Pulse which uses an increasingly effective technology with the capacity to transmit to the tissue, with absolute safety, energy packages that are even more intense and penetrating.

The professional aesthetics sector in Italy is also going through a phase of rapid expansion, thanks to the intense activity of the sales network and customer assistance offered by Esthelogue, our company operating in this sector. In the past nine months the growth in Italy has been significant (+26%), and has been supported by major promotional expenses aimed at the consolidation of the brand, and this has comported a decrease in the profitability for the period. This promotional activity has continued even after the closing of the quarter; in fact, in early October, the Esthelogue clients convention (almost 1000 participants) was held for the launching of the new series, with innovated ergonomic features and improved functions, of the best selling Mediostar for hair removal and a range of cosmetic products that have been created specifically for use by professionals.

The preliminary phase for presentation on the market was concluded for the ONDA system which uses an innovative microwave technology for body shaping and the treatment of cellulitis and fat and which, in Europe and some far eastern countries is already on sale and is meeting with the success we expected. The adoption of this technology will be gradual and for some key markets like the USA, Brazil and Russia it is not yet available due to the long period of time required to obtain clearance for sale.

Although we are presently in a favorable context, there are still some phenomena that are undermining the confidence of economic and financial operators in the duration of the positive cycle. In Europe the new approach to the economy and to indebtedness taken by Italian politicians and the decreasing solidity of internal leadership in Germany are augmenting the uncertainty regarding the expected growth for both EU countries and non EU countries. The trade war which was started by the United States against China has had the effect of making the outlook for growth in Chinese exports less solid and has brought uncertainty to the component related to export in an economy which is though very dependent on the policies of the central government. The elections in Brazil have represented a turning point in the political leadership of the country which was greeted with favor by the entrepreneurial class which had been disappointed by the economic policies and disastrous results of the preceding administrations.

These circumstances of a general nature have not, up to now, influenced either for better or for worse the dimensional growth of the Group which, as we have said, has remained substantial. They have, however, together with some phenomena of a more specific nature, made it difficult to maintain the level of profitability registered in the preceding years.

The winds of uncertainty that are blowing in the Euro area have not, for now, negatively influenced our volume of business in Europe. 2018 will be a record year for sales in the industrial sector in Europe and in Italy, even though it follows a 2017 that showed a growth of 40%; new records will also be set in the medical sector in Germany and in Italy where closer cooperation among the business units of the Group has increased its potential by optimizing the combination of their resources for development and distribution.

Our Brazilian company, Cutlite do Brasil, which operates in the industrial sector, seems to be on the road to recovery. Although in the third quarter of 2018 it registered the lowest sales volume ever, their portfolio of orders for laser cutting leaves hope for a recovery in a phase in which the administration of the country also seems to have turned the corner.

Our Chinese companies operating in the industrial sector offer solutions for laser cutting to manufacturers prevalently on the Chinese market; although this market has shown a gradual decrease in demand throughout the year, they have, in any case, been able to register a growth of over 10% during the past nine months. In order to achieve this result, they have had to sustain marketing expenses which were greater than expected and more than last year. We are still confident in the outlook for development on the Chinese market and the fringe markets in which we operate. This is due to the trust that we have in the Chinese domestic market which is increasingly inclined to make use of advanced technology in manufacturing; this is a tendency which is to our benefit as innovators also, in part, independently of the economic cycle because of the confidence we have in the profound innovation which we are bringing with our technologies to the methods used for cutting sheet metal which makes the cost/ benefit ratio of laser technology increasingly favorable with respect to the traditional technologies within a growing range of widely employed applications.

For this reason we have continued to invest in the development of the manufacturing capacity and are building the structures necessary to sustain the growing sales volume and production which we expect.

An occurrence that had particular importance and impact during this quarter was an event related to the Mona Lisa Touch, our CO₂ laser system that was created for the treatment of vaginal atrophy and is one of the most significant products of the Group.

