ANNUAL FINANCIAL REPORT 2018

El.En. Group

EL.EN. S.p.A.

ANNUAL FINANCIAL REPORT AS OF DECEMBER 31st 2018

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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APPENDICES

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 2018

INTRODUCTION

To our shareholders,

The financial year 2018 closed with a consolidated sales volume of 346 million Euros and a net consolidated income for the Group of 16,8 million Euros net of income tax for 7,7 million and a net result for third parties of 5 million Euros.

This has been a year of significant growth during which the Group has consolidated its competitive position on the world market. The EBIT has remained high although it is slightly less than last year and not as much as was foreseen at the start of the year. It is, in any case, a significant result and one that gives us particular satisfaction, especially considering the unfavorable conditions that were created in the USA because of the FDA campaign which involved our important Mona Lisa Touch system, and in China, where the uncertainty for future growth has been felt along with the fear of higher customs rates on import and export.

REGULATORY FRAMEWORK

In compliance with the *European Regulation* n. 1606 of July 19th 2002, the El.En. Group has formulated the consolidated 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 2018

On January 2nd 2018 the constitution of the Cutlite Penta Srl company became effective, in which Ot-las Srl company, as part of a process of reorganization of the activities of the industrial sector of the Group, conferred to it all of the activities related to laser cutting;

On March 8th 2018 El.En. S.p.A., for an amount of 2,2 million Euros, purchased an industrial building in adjacent to their headquarters in Calenzano in order to pursue the further development of their manufacturing activities.

In March of 2018 the subsidiary Lasit S.p.A. concluded the purchase of an industrial building adjacent to their headquarters in Torre Annunziata for an overall amount of 3,1 million Euros.

On April 27th 2018, the shareholders' meeting of the parent company El.En. S.p.A. approved the financial statement for the year 2017 and voted to:
- distribute the net income for the year, amounting to 41.146,00 Euros to the shareholders;
- distribute to the shares in circulation on the date the coupon came due on May 28th 2018- – in compliance with art. 2357-ter, second sub-section of the Civil Code – a dividend for the amount of 0,40 (zero point forty) Euros gross for each share in circulation, for an overall amount on the date of the resolution, of 7.718.988,80 Euros, using all of the net income for the year, which amounted to 41.146,00 Euros and using, as far as the residual amount of 7.677.842,80 Euros is concerned, the net income which were not distributed in previous years and were accrued in the voluntary reserve called "extraordinary reserve".

The Assembly also approved, the remuneration report including the incentive bonus as per, art. 123-*ter* T.U.F..
Moreover, the Assembly also appointed the Board of Directors for the three-year period 2018-2020 and therefore, up until the approval of the financial statement for the year 2020. The Assembly established the number of members of the Board of Directors as six and appointed Gabriele Clementi as president and elected the other Board members, Barbara Bazzocchi, Andrea Cangioli, Alberto Pecci, Fabia Romagnoli, Michele Legnaioli. The composition of the Board of Directors respects the gender equilibrium in compliance with 147-*ter*, comma 1-ter del D.Lgs. 58/1998.

On the same day, the Board of Directors of the parent company El.En. S.p.A. appointed as executive board members the president, Ing. Gabriele Clementi and board members Barbara Bazzocchi and Andrea Cangioli and assigned to them, separately from each other and with free signature, all of the ordinary and extraordinary administrative powers for conducting all of the activities that are part of the company mission with the exception of those that are expressly prohibited by law or by the company statutes.

On May 15th 2018 the Board of Directors of El.En. S.p.A. designated the members of the committees that have been created in compliance with the Self-disciplining Code of quoted companies, and in particular, the Committee for Remuneration, the Committee for Controls and Risks and the Nominations Committee, and to confirm the various components of the present system for internal controls and to appoint Avv. Paola Giovannelli, as the person responsible for the protection of data in compliance with art.. 37 Reg. UE 679/2016.
The Board of Directors also evaluated, on the basis of the information that is available, with a positive outcome, the independence of the non-executive board members, Fabia Romagnoli and Michele Legnaioli.

On June 1st 2018 the subsidiary Deka Mela Srl sold, for the amount of 100 thousand Euros, their 50% equity in Jena Surgical GmbH to the Asclepion Laser Technologies GmbH company which already held the remaining 50%. On the same day, upon the conclusion of this operation, Asclepion Laser Technologies GmbH incorporated Jena Surgical GmbH through a merger which took effect on July 1st 2018.

On July 9th 2018, the subsidiary Quanta System Spa concluded transactions for the purchase of an industrial building adjacent to their Headquarters in Samarate for an overall amount of 3,2 million Euros.

On October 5th 2018 the parent company El.En. Spa underwrote their quota of 400 thousand Euros, for the increase in capital stock on the basis of the resolution approved by the associated company Elesta srl on July 19th 2018 for a total of 800 thousand Euros.

On November 6th the subsidiary Cutlite Penta Srl purchased an industrial building in the province of Prato for an overall amount of 6,2 million Euros. This building will be used to house the manufacturing activities of the Company in a place that has dimensions that are more suitable for the volume of production that has now been developed and will be able to absorb the further growth that is expected for these activities. This purchase is part of a long term investment plan with which the Group is preparing a greater manufacturing capacity and an improvement in the production logistics in order to satisfy the growing demand that is expected in the next few years.

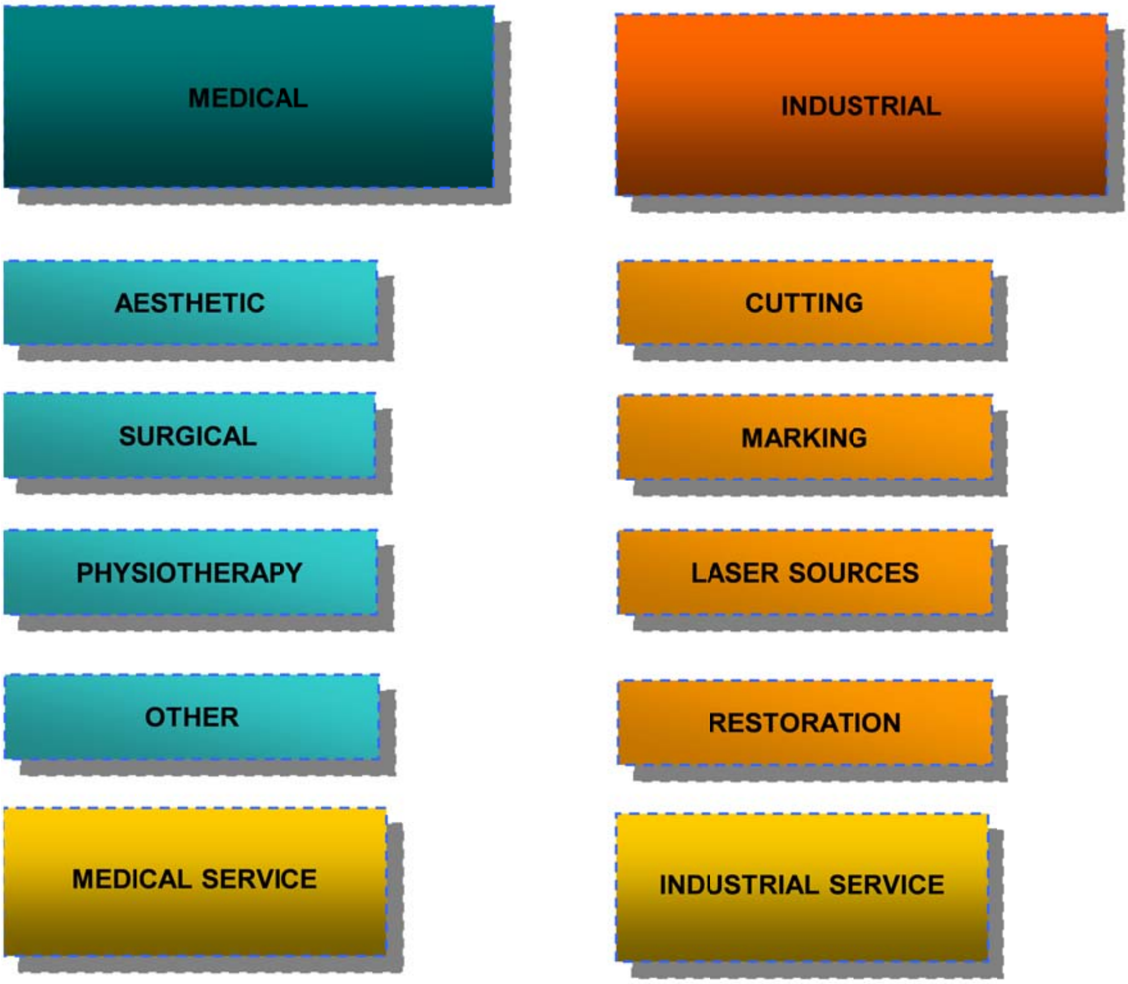
DESCRIPTION OF THE ACTIVITIES OF THE GROUP

El.En was founded in 1981 and arose from the intuition of a university professor and one of his students. The Company developed over the years and became a multi-faceted, dynamic industrial group specialized in the manufacture, research and development, distribution and sale of laser systems.
The founders, Leonardo Masotti and his wife, Barbara Bazzocchi, and Ing. Gabriele Clementi, have always conducted the company and are still part of the top management.
The laser, an acronym for "Light Amplification by Stimulated Emission of Radiation" is a fascinating technology invented in 1960 and represents the fulcrum of the technology of the Group. This luminous emission with its unique characteristics (monochromaticity, consistency, brilliance) found and is still finding a growing number of applications which have given rise to its own specific industrial sectors and in others has radically changed the way in which they operate. Telecomunications, sensoristics, printers, lithographs, numerous processes in industrial manufacturing, numerous medical and aesthetic applications have been able to benefit from the innovations made available by the versatility, precision and reliability of laser systems. As Prof. Gérard Mourou - Nobel prize for physics in 2018 for the invention of chirped pulse amplification or CPA, which was later used to create ultra-short high intensity laser impulses (terawatt) - pointed out during his visit in January 2019 to the headquarters of Quanta System Spa in Samarate (VA), "the best is yet to come"! Scientific research and applied industrial research will continue to find innovative applications for laser technology from which we can all benefit directly or indirectly.

Among the many types of laser sources and applications that have been developed, the Group has always been specialized in systems for two particular sectors: laser systems for medicine and aesthetics which we call the Medical sector and laser systems for manufacturing which we call the Industrial sector. Each of these sectors is divided into various segments which vary from each other because of the specific application of the laser system and, consequently, for the specific underlying technologies and the type of user. For this reason, the activity of the Group which is generically defined as the manufacture of laser sources and systems, actually has a wide variety of products which are used by many different kinds of clients, also due to the global presence of the Group which forces it to adapt to the particular methods which every region in the world has in the adoption of our technologies.

Over time, the Group has acquired the structure which it now has through the creation of new companies and the acquisition of the control in others. The activities are conducted by this diverse group of companies which operate in the fields of manufacture, research, development distribution and sale of laser systems. Each company has been assigned a specific task which sometimes is based on its geographical location, sometimes on a specific market niche, and other times on a more extended and transversal area of activity including different technologies, applications and geographical markets. The activities of all of the companies are coordinated by the Parent Company in such a way that the available resources can be put to the best use on the markets and take advantage of the dynamism and flexibility of each single business unit without losing the advantages of a coordinated management of some of the resources.

In our sectors of the market, the wide range of products, the capacity to segment some of the markets in order to maximize the overall quota held by the Group, together with the opportunity of involving managerial staff as minority shareholders are at the base of the company organization of the Group. The high number of different companies that compose the Group is based on the linear subdivision of the activities which we have identified also for purposes of reporting but, above all for strategic purposes, as shown below:



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.

An optimal 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.

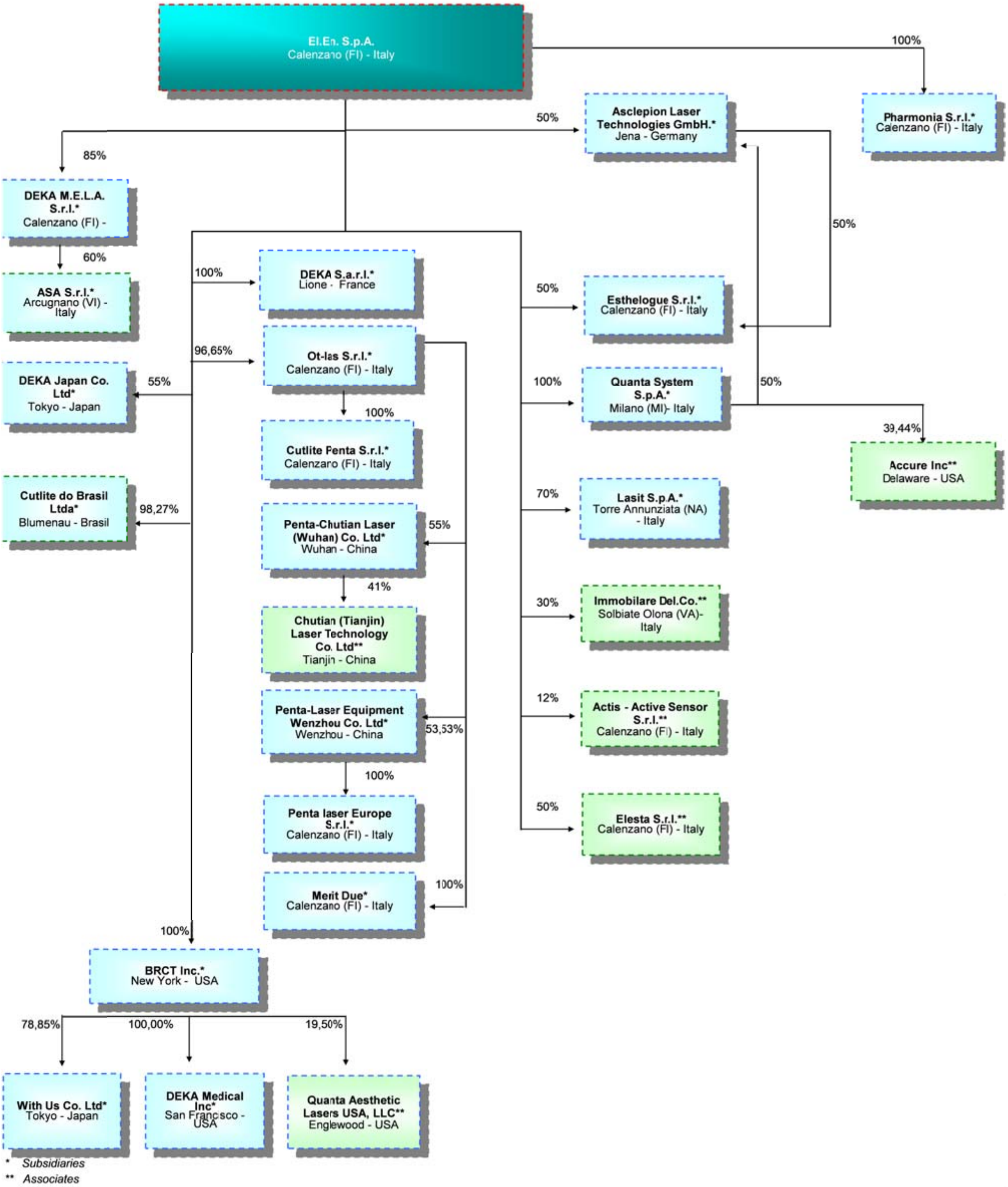
The outlook for growth is positive for both markets. In the medical sector, there is a constant increase in the demand for aesthetic and medical treatments by a population which, on the average, tends to age and wishes to limit as much as possible the effects of aging. There is also an increased demand 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, 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

As of December 31st 2018 the structure of the Group was 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.

	31/12/2018	31/12/2017
Profitability Ratios (*):		
ROE	9,1%	8,9%
(Net Income / Own Shareholders' Equity)		
ROI	8,3%	9,1%
(EBIT / Total Asset)		
ROS	8,7%	9,9%
(EBIT / Sales)		
Capital structural ratios:		
Investments Flexibility ratio	0,76	0,80
(Current Asset / Total Asset)		
Leverage	1,09	1,07
((Net Equity+ Loans) / Net Equity)		
Current Ratio	2,31	2,34
(Current Asset / Current Lability)		
Current liability coverage	1,58	1,76
((Current receivables + Cash & cash equivalent + Investments) / Current liabilities)		
Quick ratio	0,70	0,86
((Cash & cash equivalent + Investments) / Current liabilities)		

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

With a record sales volume, over 102 million Euros, registered during the fourth quarter and an excellent EBIT of 8,7% of the sales volume, the Group closed in acceleration a year characterized by rapid rowth and by the consolidation of the extraordinary results obtained in the last few years.

A sales volume of 346 million Euros (+12,9%), an EBIT of 30 million Euros (-1,5%), a net income before interest to third parties of 21,8 million Euros (+7,0%) and a net income for the Group of 16,8 million (+7,4%) are the numbers for the Group's income statement for 2018. Along with the net financial position of the Group (in the black for 62,4 million Euros), the 26,4 million Euros invested in technical assets demonstrate its excellent state of health, its great solidity and the firm determination to continue to pursue the plan for growth by allocating for this purpose important investments for augmenting the operating structures.

When compared with the forecast that had been formulated at the beginning of the year it is clear that the results for 2018 have amply exceeded them for the sales volume, while the EBIT was slightly below expectations.

Besides the detailed analysis of the trends of the various entries in the consolidated income statement which will be the subject of a specific section further on in this report, at this time we wish to analyze the phenomena and the general and particular situations which have led to these results.

First of all, the general macro-economic circumstances: the general situation is overall, favorable with lively activity on the main International markets with the exception of China. The war over customs duties between the United States and China and the decisive slowdown in the growth of some sectors that are vital for the Chinese economy, especially the important automotive sector, have caused the spread of expectations for a deceleration of the Chinese economy in the manufacturing sector. This climate of uncertainty has effectively cooled the demand also in the sectors in which we operate. The effect on the market was more one of slowing down rather than an actual decrease but the worsening of the results of the companies active on the Chinese market was amplified in its outlook for the future, in particular in the trends on the stock market both on the Chinese market and the American and European ones which showed an actual collapse during the second half of 2018. The other important market for the Group that showed clear signs of slowing down was the Italian market.

Although the present conditions are, on the whole, not so positive as they were in the recent past, we still believe that the Chinese market offers solid and concrete potential for growth for our activities. This is because of the overall outlook for a country that has a population of a billion and a half people and is gradually raising their standards of living, sustaining enormous investments in the infrastructure, and on account of the technological innovation in our sector with the new technologies of high powered sources in fiber for cutting sheet metal which have increased the potential market and augmented the number of clients in the sector, thus opening new applications and further possibilities for growth.

As far as the Italian market is concerned, the direct involvement of the Group has made it so that, despite the overall climate which is certainly not favorable, the trend has been excellent both in the sectors of the medical field, aesthetic medicine, and professional aesthetics as well as in that for industrial applications, cutting of sheet metal, dies and plastics and marking systems for identification, although in some cases this required marketing expenses that were more significant than in the past.

The activity in the industrial sector in China, consequently, which had seen an extraordinary growth in 2017 (about 80%) showed a positive trend (+10,6% in the local currency, +8,1% in Euros) also thanks to the intensification of the marketing expenses supporting the sales which, on the other hand, caused a drop in the EBIT with respect to the preceding year and even more with respect to the predictions which had foreseen further growth. In the rest of the world, the rapid expansion of Cutlite Penta in the sheet metal cutting sector in Italy and in some of the more important International markets, and the consolidation of the position for the cutting of dies and plastics contributed significantly to the growth of the industrial sector both from the point of view of the sales volume and the net income. The results of Lasit in the sector of marking for identification was excellent and confirmed the outstanding results of 2017 and exceeded them; excellent results were also obtained by Otlas who did very well in their first year separated from Cutlite Penta , and the sector of El.En dedicated to mid-powered CO_2 laser sources.

The medical sector showed a significant growth of 13,4%; this trend is overall highly satisfactory despite some issues which raised a series of difficulties in the development of the business and, besides the growth in the sales volume, limited the sales margins and, ultimately, also the profitability. The most positive results came from the growth in the applicative surgical sector of urology, where Quanta System enlarged their range of high and mid-powered holmium lithotripsy devices, which are very useful also for the treatment of benign hyperplasy of the prostate and, above all to

improve service to our highly qualified OEM clients who were responsible for the explosion in the sales volume during the last months of the year.
Along with the sales of these systems for urologic surgery we have also added the sale of single- and multi use optical fibers, a consumable that contributed to sales for service and parts and to the consolidation of the recurring quota of revenue in the medical sector. The results for 2018 confirmed our leadership in the segment of lasers for hair removal to which some bestselling systems like Asclepion's Mediostar and Deka's Motus which are sold in great quantity, and Quanta System's top of the line Thunder MT contributed. In the segment of body shaping, the return in style of Deka's Onda, which uses an original and innovative kind of microwave energy to cause the necrosis of adipose cells (i.e. weight loss), to firm up the skin and eliminate the unattractive effects of cellulitis was excellent and promising for the future. The results in the sector of physical therapy were again very satisfactory, with Asa of Vicenza, showing themselves capable of confirming their gradual expansion on the international markets which is the outcome of a programmed increase in their range of products and the operating structures dedicated to sales and marketing activities.
Along with the positive trends described for the segments mentioned above, there were also significant issues in other segments which caused a drop in the results with respect to last year and, to a greater degree with respect to the expectations, for this year.

Of these problems, the most significant were the issues related to the Mona Lisa Touch, our CO_2 laser system designed for the treatment of vaginal atrophy, which is one of the Group's most important systems.
An unexpected communication issued in July to the press by the FDA, the institution that supervises the safety of pharmaceuticals, medical devices and foods sold in the USA, advanced the possibility that gynecological treatments generically defined as "vaginal rejuvenation" and conducted using lasers or radio-frequency might present risks for patients. The FDA later revised their communication to limit it to the level inherent only to marketing communications promoting sales of these systems in the USA, the so-called "labeling" which must be follow certain regulations set out in the specific authorizations for sale which are issued by the FDA itself. The American distributor of Mona Lisa Touch, Cynosure, immediately interacted with the FDA and reached an agreement concerning the indications contained in future marketing communications and continued their selling activities of Mona Lisa Touch in the USA. The intervention of the FDA had an immediate and emotional impact on the American and global markets which soon became very significant over time and caused uncertainty in the end-users, in the professional associations in the field and the physicians using this technology all over the world, with a drastic decline in sales in the United States and a decrease in demand even outside the US.
This was truly a pity because Cynosure, which is now a division of Hologic, had revitalized the sales of the device and was off to an excellent start in 2018 as is demonstrated by the high acceleration in sales in the first few months of the year. Monna Lisa Touch among other things, is distinguished from its competitors by the long series (38 in all) of clinical studies and trials conducted and published by qualified, world renowned doctors, histiologists and biologists; with our CO_2 laser systems Smartxide^2 and Smartxide Touch, Mona Lisa Touch treatments have been conducted with long follow-up periods on over a million women, most of which declared that they were extremely satisfied with the treatment which allowed them to return to a more serene and normal life. The effects of this event, which began to be felt with a certain delay with respect to the initial outburst, were a reduction in the sales volume and the relative important margins on sales in the second half and, we believe for the next few quarters.
We trust that the mid-term effects, thanks to the undoubted effectiveness and safety of the treatment which is demonstrated by a solid body of scientific documentation, will strengthen our position of leadership in the USA with Cynosure on a market which is, for us, of considerable size, and which will go back to being a driver in the Group. However, we are speaking of a period of time which may turn out to be of considerable length before we can count on the revitalization of this applicative segment.
The other area which has shown itself to be in difficulty is the aesthetic sector in Japan, where competitive pressures have provoked a double effect on our consolidated and profitable activities. The sale of new systems has been disappointing while we await the launching of new models specifically designed for the Japanese markets which will contribute to the revitalization of sales of devices for hair removal and for body shaping. The margins on full-risk service contracts have declined considerably; again in this case we are waiting for the systems already installed to be equipped with new generation solutions which make their maintenance more cost effective. The effects of this situation on the results fr 2018 were considerable and our subsidiary closed with a significant loss.
In the sector of professional aesthetics in Italy, although we are in the presence of an excellent growth in the sales volume, the mix of products penalized the revenue on sales and, together with the amount of marketing expenses which culminated in the great convention in October, determined a sharp reduction in the EBIT and showed a loss.

On the basis of the circumstances described in this last paragraph, we can make some general comments on the outcome for this year and the outlook for the future of the Group. When we examine the causes underlying the results which are below our expectations, it should be noted that part of the marketing expenses incurred this year in order to sustain the increase in sales must be considered a mid-term investment for the consolidation of our position on the market. Likewise, the significant increase in expenses for research and development (see relative paragraph) impacts the results for 2018 but represents an essential premise for the expansion of the range of products offered and for future sales. Moreover, the financial solidity of the Group as shown by the consistency of the results and its financial structure, allow us to deal with an enormous investment plan directed towards the re-enforcement of the operative structures without creating any imbalances. We are purchasing and building manufacturing buildings of great quality and intrinsic value in order to prepare the logistics necessary for the future growth which we trust in thanks to the faith we have in our potential and that of our markets. We can allow our marketing and manufacturing structures the financial flexibility which, by means of the expansion of working capital will make it possible for them to improve service to the clientele (during this year in particular by increasing the inventory so as to reduce the delivery times and making numerous systems on rotation available for demonstration) and sustain the internal growth of our business.

The chart below shows the sales volume on December 31st 2018 divided by sector of activity of the Group, compared with the same data for 2017.

	31/12/2018	Inc %	31/12/2017	Inc %	Var. %
Medical	197.854	57,18%	174.416	56,91%	13,44%
Industrial	148.167	42,82%	132.045	43,09%	12,21%
Total revenue	**346.020**	**100,00%**	**306.461**	**100,00%**	**12,91%**

After two years in which the industrial sector had prevailed over the medical sector in its growth rate, in 2018 the activities in the medical sector grew more rapidly although without significantly changing the relative importance of the two sectors in the overall sales volume of the Group. The growth rate was close to 13%, an excellent result which continues the long series of double-digit growth rates for every year. The result of the sales are even more important if one considers that it was obtained in a year in which the exchange rates were not favorable: the rate for the US dollar penalized the sales volume by 4,5% , and for the Chinese Renminbi by 2,3%, and the overall effect on the sales volume by almost 1,3%.