An unexpected press release issued at the end of July by the FDA, the body which supervises the safety of food, pharmaceuticals and medical devices sold on the US Territory, mentioned the possibility that the gynecological treatments generically defined as “vaginal rejuvenation” and effected with laser or radio frequency technologies, may present risks for the patients. FDA then better specified with a formal request to manufacturers and distributors that this observation was inherent only to market communications sustaining the sale of these systems in the USA, the so-called “labeling” which must respect the specific clearance authorizing the sale in the USA, issued by the FDA itself. Our American distributor of Mona Lisa Touch, Cynosure, responded timely to the FDA and came to an agreement concerning the indications to be used in future marketing communications and continues its selling activity of Mona Lisa Touch in the USA. The intervention of the FDA had a media response and an emotional impact on the American and global markets that, in the days that followed the release, turned out to be quite significant, and created a situation of uncertainty in the end users and in the doctors who were applying the technology all over the world causing a drastic decrease in sales even outside of the United States. This was really a pity because Cynosure, now a division of Hologic, had revived the sales activity and was headed for an excellent closing of 2018, as is demonstrated by the strong acceleration in sales during the first six months of the year. Moreover, the Mona Lisa Touch is distinguished from its competitors by the fact that it has undergone numerous clinical studies (38 in all) and verifications conducted by world famous qualified doctors, histologists, and biologists and with CO₂ Smartxide², and Smartxide Touch lasers distributed all over the world Mona Lisa Touch treatments have been conducted with long follow-up periods on over a million women, most of whom have declared that they are completely satisfied by the results and have been able to return to a normal, more serene life.

The effects of this occurrence were felt with a certain delay with respect to the initial deflagration, was a reduction in sales volume and of the important related sales margins in the third quarter and, probably, also in the next few quarters. We are confident that the mid-term effects, thanks to the undoubted effectiveness and safety of the treatment which has been proved by solid scientific documentation, will re-enforce our leadership position in the USA with Cynosure on a market which, for us, is of significant size and will go back to being a growth driver for our Group.

The chart below shows the income statement for the third quarter of 2018 in comparative form with the analogous results for last year.

Income statement – quarterly	30/09/2018	Inc %	30/09/2017	Inc %	Var. %
Revenues	82.800	100,0%	75.535	100,0%	9,62%
Change in inventory of finished goods and WIP	5.086	6,1%	3.120	4,1%	62,99%
Other revenues and income	1.411	1,7%	888	1,2%	58,86%
Value of production	89.297	107,8%	79.544	105,3%	12,26%
Purchase of raw materials	53.530	64,6%	42.472	56,2%	26,04%
Change in inventory of raw material	(1.564)	-1,9%	427	0,6%	
Other direct services	5.726	6,9%	5.255	7,0%	8,97%
Gross margin	31.605	38,2%	31.390	41,6%	0,69%
Other operating services and charges	9.175	11,1%	7.910	10,5%	16,00%
Added value	22.430	27,1%	23.480	31,1%	-4,47%
Staff cost	13.743	16,6%	12.402	16,4%	10,82%
EBITDA	8.687	10,5%	11.078	14,7%	-21,59%
Depreciation, amortization and other accruals	1.411	1,7%	2.052	2,7%	-31,26%
EBIT	7.276	8,8%	9.026	11,9%	-19,39%
Net financial income (charges)	48	0,1%	(837)	-1,1%	
Share of profit of associated companies	(506)	-0,6%	38	0,1%	
Other non-operating income (charges)	0	0,0%	(0)	0,0%	
Income (loss) before taxes	6.818	8,2%	8.227	10,9%	-17,13%

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

Income Statement	30/09/2018	Inc %	30/09/2017	Inc %	Var. %
Revenues	243.437	100,0%	218.412	100,0%	11,46%
Change in inventory of finished goods and WIP	15.497	6,4%	8.329	3,8%	86,07%
Other revenues and income	2.950	1,2%	2.549	1,2%	15,72%
Value of production	261.884	107,6%	229.290	105,0%	14,22%
Purchase of raw materials	160.576	66,0%	122.238	56,0%	31,36%
Change in inventory of raw material	(13.238)	-5,4%	191	0,1%	
Other direct services	18.240	7,5%	15.963	7,3%	14,27%
Gross margin	96.306	39,6%	90.899	41,6%	5,95%
Other operating services and charges	30.418	12,5%	25.887	11,9%	17,50%
Added value	65.888	27,1%	65.012	29,8%	1,35%
Staff cost	41.852	17,2%	38.464	17,6%	8,81%
EBITDA	24.036	9,9%	26.548	12,2%	-9,46%
Depreciation, amortization and other accruals	4.029	1,7%	4.387	2,0%	-8,17%
EBIT	20.007	8,2%	22.160	10,1%	-9,72%
Net financial income (charges)	522	0,2%	(3.041)	-1,4%	
Share of profit of associated companies	(615)	-0,3%	(11)	0,0%	5481,63%
Other non-operating income (charges)	(6)	0,0%	0	0,0%	
Income (loss) before taxes	19.908	8,2%	19.108	8,7%	4,19%