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

	31/12/2018	Inc %	31/12/2017	Inc %	Var. %
Italy	65.768	19,01%	60.038	19,59%	9,54%
Eurospe	68.464	19,79%	52.839	17,24%	29,57%
ROW	211.788	61,21%	193.584	63,17%	9,40%
Total revenue	**346.020**	**100,00%**	**306.461**	**100,00%**	**12,91%**

The most significant growth was shown by the European markets for an amount of 30% to which both the medical and industrial sectors contributed. In the industrial sector the growth is the result of the increased competitiveness of Cutlite Penta even at an international level in the systems for sheet metal and die cutting and the excellent results obtained by Lasit in the marking systems, and by El.En. for the mid-power CO_2 sources. In the medical sector the result is mainly due to the excellent work conducted by Asclepion in the DACH area where the sales structure was augmented in order to deal with new marketing segments to also promote products of other companies of the Group. The growth in Italy and other markets outside of Europe was close to 10% and demonstrates the effectiveness of the marketing activity. The Italian sales volume of the Group still remains under 20% of the overall sales volume and confirms the vocation of the Group for export and internationalization.

The chart below shows the results of the sales in the various segments of the sector of medical and aesthetic systems which, in 2018 represented about 57% of the sales volume of the Group:

	31/12/2018	Inc %	31/12/2017	Inc %	Var. %
Aesthetic	110.397	55,80%	100.002	57,34%	10,39%
Surgical	42.107	21,28%	34.528	19,80%	21,95%
Physiotherapy	10.757	5,44%	9.432	5,41%	14,05%
Others	728	0,37%	599	0,34%	21,56%
Total medical systems	**163.989**	**82,88%**	**144.561**	**82,88%**	**13,44%**
Medical service	33.864	17,12%	29.855	17,12%	13,43%
Total medical revenue	**197.854**	**100,00%**	**174.416**	**100,00%**	**13,44%**

All of the main sectors register a two-digit increase in the growth of the sales volume.

In the introduction we commented on the trend in the various segments of the medical market. The surgical sector is characterized in the first six months by the great recovery in the sales of the Mona Lisa Touch, which then evaporated because of the above mentioned FDA communication at the end of July, and in the second half, by the progress in the sales of systems for urological applications, thanks to the significant contribution of important OEM clients representing highly prestigious brands who are served by Quanta System.

There was a growth of over 10% in the aesthetic segment which remains by far the most important segment. There are numerous laser applications in the aesthetic field. As of this time those which are the most important for the Group are: hair removal, removal of tattoos and pigmented lesions, photo-rejuvenation and body shaping. The oldest of these segments, hair removal, is also the most important one for us. As is the case for other applicative disciplines, it is characterized by a high level of innovation aimed at improving the effectiveness and the productivity of the systems and reduce the costs and in this way increase the number of users. .In response to the need for continual improvement in the products there were numerous and significant presentations of new systems again in 2018. In May, Deka began sales of the Onda system for body shaping and the removal of the unattractive features caused by cellulitis, with a significant impact on their sales volume. Later in the year, Deka's Motus AY system completed the Motus AX, an alexandrite system for hair removal, and thanks to a Nd:YAG source, provided greater versatility in the use of darker phototypes and additional potential in the vascular applications. Quanta System released the Discovery Pico Start thanks to which sales in the tattoo sector had a strong recovery in the second half. In the final weeks of the year, Asclepion released for sale the new version of the Mediostar system, the best seller in the hair removal group, which features a series of Monolith ™ applicators which are high-powered, effectiveness and productivity. As mentioned in the section on Research and Development, there are many projects for the improvement of pre-existing systems and for the creation of new ones by identifying new applicative potentials for laser sources. In fact, in the next few years we will be launching numerous new systems.

The trend in the sector of physical therapy is still very good, thanks to the efforts of Asa (Asalaser) of Vicenza which continues its progression by gradually expanding on to the international markets.

The sales volume in the dental sector and the other applicative segments of the medical sector are negligible.

After a decline in 2017, the sales volume for service in the medical sector again began to grow. A determining factor for this recovery was the sales volume for single- and multiple-use optical fibers for urological applications, most of which were destined for OEM clients. The increase was for an amount significant enough to offset the decline in the sales volume for full-risk after-sales contracts. Again, in this case, there was a variation in the mix of products in which the increase in sales volume favored categories of products and services with a lower margin.

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

	31/12/2018	Inc %	31/12/2017	Inc %	Var. %
Cutting	115.509	77,96%	102.897	77,93%	12,26%
Marking	17.855	12,05%	17.300	13,10%	3,20%
Laser sources	4.886	3,30%	3.363	2,55%	45,29%
Conservation	306	0,21%	173	0,13%	76,67%
Total industrial systems	**138.555**	**93,51%**	**123.733**	**93,71%**	**11,98%**
Industrial service	9.611	6,49%	8.312	6,29%	15,63%
Total industrial revenue	**148.167**	**100,00%**	**132.045**	**100,00%**	**12,21%**

The sales volume in the industrial sector again shows growth in all of its segments.
The main segment is that for cutting in which, after the extraordinary growth registered in 2017, the Group has been able to again achieve a double-digit growth rate. In this sense, sales in China were the determining factor. Growth was over 10% in local currency despite the widespread apprehension concerning the outlook for the Chinese economy, for which some indicators related mainly to the automotive market and influenced by the “customs war” set off by the administrations of Trump and Xi Jinpin, predict a decline in growth. Despite this, our activities succeeded in registering a year of continued growth, thanks to the particular qualities of our products which, in this phase are attractive to a growing number of clients, and for the new vertical applications which offset the general effect, both real and feared, of a decline in the economy. Along with China, we may also mention the excellent results shown by Cutlite Penta which has been able to expand rapidly both in Italy and on the European and American markets. The company has maintained a good level in the sales volume in its traditional applicative sectors for cutting dies and plastics and they have decidedly accelerated in the sector of cutting sheet metal, by benefitting from the above mentioned market amplification thanks to its products which, although Cutlite Penta does not have a long experience in the sheet metal sector, has benefitted from the vast experience gained from the Chinese subsidiaries in the sector and by the capacity they have acquired to effectively integrate laser sources of increased power into the cutting systems.

The marking sector grew slightly, thanks to the sale of the identification systems made by Lasit while sales of scansion heads and systems for decoration remained substantially stable.

The sale of CO_2 laser sources fed by RF, showed good results. These laser sources with new application niches in the textile and electro-mechanical sectors allowed the factory in Florence to manufacture a growing number of laser sources destined not only for the internal integrators of the Group, Cutlite Penta and Otlas, but also to third party users for which the sales volume grew more than 40%.

Of even greater importance, although we are dealing with a small sector, is the growth in the sector of restoration, from which the Group receives revenue but, above all, contributes to the conservation of the artistic heritage at a global level. The activity of the Group in this sector is a homage to our city, one of the cradles of world artistic production to which we dedicate our technologies and obtain a certain visibility, sometimes through collaborations or donations to institutions of great importance. In 2018 donations were made to the city of Florence of instruments to be used for the removal of the graffiti which ruin the appearance of the buildings. One of the most fascinating conservative restorations made with our lasers was the one conducted on Verrocchio’s *David* which is one of the main masterpieces displayed in the Verrocchio exhibition which just opened in Palazzo Strozzi. Visitors can now admire the golden decoration on David’s tunic which reappeared after the precision removal of the patina which covered it effected by our Smart Clean laser.
The sales volume for service began to grow again thanks to the increase in the number of installations which, despite the reduction in the maintenance cost, increased the number of clients which require after-sales service, and also to the increase in the sale of consumables related to the use of laser sources with CO_2 RF technologies.

CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 31st 2018

The chart below shows the consolidated income statement for the year ending December 31st 2018 compared with that for 2017.

Income Statement	**31/12/2018**	**Inc %**	**31/12/2017**	**Inc %**	**Var. %**
Revenues	346.020	100,0%	306.461	100,0%	12,91%
Change in inventory of finished goods and WIP	11.878	3,4%	5.452	1,8%	117,86%
Other revenues and income	5.613	1,6%	4.264	1,4%	31,62%
Value of production	**363.511**	**105,1%**	**316.178**	**103,2%**	**14,97%**
Purchase of raw materials	207.387	59,9%	166.694	54,4%	24,41%
Change in inventory of raw material	(8.170)	-2,4%	(419)	-0,1%	1850,24%
Other direct services	26.816	7,7%	22.618	7,4%	18,56%
Gross margin	**137.478**	**39,7%**	**127.284**	**41,5%**	**8,01%**
Other operating services and charges	42.870	12,4%	37.068	12,1%	15,65%
Added value	**94.608**	**27,3%**	**90.216**	**29,4%**	**4,87%**
Staff cost	58.989	17,0%	54.091	17,7%	9,06%
EBITDA	**35.618**	**10,3%**	**36.125**	**11,8%**	**-1,40%**
Depreciation, amortization and other accruals	5.631	1,6%	5.676	1,9%	-0,79%
EBIT	**29.987**	**8,7%**	**30.449**	**9,9%**	**-1,52%**
Net financial income (charges)	869	0,3%	(3.365)	-1,1%	
Share of profit of associated companies	(1.306)	-0,4%	(430)	-0,1%	203,45%
Other non-operating income (charges)	(6)	0,0%	564	0,2%	
Income (loss) before taxes	**29.545**	**8,5%**	**27.217**	**8,9%**	**8,55%**
Income taxes	7.707	2,2%	6.807	2,2%	13,21%
Income (loss) for the financial period	**21.839**	**6,3%**	**20.410**	**6,7%**	**7,00%**
Net profit (loss) of minority interest	5.045	1,5%	4.776	1,6%	5,63%
Net income (loss)	**16.794**	**4,9%**	**15.634**	**5,1%**	**7,42%**

The gross margin was 137.478 thousand Euros, an increase of 8% with respect to the 127.284 thousand Euros for 2017 thanks to the increase in the sales volume.
The decrease in the margins from 41,5% to 39,7% in 2018 is due mainly to a less favorable mix of sales in the medical sector.

The costs for operating services and charges were 42.870 thousand Euro and show an increase of 15,6% with respect to the 37.068 thousand Euros for 2017, with an incidence on the sales volume which was almost unchanged, to 12,4% from 12,1% for the preceding period. The increase is mostly related to the marketing expenses supporting the sales activity. The R&D activities have maintained their central role in the strategy of the Group and, in 2018 absorbed resources which increased in their incidence on the sales volume and have impacted the current results but will contribute to the improvement of future results.
Staff costs were 58.989 thousand Euros, showing an increase of 9,1% with respect to the 54.091 thousand Euros for last year, while the incidence on the sales volume decreased from 17,7% in 2017 to 17% in 2018.

As of December 31st 2018 the number of employees in the Group was 1.368, an increase with respect to the 1.212 registered on December 31st 2017. New hiring particularly involved the Chinese subsidiary, Penta Laser Equipment (Wenzhou).

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.
Because of the assigning of stock options/stock based compensation to employees and collaborators, the income statement includes among the staff costs the figurative costs for the stock option plan itself: for 2018 the overall cost was 0,7 million Euros with respect to the 1,4 million for last year.

The EBITDA amounted to 35.618 thousand Euros, a decrease with respect to the 36.125 thousand Euros in 2017. The decrease in the EBITDA which had an incidence on the sales volume which decreased from 11,8% to 10,3%, is derived from the decrease in the sales margins and the increase in the overhead which, as described above, increased by approximately the same amount as the sales volume.

The costs for amortizations, depreciations and accruals show, on the whole, a decrease, from 5.676 thousand Euros on December 31st 2017 to 5.631 thousand Euros on December 31st 2018, with an incidence on the sales volume which decreased from 1,9% to 1,6% in 2018. The reduction in these costs was determined by fewer accruals for devaluation of accounts receivable, while as far as the amortizations and depreciations are concerned increased from 3,8 to about 4,4 million due to the significant investments in fixed assets, while the accruals for risks decreased from 1,8 to about 1,2 million.

The EBIT therefore amounted to 29.987 thousand Euros, a decrease with respect to the 30.449 thousand Euros registered on December 31st 2017. The incidence on the sales volume was 8,7%, a decrease with respect to the 9,9% for the preceding period.

Net financial income amounted to 869 thousand Euros with respect to the financial charges of 3.365 thousand Euros last year. The reversal in the exchange rates from one period to the next determined the difference in the result. In 2017 the Euro was stronger with respect to the other currencies, while in 2018 it was decreasing in value with respect to the other currencies, especially the US dollar.

The income tax this year amounted to 7.707 thousand Euros: the tax rate was 26%. For details related to the income tax and tax rates, please consult the corresponding chart in the explanatory Notes.