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

Net financial position	30/09/2018	31/12/2017
Cash and bank	64.625	97.351
Financial instruments	1.983	2.036
Cash and cash equivalents	66.609	99.388
Current financial receivables	90	155
Bank short term loan	(4.285)	(8.230)
Part of financial long term liabilities due within 12 months	(935)	(932)
Financial short term liabilities	(5.220)	(9.161)
Net current financial position	61.479	90.381
Bank long term loan	(4.482)	(3.525)
Other long term financial liabilities	(2.187)	(2.350)
Financial long term liabilities	(6.669)	(5.875)
Net financial position	54.810	84.506

Operational performance

The table below shows the sales volume for the first nine months of 2018 divided by sector of activity of the Group compared with that for the same period last year.

	30/09/2018	Inc %	30/09/2017	Inc %	Var. %
Medical	138.837	57,03%	124.007	56,78%	11,96%
Industrial	104.600	42,97%	94.405	43,22%	10,80%
Total revenue	243.437	100,00%	218.412	100,00%	11,46%

The two sectors both show an excellent two-digit growth rate for this quarter; as in the first six months of the year the growth rate was slightly higher in the medical sector. This is a remarkable result especially considering that during the first nine months the exchange rate penalized the amount of the sales volume to the extent of about 1,8%.

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

	30/09/2018	Inc %	30/09/2017	Inc %	Var. %
Italy	43.281	17,78%	40.309	18,46%	7,37%
Europe	47.385	19,46%	36.047	16,50%	31,45%
ROW	152.771	62,76%	142.055	65,04%	7,54%
Total revenue	243.437	100,00%	218.412	100,00%	11,46%

The greatest growth rates, both in the medical and industrial sectors were shown by the European markets which were not influenced by the uncertainties which threaten to weaken the Euro area. Italy and the Rest of the World showed a growth rate that was lower than the European one.

For the sector of medical and aesthetic systems which, for the first nine months of 2018 represented 57% of the sales volume of the Group, the results of sales in the various segments are shown in the chart below.

	30/09/2018	Inc %	30/09/2017	Inc %	Var. %
Aesthetic	76.719	55,26%	70.196	56,61%	9,29%
Surgical	29.637	21,35%	24.006	19,36%	23,45%
Physiotherapy	7.783	5,61%	6.929	5,59%	12,32%
Others	502	0,36%	450	0,36%	11,56%
Total medical systems	114.641	82,57%	101.581	81,92%	12,86%
Medical service	24.196	17,43%	22.426	18,08%	7,89%
Total medical revenue	138.837	100,00%	124.007	100,00%	11,96%

All of the main sectors showed a growth in sales volume.

In the introduction we commented on the trends in the various segments of the medical market. The most significant data is related to the results in the surgical sector which, as of September 30th were still benefitting from the recovery in the sales of the Mona Lisa Touch during the first semester and, above all shows an increase in sales for systems for urological applications, both for BPH (benign hyperplasia of the prostate) and for lithotripsy which, for this latter now also uses high-powered systems ranging from 70W to 100W as well as the 30W ones traditionally used for this therapy. The surgical sector is characterized by a significant presence of OEM clients with the most prestigious brands.

Growth in the main sector, aesthetics, came close to 10%. The driving segment in this sector is hair removal which is still expanding rapidly, while the sale of pico-second technology systems started to grow again only in the third quarter. This variation in the product mix was unfavorable with respect to that of last year. The launching of Onda in the sector of

“body shaping” and the treatment of cellulitis was highly satisfactory and comported a significant impact on the sales although not yet enough to influence the overall margins. Moreover, there was an excellent trend in sales of Asclepion’s erbium systems, in part due also to the success of the gynecological device *Juliet*, which sold well in the USA thanks to an important distribution contract with Cutera, a company listed on the Nasdaq.

Progress in the sales of Asa in the physical therapy sector has already been mentioned in the introduction; the increase in sales volume was over 12%.

The sales volume in the dental sector and the other application segments of the medical sector were negligible.

After a pause in 2017, sales in the medical sector started to grow again. The main driver in the growth of the volume was the sale of single and multiple use optical fibers for urological applications, most of which were destined for OEM clients. This increase was for a significant amount and was enough to exceed the decrease in the sales volume for full-risk service after-sales contracts: again in this case, a variation in the mix like the increase in the sales volume favored certain categories of products and services with lower margins.

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

	30/09/2018	Inc %	30/09/2017	Inc %	Var. %
Cutting	82.488	78,86%	73.370	77,72%	12,43%
Marking	12.006	11,48%	11.996	12,71%	0,08%
Laser sources	3.348	3,20%	2.382	2,52%	40,56%
Conservation	258	0,25%	156	0,16%	65,75%
Total industrial systems	98.100	93,79%	87.903	93,11%	11,60%
Industrial service	6.500	6,21%	6.501	6,89%	-0,02%
Total industrial revenue	104.600	100,00%	94.405	100,00%	10,80%

The sales volume for the industrial sector again shows growth in all of its segments relative to systems and is stable in the category of services.

We have already commented on the trend in sales of cutting systems in China and in Europe in the introduction; the sector continues to benefit from the rapid expansion of the market for sheet metal cutting thanks to the laser sources in high-powered fiber which have replaced the CO₂ sources and due to their increased reliability, simplicity of use and variability of power have increased the applicative and productive potential of the laser systems for cutting sheet metal and, consequently, the number of clients interested in using them.

Cutlite Penta, which operates mainly in Italy and in the rest of Europe in the cutting sector has also benefitted from this favorable phase and has continued to increase its revenue not only in this driving sector of metal cutting but also in that for dies which is definitely more limited, but in which Cutlite represents one of the absolute leaders on the market.

The marking sector remained stable during this period but this result may be improved upon in the next few quarters considering the current situation of the market.

Good results were also obtained in the sale of laser sources, for which growth depends on the identification of niches in the sectors of packaging, special products and the textile sector.

An excellent sales volume was also shown in the sector of restoration; in this sector the Group receives revenue but above all, they contribute to the conservation of the artistic heritage on a global level. The activity of the Group in this sector is a tribute to our city, the cradle of the Renaissance and artistic production and it is an activity to which we dedicate our technologies and in return receive high PR visibility, sometimes augmented by collaboration and donations to major institutions.

The sales volume for service was stable; in this sector the sales for consumables related to the use of laser sources are gradually growing while revenue for service of systems using CO₂ technology with slow or fast axial flow which are no longer in production, are destined to slowly decline and the installations will be replaced by others using CO₂ RF or fiber technology which will decrease maintenance costs.

The following are comments on the income statement:

The gross margin was 96.306 thousand Euros, an increase of 5,9% with respect to the 90.899 thousand Euros shown in September 30th 2017 thanks to the increase in the sales volume.

The decrease in the sales margins from 41,6% to 39,6% during the first nine months of 2018 is mainly due to a less favorable mix of sales in the medical sector, which we have commented on in the section dedicated to the analysis of the evolution of the sales.

Costs for operating services and charges were 30.418 thousand Euros showing an increase of 17,5% with respect to the 25.887 thousand Euros shown on September 30th 2017. The increase is related mainly to marketing expenses intended to support the selling activity. R&D expenses also had an incidence during this period and although they penalized the income statement they demonstrate the determination of the Group to pursue the growth of the company through innovation, as will be illustrated in detail in the relative paragraph. The incidence on the sales volume increased from 11,9% to 12,5% during the third quarter of 2018.

The staff costs were 41.852 thousand Euros, showing an increase of 8,8% with respect to the 38.464 thousand Euros for the same period last year, while the incidence on the sales volume decreased from 17,6% on September 30th 2017 to 17,2% on September 30th 2018.

On September 30th 2018 there were 1.406 employees in the Group, an increase with respect to the 1.231 registered on September 30th 2017 and the 1.212 on December 31st 2017. Most of the hiring was done by the Chinese subsidiary Penta Laser Equipment (Wenzhou).

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

The EBITDA was 24.036 thousand Euros, showing a decrease with respect to the 26.548 thousand Euros registered on September 30th 2017. The decrease in the EBITDA, whose incidence on the sales volume dropped from 12,2% to 9,9%, is a consequence of the reduction in the sales margins and the increase in operating costs and overhead which, as mentioned above, increased as part of our preparation for and support of further growth, both in the medical and industrial sectors.

The costs for amortizations, depreciations and accruals showed a decrease, falling from 4.387 thousand Euros on September 30th 2017 to 4.029 thousand Euros on September 30th 2018, with an incidence on the sales volume which dropped from 2,0% to 1,7% on September 30th 2018.