Consolidated statement of financial position and net financial position as of December 31st 2018

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

Statement of financial position	31/12/2018	31/12/2017	Variation
Intangible assets	4.484	4.259	225
Tangible assets	61.020	39.178	21.842
Equity investments	2.459	3.587	-1.128
Deferred tax assets	6.334	6.269	64
Other non-current assets	12.582	12.371	211
Total non current assets	**86.879**	**65.664**	**21.215**
Inventories	85.892	66.567	19.325
Accounts receivable	80.246	80.445	-199
Tax receivables	11.436	8.942	2.494
Other receivables	12.490	13.939	-1.449
Financial instruments	1.951	2.036	-85
Cash and cash equivalents	80.966	97.351	-16.385
Total current assets	**272.982**	**269.281**	**3.700**
Total Assets	**359.861**	**334.945**	**24.915**
Share capital	2.509	2.509	0
Additional paid in capital	38.594	38.594	0
Other reserves	92.167	98.411	-6.244
Retained earnings / (accumulated deficit)	50.596	35.173	15.423
Net income / (loss)	16.794	15.634	1.160
Group shareholders' equità	**200.660**	**190.321**	**10.339**
Minority interest	18.576	13.975	4.600
Total shareholders' equità	**219.236**	**204.296**	**14.940**
Severance indemnity	4.378	4.217	162
Deferred tax liabilities	1.678	1.483	194
Reserve for risks and charges	3.955	3.797	158
Financial debts and liabilities	12.493	5.875	6.618
Total non current liabilities	**22.504**	**15.371**	**7.133**
Financial liabilities	8.314	9.161	-847
Accounts payable	63.891	63.257	634
Income tax payables	2.486	1.654	832
Other current payables	43.430	41.205	2.225
Total current liabilities	**118.121**	**115.278**	**2.843**
Total Liabilities and Shareholders' equity	**359.861**	**334.945**	**24.915**

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 2018 is the following:

Net financial position	31/12/2018	31/12/2017
Cash and bank	80.966	97.351
Financial instruments	1.951	2.036
Cash and cash equivalents	**82.917**	**99.388**
Current financial receivables	**74**	**155**
Bank short term loan	(6.720)	(8.230)
Part of financial long term liabilities due within 12 months	(1.318)	(932)
Financial short term liabilities	**(8.038)**	**(9.161)**
Net current financial position	**74.954**	**90.381**
Bank long term loan	(5.401)	(3.525)
Other long term financial liabilities - non current part	(7.092)	(2.350)
Financial long term liabilities	**(12.493)**	**(5.875)**
Net financial position	**62.461**	**84.506**

The net financial position of the Group decreased this year by about 22 million with respect to the end of 2017, and in the fourth quarter showed a decisive recovery with an amount of cash generated in excess of 7 million.

During this period the Group paid dividends to third parties amounting to a total of 8,4 million Euros. Investments in tangible assets amounted to 26,4 million Euros. About 1,5 million Euros were used for improvements on the existing industrial buildings, 22,1 million for the purchase, building and equipping of new factories in Calenzano, Torre Annunziata, Samarate, Jena, Vicenza and Wenzhou, as part of a vast investment program aimed at the increase in the productive capacity for an amount initially planned to be about 28 million during 2018-2019, and destined to exceed 30 million on account of the further expenses for equipment necessary in 2019 to start production at the new locations.
Along with the investments of fixed assets, the increase in net working capital represented the main factor among the uses of cash, an effect of the increase and in preparation for the expected rapid growth. The most significant variations were registered by the Chinese companies, by Quanta System and by El.En. The element of inventory was the main reason for the expansion of the working capital.

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. At the end of the year the fair value of the investment was 12,3 million Euros.

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

	31/12/2018 Capital and reserves	**31/12/2018 Income statement**	**31/12/2017 Capital and reserves**	**31/12/2017 Income statement**
Balance per parent company statement	**134.966**	**2.814**	**138.988**	**41**
Elimination of investments in subsidiary companies:				
- share of profit (loss) of subsidiary companies		16.314		20.019
- share of profit (loss) of associated companies		352		(432)
- elimination of rectification of value of equities		156		0
- elimination of dividends		(2.843)		(3.439)
- other (charges) income		504		(975)
Total contribution of subsidiary companies	68.411	14.483	53.547	15.172
Elimination of intercompany profits on inventory	(2.577)	(563)	(2.014)	280
Elimination of intercompany profits from sales of fixed assets	(140)	60	(200)	141
Balance as per consolidated statement – Group quota	**200.660**	**16.794**	**190.321**	**15.634**
Balance as per consolidated statement – Third party quota	**18.576**	**5.045**	**13.975**	**4.776**
Balance as per consolidated statement	**219.236**	**21.839**	**204.296**	**20.410**

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.

	31/12/2018	Inc %	31/12/2017	Inc %	Var. %
Medical	49.400	79,50%	43.111	79,75%	14,59%
Industrial	12.737	20,50%	10.949	20,25%	16,33%
Total revenue	**62.137**	**100,00%**	**54.061**	**100,00%**	**14,94%**

The company registered a sales volume of 62 million Euros, an increase of 14,9% with respect to 2017.

During 2018 El.En. Spa achieved an important volume of business in both the manufacturing sectors in which it operates, the medical and the industrial. As we will discuss later on, the recovery of the sales volume also determined a recovery in the EBIT. The results would probably have been better if the acceleration in the sales in the USA of one of our star products, the Mona Lisa Touch, had not been interrupted by the sudden and unexpected communication from the FDA in July 2018, on which we have already commented in detail in the previous quarterly reports, and the effect of which was more of a media frenzy than a regulatory one, which compromised the work we had done to position the system on the market by allowing fear and gossip to prevail over the safety and effectiveness of the system which had been proved by hundreds of thousands of successful treatments.

Despite this, the excellent results obtained in the United States during the first six months of the year and the stability of the other international markets made it possible to register an increase in the sales volume for the Mona Lisa Touch in 2018. Another decisive contribution in the medical sector was the launching of Onda for body shaping and the completion of the range of systems for hair removal which, with the addition of Motus AY, that with its vascular functions, has joined the Motus AX, a system which has similar characteristics which, however, have been improved.

In the industrial sector, a good increase was shown in the sales volume for CO_2 sources excited in RF, produced for clients belonging to the Group, Cutlite Penta e Ot-Las, and for the growing number of integrating clients outside of the Group specialized in applicative disciplines which do not overlap with the particular ones conducted by the companies of the Group.

Income statement as of December 31st 2018

Income Statement	31/12/2018	Inc %	31/12/2017	Inc %	Var. %
Revenues	62.137	100,0%	54.061	100,0%	14,94%
Change in inventory of finished goods and WIP	2.594	4,2%	539	1,0%	380,87%
Other revenues and income	955	1,5%	814	1,5%	17,20%
Value of production	**65.686**	**105,7%**	**55.415**	**102,5%**	**18,54%**
Purchase of raw materials	36.737	59,1%	27.438	50,8%	33,89%
Change in inventory of raw material	(783)	-1,3%	1.179	2,2%	
Other direct services	5.032	8,1%	4.070	7,5%	23,66%
Gross margin	**24.699**	**39,7%**	**22.727**	**42,0%**	**8,68%**
Other operating services and charges	7.078	11,4%	6.925	12,8%	2,21%
Added value	**17.621**	**28,4%**	**15.802**	**29,2%**	**11,51%**
Staff cost	15.760	25,4%	15.519	28,7%	1,55%
EBITDA	**1.862**	**3,0%**	**283**	**0,5%**	**557,68%**
Depreciation, amortization and other accruals	1.379	2,2%	1.263	2,3%	9,13%
EBIT	**483**	**0,8%**	**(980)**	**-1,8%**	
Net financial income (charges)	3.567	5,7%	(140)	-0,3%	
Other non-operating income (charges)	(799)	-1,3%	464	0,9%	
Income (loss) before taxes	**3.251**	**5,2%**	**(656)**	**-1,2%**	
Income taxes	437	0,7%	(698)	-1,3%	
Net income (loss)	**2.814**	**4,5%**	**41**	**0,1%**	**6739,16%**

The gross margin was 24.699 thousand Euros, an increase of 8,7% with respect to the 22.727 thousand Euros for last year; the incidence of the margin on the sales volume fell to 39,7% from 42,0% on December 31st 2017 mainly due to a mix of products which was less favorable from a point of view of the margins.

The costs for other operating services and charges were 7.078 thousand Euros, a slight increase with respect to the 6.925 thousand Euros for last year and the reduced incidence on the sales volume which fell from 12,8% on December 31st 2017 to 11,4% in 2018.

Staff costs amounted to 15.760 thousand Euros and showed an increase of 1,5% with respect to the 15.519 thousand Euros for last year and with an incidence on the sales volume which fell from 28,7% in 2017 to 25,4% in 2018. As of December 31st 2018 the number of employees in the company was 244, and increase with respect to the 234 registered on December 31st 2017.

A large portion of the personnel expenses is directed towards research and development costs for which the 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 on December 31st 2018 amounted to 140 thousand Euros, while last year they amounted to 148 thousand Euros. This is a negligible amount and is indicative of a phase in which it is more difficult than in the past to obtain this type of support for our research activities.

The EBITDA due to the circumstances described above, amounted to 1.862 thousand Euros, an increase over the 283 thousand Euros registered last year, with an incidence on the sales volume which fell from 0,5% on December 31st 2017 to 3% for this year.

The costs for amortizations, depreciations and accruals amounted to 1.379 thousand Euros, showing a slight increase with respect to the 1.263 thousand Euros on December 31st 2017.

Consequently, the EBIT rose from -980 thousand Euros on December 31st 2017 to +483 thousand Euros for this year which represents a turnaround towards the generating of operating profits although the amount is still far from those registered in the years preceding 2017.

Net financial income amounted to 3.567 thousand Euros, with respect to the financial charges for 140 thousand Euros registered on December 31st 2017. The dividends received increased with respect to last year: 2,3 million as opposed to 1,9 million in 2017 and the differences in the Exchange rates have risen from a foreign exchange loss of 2,6 million in 2017 to a foreign exchange gain of 0,6 million in 2018, especially due to the strengthening of the US dollar with respect to the Euro.

The other non-operating charges refer to the devaluation made on the equity held in the French subsidiary Deka Sarl and to the further accrual for losses in the equity related to the subsidiaries Deka Sarl e Cutlite do Brasil.

Pre-tax income amounted to 3.251 thousand Euros, with respect to loss of 656 thousand Euros for last year. The net income amounted to 2.814 thousand Euros.

Statement of financial position and net financial position as of December 31st 2018

Statement of financial position	31/12/2018	31/12/2017	Variation
Intangible assets	267	223	44
Tangible assets	15.852	13.239	2.613
Equity investments	17.668	17.179	489
Deferred tax assets	2.226	2.532	-306
Other non-current assets	12.260	12.059	201
Total non current assets	**48.274**	**45.232**	**3.042**
Inventories	24.510	21.415	3.094
Accounts receivable	40.716	36.552	4.164
Tax receivables	4.140	4.010	131
Other receivables	7.613	6.500	1.113
Financial instruments	1.951	2.036	-85
Cash and cash equivalents	26.195	43.373	-17.179
Total current assets	**105.125**	**113.886**	**-8.761**
Total Assets	**153.398**	**159.118**	**-5.720**
Share capital	2.509	2.509	
Additional paid in capital	38.594	38.594	
Other reserves	92.034	98.829	-6.795
Retained earnings / (accumulated deficit)	-984	-984	
Net income / (loss)	2.814	41	2.773
Total shareholders' equità	**134.966**	**138.988**	**-4.022**
Severance indemnity	852	889	-37
Deferred tax liabilities	410	476	-66
Reserve for risks and charges	1.224	578	646
Financial debts and liabilities	488	488	
Total non current liabilities	**2.975**	**2.431**	**544**
Financial liabilities	281	0	281
Accounts payable	10.553	13.377	-2.824
Income tax payables	0	0	
Other current payables	4.624	4.322	302
Total current liabilities	**15.458**	**17.699**	**-2.241**
Total Liabilities and Shareholders' equity	**153.398**	**159.118**	**-5.720**

Net financial position	31/12/2018	31/12/2017
Cash and bank	26.195	43.373
Financial instruments	1.951	2.036
Cash and cash equivalents	**28.146**	**45.410**
Current financial receivables	**63**	**130**
Bank short term loan	(4)	0
Financial short term liabilities	**(4)**	**0**
Net current financial position	**28.205**	**45.540**
Other long term financial liabilities - non current part	(488)	(488)
Financial long term liabilities	**(488)**	**(488)**
Net financial position	**27.716**	**45.052**

For the analysis of the net financial position, please consult the Notes in the separate 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 2018.