Consequently the EBIT amounted to 20.007 thousand Euros, a decrease with respect to the 22.160 thousand Euros shown on September 30th 2017. The incidence on the sales volume was 8,2%, showing a decrease with respect to the 10,1% registered for last year.

Financial income amounted to 522 thousand Euros with respect to the financial charges for 3.041 thousand Euros registered for the same period last year. The complete reverse in the trends of the exchange rates during the two periods determined the result: the Euro increased in strength with respect to the main currencies in 2017, while it decreased, especially in relation to the US dollar, in 2018.

The pre-tax income amounted to 19.908 thousand Euros, an increase with respect to the 19.108 thousand Euros registered on September 30th 2017.

Financial position and investments

Comments on the net financial position

The net financial position of the Group decreased by about 30 million with respect to the closing of the year 2017.

During this period, the Group paid dividends to third parties for an amount of 8,4 million Euros. The investments in technical assets amounted to 16,0 million Euros, 6,6 million of which during this quarter. About 1,5 million Euros were used for improvements on pre-existing factories, 12,5 million for the purchase, construction and equipping of new factories in Calenzano, Torre Annunziata, Samarate, Jena, Vicenza and Wenzhou, as part of a vast investment program intended to increase the production capacity for a total amount expected to be around 28 million in the years 2018- 2019. The increase in net working capital represented the most significant component of the uses of cash, an effect of the preparation for the increasingly rapid growth which we expect. The most significant variations were those registered by the Chinese companies, Quanta System and El.En. In particular, it was the component of the inventory that drove the expansion of the net working capital, with negative effects also on the sales margins, since the inter-Group margins earned on the increase in stock are eliminated.

It should also be recalled that 11,5 million Euros in cash was invested in financial instruments of an insurance type which, because of their characteristics must be entered with the non-current financial assets , and although they represent a use of cash, this amount is not considered part of the net financial position.

Gross investments made this quarter

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

	30/09/2018	30/09/2017
Intangible assets	290	444
Tangible assets	16.027	2.171
Financial fixed assets		8
Total	16.317	2.623

3 months	30/09/2018	30/09/2017
Intangible assets	72	52
Tangible assets	6.581	927
Financial fixed assets		
Total	6.653	979

Research and Development activities

During the first nine months of 2018 the Group conducted an intense research and development activity for the purpose of discovering new laser applications and different energy sources for both the medical and the industrial sectors (which includes applications for the conservation of works of art) and to place products on the market which are innovative for the performance of the devices and/or the technologies that are used.

In general, for highly technological products in particular, the global market requires that the competition be met by rapidly and continually placing on the market completely new products and innovative versions of old products with new applications or improved performance which use the most recent technologies and components. Moreover, the various companies belonging to the Group produce a vast range of products and consequently an 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 in space as far as the shape and movement of the light beam is concerned.

The research which is aimed at obtaining mid- to 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.

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

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

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

Systems and applications for lasers in medicine

The Parent Company, El.En., in collaboration with the subsidiary DEKA, has been active in research on biological samples and cell cultures in the laboratory for surgical applications of the devices and sub-systems for the SMARTXIDE² family of products (the product name is pronounced “Smartxide quadro” to highlight the Italian origin of the devices belonging to this family, considering the characteristics and performance that are particularly appreciated by the global clientele).

There are many fields of application for this product: general surgery, otorhinolaryngology, gynecology, dermatology, cutaneous ulcers, aesthetic medicine.

An application that is extremely important and has already obtained considerable commercial success, is related to urogynecology with the Mona Lisa (or Monna Lisa, depending on the country) treatment for the reduction of the atrophy of the vaginal mucous. Clinical studies that are still in progress in prestigious research centers has confirmed that this laser treatment is effective, safe and without negative collateral effects. Further research aimed at studying the action mechanisms are now being conducted in order to develop new applications. It has been confirmed that this is an extremely important innovation in the medical field which will always remain part of the procedure for the specific therapy. We are therefore committed to maintaining our position of world leadership in the development of this new

therapeutic sector and we intend to direct and augment the scientific and technological developments in order to maintain and re-enforce our position.

The atrophy of the vaginal mucous is very common and debilitating and interacts with other pathologies; it afflicts a high percentage of women in menopause as well as younger women affected with tumors for whom, in order to prevent a relapse, they have prescribed therapies which modify the hormonal balance and provoke a kind of premature menopause. In the surgical unit of the Careggi Hospital in Florence, they are now conducting a clinical research program in gynecological surgery based on the exceptional characteristics of the *restitutio ad integrum* which the use of the CO₂ laser supplies to the soft tissues in various anatomical areas. DEKA is collaborating with this unit by means of a scientific collaboration agreement.

For surgical applications we are now obtaining interesting results for the treatment for diabetic feet at several different centers where CO₂ laser equipment of this type is installed. In this sector we have introduced the possibility of cleaning (debridement), that is, the removal of the necrotic and other tissue which prevent the healing of the lesions. The curing of chronic ulcers with laser treatments is based on the above mentioned characteristics of the laser beam which we have designed to be used in the cleaning phase of the lesion, but also on the laser light's capacity for bio-stimulation, our cultural legacy based on the numerous experiments and research projects that we have developed over the years.

To our range of equipment for hair removal we have successfully added the Motus, with the AY model which, after the CE Mediale, obtained FDA clearance for sale in the USA. The Motus equipment is based on an original concept in which the operator uses a moving hand-piece with energy density which does not cause any pain and obtains excellent results thanks to the cumulative effects of damage to the hair follicle caused by the repeated passages of the hand-piece which emits the energy.

For the regeneration of biological tissue we had previously coined the acronym HILT, *High Intensity Laser Therapy*, which characterized the range of our laser products. The specific distribution on the market was entrusted to our subsidiary ASA; in this regard we should also mention the recent 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. A few months ago the system was successfully placed on the market for sale.

As part of the FOMEMI project – "Sensors and instruments with photonic technology for minimally invasive medicine" REG. TOSCANA BANDO UNICO R&S 2014, Funds from the European Union: POR FESR 2014-2020, Bando RSI Bando 1, Strategic research and development projects – with El.En. as project leader, which has recently received financing, we have developed a high resolution automatic zoom vision system which will make it possible to receive films and photos during the treatment of the ulcers. Using these images from the elaboration of the data during the evolution of the lesion after the treatments, we will be able to obtain the measurements of the area of the lesion and the segmentation also in interactive form with the operator in order to define the regions occupied by the various components present and typical of the pathology. Moreover, we are now conducting research on a new static illuminator for laser bio-stimulation in collaboration with our technological partners in the research group of the FOMEMI project. For this project we are also collaborating with another partner, on the feasibility of an ergonomic bed to be used in the treatment of patients affected by cutaneous ulcers in order to minimize the fatigue of both the doctor and the patient during the therapy session.

We have completed the study phase of the clinical evaluation of an innovative system for "Body Shaping"(reduction of the adipose layer in various parts of the body) which we have called Onda, based on the use of a new form of energy that is able to provoke a reduction of the adipocytes by necrosis or apoptosis.

The device is equipped with innovative applicators which have the intrinsic safety feature of not transmitting energy when they are not in contact with the skin. The type of energy transmission that is used makes it so that most of the energy is absorbed by the fat, as planned, and this offers a further protection that guarantees that the muscle layers beneath the fat are not subjected to heat.

We are continuing work on the development of systems with coupling in wave guiding for CO₂ lasers for surgical applications. The experimental activity is aimed at determining the best conditions for the launching of the beam in the hollow wave guide for the purpose of minimizing loss during transmission. We have completed the development of a new RF model of feeder for exciting a sealed CO₂ source for medical applications (surgical and dermatological), which has been redesigned so that it can be added directly to the laser source, thus reducing the additional weight and expense of a complete system.

We have continued to study a new instrumental driving system for the operator to facilitate the maneuvering of the applicators and guarantee the maximum uniformity of treatment in the area involved.

In collaboration with Quanta System SpA we have developed a *real time* system for monitoring the skin temperature during the pre-cooling process preceding the treatment of the epidermis which is a useful safety precaution in the management of energy-based treatments.

We have conducted research work on new applications of laser energy in urologic medicine in the PHOTOBIO LAB laboratory, which has been set up at El.En. for the purpose of conducting research on the interaction between light and biological tissue; the results of this work are used for the development of DEKA products as well as those of the other companies in the Group.

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

As part of this project they have completed the development of a system for heating based on the radio frequency induction of nano-particles of iron oxide, for medical applications and they are now conducting laboratory experiments; the generator is equipped with a system of electromagnetic radiations with a butterfly structure which has made it possible to achieve a satisfactory efficiency.