	Revenues 31/12/2018	Revenues 31/12/2017	Variation	EBIT 31/12/2018	EBIT 31/12/2017	Income (loss) for the financial period 31/12/2018	Income (loss) for the financial period 31/12/2017
Ot-Las S.r.l. (*)	4.731	30.142	-84,30%	242	2.268	213	2.610
Deka Mela S.r.l.	45.254	40.693	11,21%	2.244	2.293	2.042	2.083
Esthelogue S.r.l.	12.085	10.418	16,00%	(823)	641	(538)	446
Deka Sarl	3.253	3.856	-15,64%	(353)	(125)	(354)	(125)
Lasit S.p.A.	14.576	13.843	5,30%	2.533	2.555	1.736	1.847
Quanta System S.p.A.	63.324	50.075	26,46%	10.470	9.015	7.848	6.610
Asclepion GmbH	44.661	37.923	17,77%	4.430	3.904	2.892	2.606
ASA S.r.l.	11.408	9.962	14,52%	2.748	2.312	2.158	1.873
BRCT Inc.	-	-	0,00%	(9)	23	(1.677)	3
With Us Co., Ltd	14.847	19.528	-23,97%	(1.398)	(134)	(1.034)	79
Penta-Chutian Laser (Wuhan) Co., Ltd	23.757	29.312	-18,95%	513	2.362	450	1.643
Cutlite do Brasil Ltda	1.433	1.306	9,72%	(640)	(593)	(722)	(610)
Pharmonia S.r.l.	-	428	-100,00%	(5)	12	(4)	9
Deka Medical Inc.	-	14	-100,00%	(4)	-	(15)	(12)
Deka Japan Co., Ltd	1.790	2.342	-23,57%	339	299	181	200
Penta-Laser Equipment Wenzhou Co., Ltd	87.806	67.452	30,18%	7.078	5.657	6.208	4.644
JenaSurgical GmbH	2.312	2.827	-18,22%	20	(49)	18	(52)
Accure Quanta, Inc.	-	-	0,00%	-	(6)	2	292
Merit Due S.r.l.	59	58	1,72%	31	31	21	21
Cutlite Penta S.r.l	33.469	-	0,00%	2.695	-	1.952	-
Penta Laser Europe S.r.l.	-	-	0,00%	(4)	-	(4)	-

(*) On January 2nd 2018 Ot-Las S.r.l. transferred all of its actvities related to cutting to the newly created company, Cutlite Penta S.r.l.

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

Deka M.E.L.A. was founded in the 1990s and was the first company of the Group to deal in the sale of medical systems. The company 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 now constitutes the most prestigious brand name on the Italian market for laser applications in medicine and aesthetics and has a significant role at an international level. They operate in the sectors of dermatology, aesthetics and surgery and in Italy use a vast network of agents for direct distribution and, for export, of highly qualified distributors that have been selected over time. With the Mona Lisa Touch laser system for vaginal atrophy they have reappeared with great success in the gynecology sector in which they had operated with the CO_2 laser systems during their first years of activity.
The growth in their volume of business continued in 2018 with an increase of 11,2% which allowed them to achieve a sales volume of over 45 million, tank mainly to the investment of a great deal of energy and resources to sustain the development with an increase in expenses for marketing and personnel which determined a slight drop in the EBIT for this period despite the growth in the sales volume. During 2018, Deka benefitted from the launching of new products: among these was the innovative new system Onda for non-invasive body shaping and MOTUS AY for vascular

applications and hair removal. MOTUS AY consolidated the leadership position for innovation that Deka has achieved thanks to the earlier system, MOTUS AX and to its sophisticated hair removal method which is available on Motus AY where it also includes an efficient laser source, Nd:YAG for vascular applications.

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. and Cutlite Penta S.r.l.
With the operation that involved the re-organization of the two companies, which took effect in January of 2018 and was intended to make the activities of the industrial sector more rational, the activities in the cutting sector, which is now growing rapidly, were assigned to the "new" Cutlite Penta S.r.l; the new company was given the name of the brand that distinguishes the systems developed and manufactured in this segment, while the activities in the marking sector were left to the "old" Cutlite Penta, called Ot-Las S.r.l., in order to recall in the new name the brand that characterizes the activities in this segment.

Cutlite Penta therefore conducts activities related exclusively to the manufacture of laser systems for industrial cutting applications, by installing on X-Y movements controller by CNC laser power sources produced by the parent company El.En. S.p.A. for plastic cutting applications and by other suppliers for the cutting of metals and dies.

Ot-Las Srl deals in the business of laser marking systems for large surfaces with galvanometric type movement of the beam, and also makes use of the med-powered laser sources supplied by the parent company El.En for most of its systems.
Thanks to the rapid growth in the sales volume of the sheet metal cutting segment, the results of Cutlite Penta registered an all-time record in sales volume and net income. Ot-Las also registered good results in sales and income.

Their relationship with the parent company El.En. S.p.A., remains fundamental. El.En. supplies laser sources and collaborates in the planning of new systems and new accessories, in particular in relation to beam delivery which increasingly represents a critical factor for success with the exponential increase of the power of the laser sources installed on cutting systems. Over the years, Cutlite Penta S.r.l. has gradually been equipped with increasingly evolved structures and technologies and also dealt with the technological shift that replaced laser sources in fiber with CO_2 laser sources (star product of the industrial division of El.En. SpA) in the applications for laser cutting of metals which require high-powered lasers.
In the mid-power applications, for the cutting systems of Cutlite Penta and for the marking systems of Ot-las, the contribution of the CO_2 RF sources of El.En remain fundamental. Moreover, the short-term financial support that the Parent Company supplies for the necessary expansion of the working capital and the mid-term support for strategic initiatives like the expansion on the Chinese market through the subsidiaries **Penta Chutian Laser (Wuhan)** and **Penta Laser Equipment (Wenzhou),** the equities of which have remained among the assets of Ot-Las Srl., have been indispensable.

Penta Chutian Laser (Wuhan) and **Penta Laser Equipment (Wenzhou)**
The two companies constitute the operational base of the Group for the Chinese market in the industrial sector. The Group has now been present in China for over ten years and has a significant manufacturing capacity and an efficient selling network in one of the most dynamic markets in the world for manufacturing activities. The growth has made Penta a significant presence on the Chinese market for flat cutting systems for sheet metal and they have been able to promote their own products in the face of ferocious local competitors thanks to the quality of their key components which are designed and in part manufactured in Europe but still maintain a competitive price. These characteristics have allowed it to achieve a portion of the market that is among the first companies in the sheet metal cutting sector in China.

Penta Chutian of Wuhan now operates jointly with Penta Laser (Wenzhou), recently founded thanks also to the support of the municipality of Wenzhou for the new high-tech production facility which has been in operation since the Summer of 2016. The new plant at Wenzhou has more than doubled the production capacity thanks to a plant that was specifically designed for our kind of manufacturing. This facility was of fundamental importance in order to sustain the extraordinary growth of the market; in fact, with the new factory the sales volume increased by 80% in 2017 due to the growing demand for laser systems for cutting sheet metal. This market has been enlarged to new and greater dimensions by the new technology of fiber laser sources thanks to the greater productivity and ease of maintenance of the systems.
Again in 2018 the company showed a significant growth, over 10% in local currency despite market conditions which are no longer as favorable as they were in the past due to the climate of uncertainty cause by the "customs war" between the United States and China and the fear of a decline in growth. All of these conditions have effectively penalized our

activity in China, but we believe that they can be overcome by the opening of new vertical applications which the technology of high-powered laser sources in fiber will offer, with the expansion of the potential market for our systems.

Quanta System S.p.A.
The company which became consolidated into the Group in 2004, manufactures sophisticated laser systems both for aesthetic medicine and for surgery, in particular in the urology segment, where it has achieved a major portion of the market at a world-wide level.
Their sales volume rose sharply again in 2018, registering an increase of more than 26% with respect to 2017, thanks to the consolidation of close cooperation with other companies of the Group and a vast expansion in the surgery sector, both under its own brand and with OEM. Among the companies that collaborated most closely with Quanta we can mention Deka M.E.L.A., which sells the medical lasers produced by Quanta System in Italy under the brand name of Renaissance, and Asclepion Laser Technologies GmbH, which introduced Quanta System's range of products for aesthetics on the German market which is the most dynamic market in Europe. The unique solutions proposed by Quanta System, which engineers to their fullest potential the technological innovations offered by its research and development, have allowed the company to maintain a leadership position in the segments in which it operates.
The rapid growth of the sales volume had as a result, an excellent level of EBIT: in fact, Quanta System showed an EBIT of 16% of the sales volume, which is a very significant result.
In 2018 demand remained high and the outlook for 2019 is essentially the same. In order to avoid any logistic difficulties which might arise from the expected growth in the sales volume, in July of 2018 the company took advantage of the opportunity to acquire an industrial building adjacent to their headquarters in Samarate so as to guarantee the company the necessary physical infrastructure needed for its ambitious expansion projects.

Lasit S.p.A.
Lasit is specialized in the production of marking systems for small surfaces and conducts the manufacturing and development activities for their own products at their headquarters in Torre Annunziata (NA). Their specific market, that for the identification of products, parts and sub-assemblies, is now going through a phase of considerable growth because of the increased need for identification which characterizes manufacturing in general in the area of quality systems which require traceability of every part and sub-assembly which constitute the finished product released on the market.
Lasit is able to deal with the competition on this market by offering their clientele a product of excellent quality along with a personalized service which it is able to guarantee thanks to the flexibility of its manufacturing structure. By internalizing many phases of production the company has acquired flexibility and effectiveness in containing their costs. Thanks to these unique qualities, the company has obtained excellent results in the last few years both in terms of growth and profitability and, in 2018, they confirmed this tendency. The mechanical laboratory, which is equipped with systems for numerical control of the latest generation and systems for cutting sheet metal, also acts as a supplier to the rest of the Group.
In order to sustain the rapid growth which was creating difficulties for the operating activities from the point of view of logistics and manufacturing space, during this year Lasit purchase a spacious real estate property which is adjacent to the industrial buildings where it now operates so that it can adequately house the production processes and the various accessory activities. The investment, which amounted to 3,1 million for the purchase of the building, will also include the extra expenses for equipping it and represents the essential premise for the continued expansion of the company in the next few years.

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 and aesthetic 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 prime factor in its expansion has been the success of the Mediostar system, for which the first project had been developed before it was purchased by the Group. In the years that followed, the company released versions which gradually and completely modified its technological structure, performance and cost which made it the Group's best seller for this application. The latest version of Mediostar, which has been improved in its aesthetics and ergonomics both for use and for maintenance, is equipped with Monolith applicators which are truly jewels of German technology was launched at the end of 2018 and is expected to be one of the pillars of the expansion expected for 2019.
Along with the Mediostar the company produces a more traditional line of Asclepion products, the erbium lasers for dermatology, for which the company has thousands of installations, in particular in Germany. The applicative potential of the system was amplified thanks to the accessories specifically designed for pho-rejuvenation applications and, more recently, gynecological ones that have met with great success on the market. In this latter sector, the Juliet system represents a point of reference for vaginal treatments using erbium technology and in 2018 it was offered in the USA with great success.

Asclepion also has a surgical division which was started in 2015 with **Jena Surgical GmbH** which, during 2018 was incorporated in order to facilitate their activity and make it more efficient, while maintaining the different brand name for the surgical market where they offer systems for urological and rhinolaryngoiatric applications. Their results for 2018 were particularly good.

With Us Co Ltd

Since its founding, With Us Co. has had the role of distributing El.En./Deka products in the sector of aesthetics in Japan, where it has achieved an important position especially in the applicative sector of hair removal. A major factor in the sales volume of the company has been the all-inclusive maintenance services they offer for the numerous installations. After several years in which the growth of the sales volume made it possible to achieve excellent results also in terms of EBIT and net income, since 2017 the company has been going trough a phase of transition and the renewal of the range of products they offer which, while waiting for the occasion to present an up-dated range of systems, saw a reduction in revenue and the margins from their service activity. The results for 2018 consequently shows a loss, while the outlook for 2019 would seem to be good because of the expected relaunching in the sector of body-shaping thanks to a system designed ad hoc for the Japanese market and the purchase orders for upgrades for a significant number of the existing installations.

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 with whom it collaborates constantly for the creation of new applications.

The therapeutic effectiveness and the validity of the clinical support have allowed Asa to continue to grow in the past few years and was confirmed in the first few months of 2019. After the purchase of land at the end of 2017, construction was begun for the new factory where the company will operate starting in 2019. The new building represents an important investment and is indicative of the confidence that we have in the outlook for growth and the intention of the Group and the partners to sustain it. The year 2018 closed with great satisfaction for the record sales volume and net income of the company.

Other compagnie, 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 company has not been able to break even due to the insufficient volume of sales developed in these past few years. The outlook for improvement is represented by the opportunity of distributing a growing number of laser systems including those produced by other companies of the Group and in this way increase the sales volume to the extent of reaching a satisfactory level of revenue. This objective was not reached in 2018 due to a drop in the sales volume and the margins which, despite the control of the costs, they registered a loss for the year.

Deka Japan, operates by distributing Deka brand medical systems in Japan. In 2018 they began the operative phase of their collaboration with DKSH which has become the exclusive distributor and they concentrate on the activity of obtaining authorizations for the sale of new products and giving logistic support to DKSH. The profitability for 2018 is positive and they work because the collaboration with DKSH is able to develop a greater growth in the volume of business.

Deka Medical Inc. has ceased their activity of distributor in the United States for the medical/aesthetic and surgical sector and this activity has been assigned to a third party.

Esthelogue S.r.l. distributes the laser systems of the Group in the professional aesthetic sector in Italy and in this context has acquired an increasingly important role as leading supplier of innovative technologies for different aesthetic treatments, in particular for hair removal. Esthelogue's competitive edge is represented by the Mediostar Next laser with its evolutions, Mediostar Pro and XL (Asclepion Gmbh products), and the latest Mediostar equipped with Monolith handles. The other factor in its success which is no less important, is the assiduous and qualified formation service and assistance to its clients which transfers value and knowledge to the users of our technologies. With their increasingly expanded and consolidated presence, the Group is counting on the mid-term benefits of the Esthelogue structure and the trust that the clientele has in the technologies of the company also to promote new and different applicative technologies on this interesting market. The result for 2018 pays the price of the intense marketing activity which culminated in the October convention in Rome which was attended by hundreds of Esthelogue clients, the intensification of the support of the formative instructions to the clients and the reduction in the margins for a selling activity which has had particular success due to the low margins. For 2018 the company shows a loss but the availability in 2019 of a new body-shaping system and the Mediostar Monolith promise to turn it around.

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

BRCT Inc. acts as a financial sub-holding.

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. After a long period of crisis which continues in this country, signs of recovery are now intensifying. The policies adopted by the new president would seem to be more favorable than in the past for the economic development of the country and this improved the outlook for our company which, again in 2018 was not able to break even.

Penta Laser Europe Srl was founded by Penta Laser Wenzhou which owns it 100%, to act as a holding company for investments in Europe.

Research and Development activities

During 2018 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 (that includes applications for the conservation of cultural heritage) 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 laser 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 general surgery, otolaryngology, dermatology, gynecology, for cutaneous ulcers and for aesthetic medicine.
An application that is extremely important and has already obtained considerable commercial success, is related to urogynecoloy with the Mona Lisa Touch treatment to reduce the effects of the atrophy of the vaginal mucous. Clinical studies are still being conducted in prestigious centers and have confirmed that the laser treatment is effective, safe, and without negative collateral effects; further research is in progress to broaden our knowledge about the activating mechanisms in order to develop new applications. 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 and strengthen our 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, in order to prevent a relapse, therapies that alter the hormone balance and provoke a sort of premature menopause are indicated.

In the laser surgery unit of Careggi hospital in Florence they are now conducting programs of clinical research in gynecological surgery based on the exceptional characteristics of the *restitutio ad integrum* which can be obtained with CO_2 laser for the soft tissues of the various anatomical parts; with this unit DEKA has activated an agreement convention for scientific collaboration.
Moreover, exceptional results are being obtained for the treatment of diabetic feet at several centers where CO_2 Flaser equipment of this type has been installed. In this sector they have introduced the possibility of conducting the cleaning (debridement), that is, the removal of the necrotic tissue and other tissues that are interfering with the healing of the sores. The healing of chronic ulcers using laser treatments is based on the above mentioned characteristics of the laser beam, opportunely designed by us, to be used for the cleaning of the sore, but also on the capacity for bio-stimulation that is operated by the laser light, our cultural legacy from the numerous research projects and experiments which we have conducted over the years.
The new line of hair removal equipment called Motus with the AY model has been completed and successfully introduced and, after the CE Medicale, has obtained FDA clearance for sale in the USA. The Motus equipment is based on an original concept which involves the operator using a handpiece in movement with energy density that does not cause any pain and obtains excellent results for the effect of the accumulation of damage to the hair follicle due to the repeated passages of the device emitting the energy.

We have concluded the development of the Luxea platform, a complete device for various applications in aesthetic medicine. The device contains the main laser sources used for the various applications. The level of integration and management have been particularly appreciated by the first experimenters. CE certification has been obtained and we have initiated the procedure for obtaining FDA clearance.
For the regeneration of biological tissues we had originally coined the acronym HILT, High Intensity Laser Therapy, which characterized the specific line of our laser products which was assigned to our subsidiary ASA for global distribution; we have recently concluded the development of the new Hiro TT system, the first example of a new approach for the dynamic management of the temperature of the skin and multi-level control of the interface which makes use of advanced graphics, with state-of-the-art LCD capacitors. Sales of the system began in 2018 with considerable success. We have deposited the request for a European patent.

As part of the FOMEMI Project, (Sensors and instruments with FOtonic technology for minimally invasive Medicine) *Toscana bando unico R&S 2014,* European funds: POR FESR 2014-2020. Bandi RSI Bando 1. Strategic projects for research and development with El.En. as project leader, which has recently been authorized for financing, we have developed a system for high resolution vision with automatic zoom which will make it possible to obtain films and photographs during the treatment of ulcers. From these images, through the elaboration of the data during the evolution of the wound 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 that are present and are typical of this pathology.
Moreover, we are now conducting research on a new static illuminator for laser bio-stimulation in collaboration with another technological partner in the FOMEMI project research group. For this project we are also collaborating with a different partner for feasibility studies for a special ergonomic bed to be used during treatment of patients affected by cutaneous ulcers in order to reduce fatigue in both the doctor and the patient during the therapeutic procedure.

In 2018 we completed the study and clinical evaluation phase and begun selling 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 electro-magnetic microwave energy that is able to provoke a reduction of the adipocites. This device is equipped with innovative applicators which have the intrinsic safety feature of not transferring energy when they are not in contact with the skin. The method used for emission, which has a PTC patent, makes it so that most of the energy is absorbed by the fat, as planned, and thus provides a further protection in order to guarantee that the muscle layers under the fat are not subject to overheating. We have continued our study of a new instrument system of wave guide for the operator in order to facilitate the maneuvers of the applicator and guarantee the maximum uniformity of the treatment in the area of interest.

We have concluded work on the development of systems with wave guide coupling for CO_2 lasers for surgical applications and we have started procedures necessary for obtaining CE certification and FDA clearance. The experimental activity is intended to determine the best launching conditions for the laser beam in the hollow wave guide in order to minimize dispersion during transmission. We have completed the development of a new model of RF feeder for exciting a sealed CO_2 laser for medical applications (surgical and dermatological) which has been redesigned in order to be added directly to the laser source and thus reduce the size and cost of the complete system.
In collaboration with Quanta System SpA we have developed a real time system for monitoring the skin temperature during the pre-cooling process preceding laser treatments of the skin which will be used for safely managing energy-based treatments.

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 urologic medicine, results of which are used mainly for the development of DEKA products as well as for the other companies of the Group.

At DEKA they have begun research on the use of lasers for 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). As part of this project they have completed the development of a system of induction heating with radio frequency with nano-particles of iron oxide for medical applications and they are now conducting laboratory experiments; the generator is equipped with a electro-magnetic radiation system with a butterfly structure which made it possible to achieve a good level of efficiency.
Moreover, they have continued the development of a system for using a laser to excite nano-particles of gold for use in the diagnosis and therapy of skin tumors (melanomas). As part of this project they have designed and built a laser light system of illumination with our Q-switch source which we developed. The laser illumination system consists of a double bundle of fibers to be integrated into an ultra-sound probe.
The system has the purpose of acquiring images from ultrasonic waves emitted by nano-particles of gold after exciting the plasmonic resonance using laser impulses of very brief duration on an appropriate wave length. The particles are destined to be injected and brought inside the lesions in the soft tissues by antibodies designed to adhere selectively 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 with the emission of energy with a diffusive structure fed by optical fiber laser light inserted through the skin by means of an innovative tip for which an international patent has been requested.

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 for use in urology and which can be released on the market as soon as the necessary authorizations have been obtained.
When we have obtained the CE Medical brand and FDA clearance, the 100W holmium laser for BPH applications and for enucleation of the prostate will complete our range of holmium lasers for applications in urology 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 the technique based on the so-called vapor tunnel effect which offers considerable advantages for the stabilization and effectiveness of the shattering of the stones in the upper excretion tubes.
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 undertaken in 2015 gave positive results which made it possible to move on to the study phase on animal models and application on humans.
We have defined and completed the launching of the Thunder MT laser which uses two sources lie Alexandrite and Nd:YAG in single emission mode or mixed mode. The machine combines a high-speed scanner and an optional air cooler controlled directly by the same interface software as the laser. For this, Thunder MT is certainly the fastest and most powerful machine in the world in the segment of laser hair removal and has the possibility of being used for treating superficial pigmentation and vascular lesions.

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 have completed development of the new model of Mediostar for hair removal with substantial technical and aesthetic innovations. Presentation of the new model took place in Rome during the Convention which hosted hundreds of Esthelogue clients and selected international Asclepion clients. They have started development for the integration of other modules for Mediostar and the relative clinical trials.
On the holmium Multipulse Ho 140 laser we are now conducting development and experimentation of innovative solutions to satisfy the market demand for the treatment of kidney stones.
New versions of morcellators have been completed for the requirements of innovation and adaptation to the regulations in some geographical areas.
For the dermatology field, they have completed a new product called Quadrostar for the treatment of psoriasis and vitiligo.

Laser systems and applications for industry
At El.En. they have continued experimentation with a sealed 300W CO_2 source based on a new concept.
They have continued the verification experiments on space filters for the shaping of the beam for high-powered sources in the production range. They have continued with the designing of a new z-dynamic with higher dynamic and thermal performance and they have implemented the XY2-100 interface on our scansion heads so that they can be piloted even by third persons and they have worked on the software to increase the elaboration performance of on-the-fly processing variable data.
They have continued experimentation on the first examples of the Blade RF1222 source.
They 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.

During 2018 at **Cutlite Penta** they have developed a new line of machines, continued the development of cutting heads for laser fibers, introduced methods of control, and continued their close collaboration with Penta Chutian Wuhan and Penta Laser Wenzhou.
In the field of machinery for metal cutting, the new optical, mechanical fluido-dynamic and sensoristic developments of our EVO2 cutting heads made it possible to introduce levels of laser power over 10kw into the range of products..
The constant and considerable efforts directed to the development of software made it possible to fully exploit the potential derived from the high-powers used with significant increases in the performance in terms of productivity and quality and the creation of innovative machinery for bevel cutting 2D and 3D which will be used to create a new line of application for cutting with fiber lasers.
For the range of CO2 machinery dedicated to cutting plastic materials, they have developed both machines which integrate into the same process flat cutting and the galvanometric scansion technology as well as combined hybrid machines equipped with a double CO2 and fiber source, both of which are avant-guard solutions which offer the client an extreme flexibility of operation.
They have also continued the development and amplification of a range of machines for making American dies, a field in which Cutlite Penta has always been a world leader.
In 2018 **Ot-las** developed innovative solutions for making micro-pierced sound-proofing panels in large sizes and completed development of the scansion systems on the arms of anthropomorphic robots making OEM assemblies which were used for cutting refrigerator cells. They also integrated on their machines the new source, El.En's CO2 RF1222 by developing special scansion optical. Moreover, they have continued their research and optimization of processes in the field of leather, textiles and shoes with the consequent improvements in performance and production flexibility.

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

Thousands of Euros	**31/12/2018**	**31/12/2017**
Staff costs and general expenses	9.995	8.058
Equipment	197	169
Costs for testing and prototypes	5.404	3.944
Consultancy fees	522	712
Other services	99	54
Total	**16.218**	**12.936**

Following the usual company policy, the expenses shown in the chart have mostly 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 sustained by El.En. S.p.A. amount to 6% 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 the preceding years, stipulated two derivatives of the type called "currency rate swap" in order to hedge the risk in currency exchange for purchases in Euros.

Operation	Notional value	*Fair value*
Currency swap	€ 100.000	-€ 6.145
Currency swap	€ 800.000	€ 10.934
Total	**€ 900.000**	**€ 4.789**

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 7% of the total accounts receivable from third parties. For an analysis of the overdue accounts receivable from third parties, please consult the relative paragraph 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 later increased to a maximum of 100 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 2019 with possibility of extension annually.

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 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 41 million RMB.

The subsidiary ASA has underwritten a contract for a loan to be used for the construction of a new factory by taking out a mortgage for an overall amount of 4,8 million Euros. Also during this year, ASA underwrote a bank guarantee issued by CREDEM to the supplier ENI Spa for 8000 Euros with expiration date on December 31st 2021, as a guarantee for the issuance of thirteen MULTICARD ENI cards after the underwriting of the contract for the supply of fuel.

The German subsidiary Asclepion underwrote a loan contract to be used for the construction of a new industrial building by taking out a mortgage for an overall value of 4 million Euros which is added to the residual mortgage taken out for the construction of the old factory for an amount of about 400 thousand Euros.

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 at the end of this half. 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 meeting 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.
As described in detail in the section titled "Subsequent events", on January 17th 2019 the shareholders' meeting authorized the Board of Directors to acquire treasury stock within 18 months of the date of the resolution.

STAFF

As already mentioned, the staff of the Group rose from 1212 people on December 31st 2017 to 1368 on December 31st 2018. The division within the Group is composed as follows:

Company	2018 Average	31-dec-18	31-dec-17	Var.	Var.%
El.En. S.p.A.	239,00	244	234	10	4,27%
Ot-las Srl(*)	37,50	12	63	-51	-80,95%
Cutlite Penta Srl	29,50	59	0	59	0,00%
Deka M.E.L.A. Srl	21,00	22	20	2	10,00%
Esthelogue Srl	18,00	21	15	6	40,00%
Deka Sarl	11,00	12	10	2	20,00%
Lasit SpA	56,00	56	56	0	0,00%
Quanta System SpA	148,50	162	135	27	20,00%
Asclepion Laser T. GmbH	126,00	143	109	34	31,19%
Asa Srl	50,50	52	49	3	6,12%
BRCT Inc.	0,00	0	0	0	0,00%
With Us Co Ltd	46,50	47	46	1	2,17%
Penta-Chutian Laser (Wuhan) Co., Ltd	108,00	107	109	-2	-1,83%
Cutlite do Brasil Ltda	22,00	22	22	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	0,00	0	0	0	0,00%
Penta-Laser Equipment Wenzhou Co. Ltd	374,50	409	340	69	20,29%
Jena Surgical GmbH(**)	2,00	0	4	-4	-100,00%
Merit Due S.r.l.	0,00	0	0	0	0,00%
Total	**1.290,00**	**1.368**	**1.212**	**156**	**12,87%**

(*) On January 2nd 2018 Ot-Las S.r.l. conferred its activities related to cutting to the new company, Cutlite Penta S.r.l.
(**) On July 1st 2018 Jena Surgical GmbH was incorporated into Asclepion Laser T. GmbH

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 een deposited nd 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 2018 which is deposited and published as a separate report in accordance with art. 5, sub-section 1 letter b of Legislative Decree 254 of December 2016.
The consolidated Non-financial Statement for 2018 can also be consulted on the site www.elengroup.com - "Investor relations/sustainability/reports and financial statements" section.