Moreover, they have continued in the development of an laser excitation system using gold nano-particles for use in the diagnosis and therapy of skin tumors (melanomas). As part of this project they have designed and built an illumination system with laser light with a Q-switch source developed by us. The laser illumination system consists of a double bundle of fibers integrated in an ultrasound probe. The purpose of the system is to acquire the images from the ultrasound waves emitted by the gold nano-particles after being excited by the laser impulses. The particles are destined to be injected and brought to the outside of the lesions in the soft tissues by antibodies made for this purpose to adhere to the cancerous cells.

In collaboration with Elesta we are now in the final phase of development of a device for the treatment of tissue with cancerous lesions inside organs by means of the emission of energy from a structure which is driven by an optical fiber laser light inserted through the skin by using an innovative device for which an international patent has been requested.

At **Quanta System** they have continued their activity for the development of laser instruments destined for the aesthetics-medical market and that for medical therapies in urology: as part of this research they have continued experimentation on the prototype of a new mono-use morcellator for applications in urology which can be placed on the market as soon as the necessary authorizations have been obtained. Having now obtained the CE Medicale mark and the FDA clearance, the 100W holmium laser for BPH applications and in particular for the enucleation of the prostate (HoLep) will complete our range of holmium lasers for urological applications which already includes the 30W model for lithotripsy and the 60W model for lithotripsy and enucleation.

In the field of lithotripsy, for the holmium laser they have developed a technique based on the so-called Vapor Tunnel effect, which offers considerable advantages in the stabilization and effectiveness in the shattering of kidney stones in the upper excretion vessels.

They have continued experiments on innovative applications in the field of gastroenterology. The evaluation of the effects of the thulium laser on the gastric mucous which was started in 2015, registered positive results which enabled us to begin a study on animal models before clinical experiments on humans. They defined and completed the launching of Thunder MT, a laser which uses sources like Alexandrite and Nd:YAG in single emission mode or mixed mode. The machine combines a high speed scanner with an optional air cooler controlled directly by the same interface software of the laser. The Thunder MT is certainly the fastest and most powerful machine in the world in the field of hair removal and can be used also for the treatment of superficial pigmentation and vascular lesions.

At **Asclepion** they have continued an updating strategy of all their systems: a new philosophy of user interface, new electronics and new design.

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

They have completed the development of a new model of the Mediostar system for hair removal with substantial technical and aesthetic innovations. The new model was presented to the public in Rome during the Convention in which hundreds of Esthelogue clients participated as well as some selected international clients of Asclepion. They have also begun development activities for the integration of other modules with Mediostar and the relative clinical trials.

For the holmium Multipulse Ho 140 laser they are currently working on developments and running experiments on innovative solutions to satisfy the market demand for the treatment of kidney stones.

New versions of the morcellators have been completed for meeting the requirements of innovation and to satisfy the regulations of some countries.

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

Laser systems and applications for industry

At El.En. they have continued development of the new concept of the 300W sealed CO₂ source.

They have continued verification experiments on the space filter for the design of the high-powered beam in the production range. They have designed a new z-dynamic with improved dynamic and thermal performance; the XY2-100 interface has been implemented on the scansion heads with our own technology, so that they can be piloted also by third party controls and we worked on the software to improve the performance of the on-the-fly processing variable data.

We have continued experiments on the first prototypes of the Blade RF1222 source.

We have continued the development of the emission characteristics of the Blade RF888 source for use in the marking of textiles.

Two new models of laser sources have been added to the catalogue: Blade RF899 as a derivation of the Blade RF888 with a mirror beam path, and Blade RF333 SH derived from Blade RF333 with a shutter with safety functions.

In **Cutlite Penta** they have developed and begun experimentation on new process sensors integrated on cutting machines.

They have also continued verification and experimentation on internally developed scanning and focalizing heads for lasers in fiber, for remote welding of metal materials and the mass production of details for furniture. As part of this project they have started the development of a new dynamic system for focalization with high-speed response.

They have developed and started production of laser systems for cutting metals that are equipped with very high-powered laser sources in fiber with sources up to 12 kW, for high-speed cutting of sheet metal, even very thick ones. For these systems they have developed focalizing heads with specific technical features which make them suitable for controlling very high-powered laser beams.