INFORMATION RELATED TO THE EU REGULATIONS 679/2016 ON THE PROTECTION OF PERSONAL DATA

The Company already has their own system for the treatment and protection of personal data since the Italian Privacy Code (D. Lgs. 196/2003) became effective and has adhered to the indications of EU Regulation 679/2016 by appointing an external person to be responsible for the protection of personal data (Data Protection Officer) in compliance with artt. 37-39 Reg. UE 679/"2016 cit., and has proceeded with the additional requirements of these regulations.

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 statement, we wish to state that:

- On December 31st 2018 among the companies 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 for 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 and 2018-2020, for the subsidiary Ot-las Srl, 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 EVENTS

On January 17th 2019 the Shareholders’ meeting of El.En. SpA in an ordinary meeting proceeded to authorize the sale of treasury stock on the conditions proposed by the Board of Directors, in compliance with articles 2357 e 2357-*ter* cc. The purchase of treasury stock may be made for the following eventual, concurrent or alternative reasons: as an investment, to stabilize the stock in situations in which there is a scarcity of cash on the stock market, for assignment or distribution to employees and/or collaborators and/or members of the administrating or controlling bodies of the Company or its subsidiaries, for exchanges of equities as part of or on the occasion of operations of a strategic nature. The reasons which are described must be pursued with plans and operations for purchase and selling and/or operations conducted in compliance with the terms and regulations set forth in *Regolamento* UE 596/2014 (“MAR”) and with the normal market practice approved by the CONSOB. The authorization has been granted for the purchase, within 18 months of the date of the resolution, in one or more installments, of a maximum number of ordinary shares of the Company, the only category of shares presently issued, which, in any case, may not be more than one fifth of the capital stock. On the date of the resolution, 20% of the capital underwritten and deposited by El.En. was equal to. 3.859.494 shares with a nominal value of 501.734,22 Euros. The purchase of treasury stock must take place respecting the equality of the shareholders in compliance with art. 132 T.U.F. and art. 144-bis *Regolamento Emittenti*. Consequently the administrators may purchase them at the following concurrent and /or alterative conditions where applicable and which will be determined at the moment of each single operation, by means of a public offering for purchase or exchange; on the regular market, with the conditions established by the market practice approved by the CONSOB in compliance with article 13 MAR; at the conditions indicated by art. 5 MAR. The purchase may take place at a price which is not at the minimum less than the nominal value of 0,13 Euros per share and, at the most, greater than 10% more than the official trading price registered on the day preceding the purchase. Moreover, the stock may be sold within ten years of the date of the resolution at a price, or equivalent amount in the case of Company operations, which is not less than 95% of the average official price of the trading registered on the five days preceding the sale. Both the purchases and the sales of treasury stock must take place respecting the present European, delegated and domestic regulations.

CURRENT OUTLOOK

After a 2018 which saw a rapid growth in the sales volume in both the medical and industrial sectors, we believe that the re-enforcement of the manufacturing structures and the availability of new products which have been developed thanks to the intense activity of research and development will allow the Group to grow rapidly also in 2019. We estimate that the increase in the volume of business may exceed 5% and even reach 10%. We trust that the increase in the volume of business will also lead to an improvement in the EBIT. The mix of products sold and the effective incidence on the sales of new products at a higher margin will determine if the entity of this increase is enough to improve the incidence of the EBIT on the sales with respect to 2018.

DESTINATION OF NET INCOME

To our shareholders,
In submitting the separate financial statement of El.En. S.p.A. as of December 31st 2018, for your approval, we propose:

- To assign all of the net income for distribution to the shareholders;
- To distribute to the shares in circulation on the date coupon no. 3 came due on May 27th 2019, in compliance with art. 2357-ter, second sub-section of the Civil Code, a dividend of 0,40 Euros (zero point forty Euros) gross for each share in circulation for an overall amount of 7.718.988,80 as of this date and assigning the net income for the year, for the amount of 2.814.039,00 Euros and, for the residual amount of 4.904.949,80 Euros drawing on the net income that were not distributed during the preceding years but accrued in the voluntary reserve called “extraordinary reserve”.
- To accrue, where possible, in a special reserve of retained earnings, the residual dividend destined for any treasury stock which may be held by the Company on the date the coupon came due.

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 14th 2019

Financial year 2018

Internet site: www.elengroup.com

GLOSSARY

Code: the self-disciplining code of the companies quoted on the stock market which was approved in July 2018 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 2018 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 which has been aligned as much as possible with its organizational structure, 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. From December 9th 2016 until the end of 2018, the Company was included in the FTSE Italia Mid Cap index, FTSE Italia Star segment. It is now part of the FTSE Italia small 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), besides the regulations now in force, 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.

In compliance with Consob resolution 20621 of October 10th 2018, El.En. Spa feels that they qualify as a PMI as per art. 1, sub-section 1, lett. w-*quater*, 1) TUF and art. 2-*ter Regolamento Emittenti Consob*, and on December 18th they transmitted the amount of capitalization for the years 2014-2017 and the sales volume related to those years.
The data that emerges from this document is as follows:
a) average capitalization
- 2014 - 105,7 million Euros
- 2015 - 183,4 million Euros
- 2016 - 279,7 million Euros
- 2017 - 507,7 million Euros

b) sales volume
- 2014 - 180 million Euros
- 2015 - 218 million Euros
- 2016 - 253 million Euros
- 2017 - 306 million Euros.

For 2018 the consolidated financial statement approved by the Board on March 14th shows a sales volume of 346 million Euros.
On the date of publication of this Report Consob had not published on its site the list of PMI as per art. 2-*ter*, sub-section 2, *Regolamento Emittenti Consob*.

This report is drawn up on the basis of the relative *format*, VIII 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 27th 2018 and, after the vote of approval of the Board of Directors on May 15th 2018, 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 April 27th 2018, 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 2020 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 and which are disciplined by the specific regulations:

a) *Committee for the appointment of the board member*, (henceforth referred to as the Nominations Committee").
b) *Remuneration Committee*.
c) *Committee for controls and risks (*formerl*y the Internal Control Committee).*

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*" then in force and approved by El.En 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 2018

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) – section 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 2018 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 treasury stock is concerned, on January 17th 2019, the shareholders' meeting voted a new authorization to the administration for the purchase of treasury stock. Consequently, El.En took the following resolutions:

1) to authorize the Board of Directors to purchase, in one or more installments, in compliance with EU Regulation 596/2014 and the delegated rulings, with art. 132 D. Lgs. of February 24th 1998, n. 58 and with the concurrent or alternative procedures as described in all'art. 144-*bis*, sub-section 1, letters a), b) d-ter) and art. 144-bis, sub-section 1-*bis* of the *Regolamento Emittenti Consob 11971/1999*, within 18 months of January 17th 2019, treasury stock representing a number of ordinary shares which, in any case, considering the shares which will be kept in the portfolio, may not be in excess of the fifth part of the capital stock, in compliance with the regulations and laws, at a unit price which is not less than the nominal value of 0,13 (zero point thirteen) Euros and not greater than more than 10% (ten percent) of the official trading price on the day preceding the purchase.
2) to authorize the Board of Directors to put back into circulation, sell or transfer the stock within 10 (ten) years of the date of purchase, in one or more installments, at a price or equivalent, which is not less than 95% (ninety-five percent) of the average of the official trading prices registered during the five days preceding the sale, all for the purpose and with the methods, terms and conditions which the Board of Directors decides to set at the time of the sale or transfer and in complete compliance with of the laws in force.
3) to assign this task to the Board of Directors and, representing it, the president and the executive board members and with the power to delegate to third parties, in compliance with UE Regulation 596/2017 and art. 132 D. Lgs. 58/98, with all of the procedures necessary to guarantee equality of treatment among the shareholders, in compliance with the regulations set by the Consob.
At this time El.En. SpA does not possess any 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 2018) 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.

* * *

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*, 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,* 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* Consob, 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 2020, 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 27th 2018 and which elected the current Board.

The Board was elected with 57,364% of the voting capital by the shareholders' meeting held on April 27th 2018 and, after the vote of the Board of Directors on May 15th 2018, 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 by the partner Andrea Cangioli and contained the names of all the members that were subsequently elected and shown in the chart above.

The personal data of the board members elected on April 27th 2018 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 27th 2018 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 meetings held on March 15th and May 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 • Sole director of Goldplast s.r.l.	0
Alberto Pecci	• Executive President of Pecci Filati s.p.a. • Executive president of Toscofin s.r.l. • Sole Director of Immobiliare Centro P s.r.l. • Sole Director of Enrico Pecci s.a.s. di Alberto Pecci & C. • Sole director of SMIL • Sole director of Cellerese s.a.s. di Alberto Pecci & C. • Board member of Alberghi Pratesi di S. Cangioli e C.s.a.s. • 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.	1

Diversity policies and criteria

Following a proposal by the Nominations Committee which had been formulated after the meeting held on November 10th 2017 and represented the conclusion of resolutions that had been initiated in 2017, on November 14th 2017 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 Statutory 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 March 15th 2018, also for the purpose of supplying indications to the shareholders who have been called to appoint a new administrative body during the meeting held for the approval of the financial statement for the year ending on December 31st 2017, 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-*terdecies* 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 2018 none of the current board members or auditors has exceeded the maximum number of positions.

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 meetings, through the intervention of the president of the technical- scientific commission of El.En. 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, 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.
Moreover, during the period in which reports were presented to the Board by the board members concerning the functions involved in drawing up the financial reports and up-dating the internal regulations after modifications that were significant for El.En. had taken place (like the managing director, external board committees, Supervising body D. Lgs. 231/2001, Management of confidential information, Data protection Officer) these subjects proceed by making use, where necessary, of the collaboration of the secretary of the Board, the lawyer, in order to illustrate to all of the board members the new regulations that govern their activities.
The initiatives that have been taken in relation to the induction program are based on the seniority of the board members, on the basis of considerations which are considered relevant in the presence of substantial changes related to the regulations being referred to as part of the operations of the Company, self-regulation and corporate structure.

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 2018 the Board of Directors met seven (7) times on the following dates:

1. March 15th
2. April 27th
3. May 15th
4. June 8th
5. September 12th
6. November 14th
7. November 29th

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 (two) hours (1.C.1, letter I, n 2)

During the financial year 2019, the Board of Directors has met on the following dates:

1. March 14th

and, on November 14th 2018 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 2019;
3. September 12th – Half-yearly report
4. November 14th – Quarterly report as of September 30th 2019.

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 for reasons of necessity, privacy or urgency) 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). At this time, 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 Board is evaluating the possibility of a regulation of the Board of Directors which would regulate in detail also the methods for preventive information.

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 effectively. In particular, the completeness and the detail of the speeches made during the board meetings by the participants (president, managing director, general director and other executives called to explain their ideas by the president) will enable all of the board members, including the non-operative ones, to deliberate in an informed and knowledgeable fashion.

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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. letter 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.5);
- 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 letter 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 and the Board of Auditors as well as the half-yearly written 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 2018 (related to the activities of the second half of 2017: 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 of the protections and of the functioning of the area of management and debt collection; included in L. 262/05, on September 12th 2018 (referred to the first half of 2018: updating of the matrices of the areas subject to control and the control activities that have been conducted and/or scheduled; analysis of the organizational structure in the administrative department and the warehouse area following the rotation in the role of manager: 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 managing 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 2018 El.En conducted a re-examination of the perimeter of scoping which, although the scoping of the companies subject to control was the same, we proceeded to amplify the perimeter of the processes tested with reference to the Chinese company Penta Laser Wenzhou Co. Ltd..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.; Quanta System s.p.s., Asclepion GmbH, With Us Co. Ltd., Penta Chutian Laser Wuhan Co Ltd., and Penta Laser

Wenzhou Co Ltd. The Esthelogue S.r.l. company is selected as relevant only for conducting specific tests on single areas of the financial statement.
The results of the activities conducted this year and of the tests which were conducted have been summarized, as usual, in the written reports and were shown and illustrated 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 charged with the approval of the financial reports for the period 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.
During this year Article 6 of the *Regolamento Parti Correlate* was subjected to revision and, in the meeting held on March 14th 2019, the Board decided to modify it permanently so that the interested party, before the vote, must inform the body that is competent to discuss the nature, terms, origin and extent of its interest and the independent board members have, where necessary, the power to ask that the meeting be postponed until they are able to obtain and examine all the additional information that they deem necessary.
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.