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

<i>Thousands of Euros</i>	30/09/2018	30/09/2017
Staff costs and general expenses	6.445	5.611
Equipment	138	126
Costs for testing and prototypes	3.398	2.431
Consultancy fees	344	377
Other services	74	36
Total	10.400	8.581

Following the usual company policy, the expenses 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.

Trend of El.En. stock

The graph below shows the performance of the stock



Other information

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

Significant events which occurred during this quarter

On July 9th 2018 the subsidiary Quanta System SpA concluded the purchase of an industrial building adjacent to their headquarters in Samarate, for a total amount of 3,2 million Euros.

Subsequent events

On November 6th the subsidiary Cutlite Penta S.r.l concluded the purchase of an industrial building in the province of Prato for an overall amount of 6,2 million Euros. The building will be used for the manufacturing activities which require more space in consideration of the volume of business that is now being generated and the increased growth that is expected in the future. This purchase is part of a broad investment program aimed at providing a greater manufacturing capacity by improving the logistic conditions of the production in order to satisfy the rise in demand we expect in the next few years.

Current outlook

Following the results registered in the first nine months of 2018, annual revenue growth in excess of over 10% is confirmed. Previously released EBIT growth guidance was 10% on 2017's result, it is now revised indicating in the achievement of 2017's EBIT the achievable target for the current year.

For the Board of Directors

Managing Director
Ing. Andrea Cangioli

Attachment “A”: List of consolidated companies as of September 30th 2018

Subsidiary companies

Company name	Headquarters	Percentage held			Consolidated percentage
		Direct	Indirect	Total	
<u>Parent company</u>					
El.En. S.p.A.	Calenzano (ITA)				
<u>Subsidiary companies</u>					
Ot-Las S.r.l.	Calenzano (ITA)	96,65%		96,65%	96,65%
Cutlite Penta S.r.l	Calenzano (ITA)		100,00%	100,00%	96,65%
Deka Mela S.r.l.	Calenzano (ITA)	85,00%		85,00%	85,00%
Esthelogue S.r.l.	Calenzano (ITA)	50,00%	50,00%	100,00%	100,00%
Deka Sarl	Lione (FRA)	100,00%		100,00%	100,00%
Lasit S.p.A.	Torre Annunziata (ITA)	70,00%		70,00%	70,00%
Quanta System S.p.A.	Milano (ITA)	100,00%		100,00%	100,00%
Asclepion GmbH	Jena (GER)	50,00%	50,00%	100,00%	100,00%
ASA S.r.l.	Arcugnano (ITA)		60,00%	60,00%	51,00%
BRCT Inc.	New York (USA)	100,00%		100,00%	100,00%
With Us Co., Ltd	Tokyo (JAP)		78,85%	78,85%	78,85%
Deka Japan Co., Ltd	Tokyo (JAP)	55,00%		55,00%	55,00%
Penta-Chutian Laser (Wuhan) Co., Ltd	Wuhan (CHINA)		55,00%	55,00%	53,16%
Penta-Laser Equipment Wenzhou Co., Ltd	Wenzhou (CHINA)		53,53%	53,53%	51,74%
Cutlite do Brasil Ltda	Blumenau (BRAZIL)	98,27%		98,27%	98,27%
Pharmonia S.r.l.	Calenzano (ITA)	100,00%		100,00%	100,00%
Deka Medical Inc.	San Francisco (USA)		100,00%	100,00%	100,00%
Accure Quanta, Inc.	Wilmington (USA)		100,00%	100,00%	100,00%
Penta Laser Europe S.r.l.	Calenzano (ITA)		100,00%	100,00%	51,74%
Merit Due S.r.l.	Calenzano (ITA)		100,00%	100,00%	96,65%

Associated companies

Company name	Headquarters	Percentage held			Consolidated percentage
		Direct	Indirect	Total	
Immobiliare Del.Co. S.r.l.	Solbiate Olona (ITA)	30,00%		30,00%	30,00%
Actis S.r.l.	Calenzano (ITA)	12,00%		12,00%	12,00%
Elesta S.r.l.	Calenzano (ITA)	50,00%		50,00%	50,00%
Chutian (Tiajin) Laser Technologies Co.,Ltd	Tianjin (CHINA)		41,00%	41,00%	21,79%
Quanta Aesthetic Lasers Usa, LLC	Englewood (USA)		19,50%	19,50%	19,50%
Accure LLC	Delaware (USA)		39,44%	39,44%	39,44%

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

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

Calenzano, November 14th 2018

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