The identification of the operations which have particular strategic, economic or financial importance is assigned is to the delegated bodies which conduct the daily management of El.En. and, in the opinion of the Board, have all the characteristics required for evaluating these cases. In fact, despite the fact that, in abstract, they have all the necessary powers to conduct any operation, they proceed by constantly bringing to the attention of the Board and for the approval of the latter, all the operations of particular significance.

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.
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.
During this year, this assessment was conducted twice.
The first assessment was conducted by the outgoing Board on March 15th, on the occasion of the approval of the financial statement. Bearing in mind the proposal formulated on this subject by the Nominations Committee which met on March 14th, th assessment had a positive outcome, considering that the composition of the Board was unchanged, that a general director had been appointed in the meantime and also the results that had been achieved by the Company and by the Group this year. This assessment was conducted also for the purpose, in consideration of the upcoming appointment of the new Board, of expressing to the shareholders a composition that would be desirable.
The second assessment was conducted during the board meeting held on May 15th after the appointment of the new Board by the shareholders meeting on April 27th. During this meeting, before the granting of the proxies of April 27th and the creation of the external committees of the Board, they evaluated and decided immediately:

that the Board appointed reflects the indications supplied by the shareholders in their reports and during the shareholders' meeting concerning the dimensions and composition of the Board also in terms of professional figures and diversified skills believed to be, since they are complementary, useful for the efficient running of the Board;
That the obligations set by law concerning the balance in the representation of genders and the presence of independent members have been respected;
That the delegations of power attributed for the purposes of the functioning of the Board do not have any substantial variations with respect to the preceding Board and the appointment of the external committees into which it is divided is in conformity with the requirements for their components as described in the Self-disciplining Code.

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 competition, 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 27th 2018, appointed from among its members, three executive members, one of which is also the president. Through a resolution of the Board on the same date, these members acquire, 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.45) 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.45, 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 (Chief executive officer) 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 outgoing Board, 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.4, but to adopt other delegating criteria.
In regard to the Board appointed on April 27th, this evaluation, despite the fact that it is confirmed by the unchanged organizational structure, on March 14th 2019 was the subject of discussion at the Board meeting which was charged with the approval of the financial statement for the year.

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.4., 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.6).

Chairman of the Board of Directors (2.P.6)

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 2018, at the first meeting after the election, while forming the internal commissions, the present Board, with the approval of Board Statutory Auditors, decided that the requisites for independence existed in relation to the two non- executive board members elected as such (Applicative criteria 3.C.4.) and made this evaluation known with a communication issued on the same date.
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 (3.C.1, 3.C.2).
The only element that is not taken into consideration for the purposes of evaluating the independence in relation to one of the independent board members is the duration of the mandate. This position has been approved by the shareholders who, in fact, during the election, have been fully informed concerning the seniority of the candidate, of the circumstances in which Mr. Legnaioli has acted as independent administrator of the company for more than nine years and that this does not in itself exclude his suitability to be qualified as an independent administrator, in the absence of any connectionor relationship between those that are listed in art. 148, sub-section 3 D.Lgs 58, 59 cited, and in Criteria 3.C. 1 of the Code and considering the recognized ethical standing and professional ability of Mr.Legnaioli as well as the permanence of his independence in judging and evaluating.

In this regard it should be noted that during the approval of the financial statement for 2018 and of this Report, the Board, during the meeting of March 14th 2019 which approved this report, 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, decided to meet twice, on June 12th and on December 12th in meetings that were different and separate from those of the various company committees of which they are members. They discussed the analysis of a project which is still confidential as well as some issues related to program of controls and the up-dating and terms for drawing up of the information sheet issued before the Board meetings.

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.
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, EU Reg. 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. During this year the attachment to these Regulations, which contained the information sheet on the subjects entered in the register for the purpose of aligning them with the changes that had occurred in the meantime, was updated.

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.
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

The Board performs its tasks jointly.
In any case, for the purpose of allowing the Board to deliberate with greater knowledge of the facts on subjects which require particular preliminary fact gathering or on delicate subjects which could be a potential source of conflict of interest, since the year 2000 El.En. has made use of three external Board committees (nominations committee, controls and risks and remuneration) which have the function of proposing and consulting. The Committee for controls and risks acts also as a commission for the related parties and for sustainability issues, as better described in the relative section of the Report.
The Committees are renewed every time the new Board is elected.

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 written regulations defining their composition, duties and functions approved by the Board of Directors in the constitution are periodically updated by the Board;
c) the composition reflects the recommendations expressed in the Code and were renewed the last time on May 15th 2018 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 2018 after the renewal of the Board of Directors and is composed as follows: Alberto Pecci (non-executive), Fabia Romagnoli (non-executive and independent), and Michele Legnaioli (non-executive and independent).

During 2017 the committee met twice (March 14th and May 15th).
All of the members were present. Considering that the meeting on May 15th had the purpose of electing the president and lasted only 15 minutes, it is not of significance for calculating the average duration of the meetings. The meeting held on March 14th lasted 70 minutes.

The work that was conducted during the meeting were 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 14th. The meeting that was held on May 15th was held after the appointment of the committee after the election of the new Board of Directors and was conducted solely for the purpose of designating the president of the committee.

During 2019 the Nominations Committee met on March 12th. At this time no other meetings have been planned.

The Nominations Committee this year has been made up of three members (Applicative criteria 4.C.1., lett.a), 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).

The Committee meetings are recorded separately, in a special book, in compliance with the regulations (Applicative criteria 4.C.1., lett. d) .

Functions of the nominations committee

The tasks to be carried out and the functions of the Nominations Committee have been set out formally since September 5th 2000 in the regulations approved ad hoc by the Board on the same date. Later, the tasks of the Nominations committee were revised on the basis of the changes that had taken place in the Code.
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 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;
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) of the self-disciplining code. The Nominations committee were revised on the basis ad adherence to the changes which took place in the Code;
d) formulates opinions and offers advice to the Board of Directors in relation to the definition of the diversity policy (age, gender, professional background, training) in the composition of the administrative and controlling bodies, in particular in relation to the objectives and the means of reaching them.
e) conducts the preliminary gathering of information and formulates proposals related to the evaluation of the adoption of the succession plan of the executive administrators and, where necessary, contributes to the creation of the plan.
f) supervises the process of self-evaluation of the Board of Directors in compliance with Article 1, applicative criteria 1.C.1.letter g of the Self-Disciplining Code.

When carrying out their functions and duties, the 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 2017 financials.
They also met in order to formalize the indications to supply the shareholders in view of the renewal of the Board also in consideration of the *Policies applied in relation to the composition of the commissions of El.En. S.p.A.* and adopted on November 14th 2017.

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 compliance with art. 6.P.3. of the code, up until 2000 the Board nominated internally a commission for remuneration for the purpose of guaranteeing the most complete information and transparency related to the salaries paid to the administrators.

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 2018 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).

During this year the Remuneration Committee met three times: on March 14th , May 15th and May 24th.
All of the members were present.
As far as the average duration of the meetings is concerned, considering that the meeting held on May 15th lasted only 15 minutes for the appointment of the president, and can therefore be considered insignificant in relation to the calculation of the duration, it has been calculated on the basis of the other two and amounts to 80 minutes.

The work conducted during the meetings were coordinated by the president. He informed them and gave his report on the activities conducted during the Board meeting. At all of the meeting the Board of Statutory Auditors or one of its representatives was present.
In 2019 the committee has met once, on March 12th; no other meetings are planned at present.

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 are made concerning their 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).

The autonomous meetings of the Remuneration Committee are regularly recorded (applicative criteria 4.C.1., lett. d).

Functions of the Remuneration Committee

The Remuneration Committee functions and has the tasks described in the regulations approved ad hoc by the Board of Directors on September 5th 2000. Later, the tasks of the Remuneration Committee were revised in compliance with the modifications of the Code which had been made in the meantime.
It is understood that the Remuneration Committee has exclusively functions of consulting and advising and that, in conformity with article 2389, sub-section 3 C.C. and article 20 E of the company by-laws, only the Board of Directors has the power to determine the remuneration of the delegated bodies, of the President, and the Board Members who have been assigned specific tasks once the necessary opinion of the Board of Statutory Auditors has been obtained.

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 2017 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 2018. 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 Board of Directors.
c) In the light of the recommendations expressed in this rard in the Letter of the President for Corporate Governance of the Italian stock market (Borsa Italiana) upon the examination of the importance of the variable components in the remuneration of executives (executive board members and general director); the existence of claw-back agreements with reference to the president and the executive board members; the advisabilty of introducing some issues related to sustainability into the ultra-annual objectives; the end of term indemnity at the examination of the remuneration of the president and the executive board members.

At the meeting held during the year, the Board of Auditors was either represented by the entire board or one of its acting members (Comment to art.6 of the Code).

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/2019 /ASSEMBLEA ORDINARIA 30 APRILE-15 MAGGIO 2019*.

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 2018 for the inspection and decision of the shareholders' meeting during the meeting for the approval of the financials for 2017. 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) *Performance* objectives, i.e, the economic results to which the issuance of the variable components (including the objectives defined by the remuneration plans based on stock option) 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 2018 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 who have managerial positions (president, executive board members) 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 April 27th 2018, 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 2018 and since it was later definitively confirmed by the Shareholders' assembly without any modifications to the proposals of the Board, it was approved by the Board on May 15th 2018.

Remuneration of directors with strategic responsibilities

In relation to the directors with strategic responsibilities, 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 15.000,00 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)
Since its creation in 2000, 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 2018 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 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 five times, on February 15th, March 14th , May 15th, May 24th and September 12th.

As far as the duration of the meetings is concerned, considering that the meeting held on May 15th lasted only 15 minutes for the election of the president, and therefore cannot be considered relevant for the calculation of the duration, this latter was calculated on the basis of the other four meetings which lasted an average of 84 minutes. All of the members were present at all of the meetings.
The work that was conducted during the meetings was coordinated by the president and he reported on the activities conducted during the meetings of the Board.
In 2019 the Committee for Controls and Risks has already met once, on March 14th.
At this time at least one meeting is scheduled 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
The Committee has the functions and the tasks described in the regulations approved ad hoc by the Board of Directors on September 5th 2000. At a later date, the tasks of the Committee for risks and controls were revised in compliance with the modifications of the Code and the regulations which had occurred in the meantime.

In fact, 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.
Moreover, 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).

With a resolution taken on November 14th 2018, to the regulation a function related to the role of the Committee for Controls and Risks, concerning the formulation of opinions and proposals to the Board of Directors in relation to the definition of the sustainability policy in accordance with D. Lgs. 254/2016, was added.
At this time therefore it conducts the following activities:.
First of all, those described in the *Regolamento Parti Correlate Consob* as follows::

(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.
Moreover, in relation to issues of sustainability in compliance with D. Lgs. 254/2016, the Committee for Controls and Risks has the task of assisting the Board of Directors by gathering information, both of a propository and advisory nature, on the assessments and decisions related to issues of sustainability connected with the activities of the company and the dynamics of its interaction with all of the stakeholders, the social responsibility of the company, the analysis of the scenarios for arranging a strategic plan and the corporate governance of the Company and the Group.

During this year the Committee for Controls and Risks conducted the following activities:

a) The examination and formulation of a favorable opinion in reference to the organization of the internal controls system and risk control system after the appointment of the new Board of Directors.
b) The examination and evaluation of the activities conducted by the executive manager as per law L. 262/2005.
c) Examination and assessment of the audit plan for 2019 and of the activities conducted by the internal auditor, in relation to the verification of the functioning and suitability of the system for internal controls and management of risks: with reference to the drawing up of the financial statement, to the up-dating of the system for the areas subject to control, and the control activities that have been conducted and/or planned, analysis of the protections and the functioning of the area of management and collection of debts, analysis of the new organizational system of the administrative body and of the inventory after the rotation of the managers.
d) Examination and assessment of the recommendations contained in the Letter of the President for Corporate Governance of the Italian Stock Market (*Borsa Italiana*) proceeding with the identification of the areas in which to intervene with margins of improvement, that for the timeliness of the information supplied before the board meetings on some specific subjects and the formalization of the investigation as the basis for the self-evaluations of the board.
e) Examination and assessment of the internal procedure on the operations with related parties and proposal for the revision of the latter with reference to some modifications related to changes that have taken place in the regulations.

f) Examination and assessment of the internal procedure regarding the treatment of company information proposal for a revision of the latter with reference to the up-dating of the information to be supplied to the persons listed in the register with the EU regulations both with reference to Reg. UE 596/2014 (MAR) and to Reg. UE 679/2016 (GDPR) of the regulations attached to the information sheet for the persons listed in the register.
g) Support to the Board in the assignment of the position to the Independent Auditors related to the methodology to be used when the accounting standard IFRS 16 comes into force.
h) Support to the Board in the assignment of the position of auditing company as per *ex* D. Lgs. December 30th 2016, n. 254 related to the certification of the non-financial Statement for the year 2018.

All the members of the Board of Statutory 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 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 did not take use of external consultants.

After the renewal of their mandate, the Board designated the organization of the System of internal controls and risk management by confirming the preceding one and established 80.000,00 Euros as the budget attributed overall to the system of internal controls and risk management, including the committee for Controls and risks.

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 responsible for the protection of data as per ex art. 37 Reg. UE 679/2016.

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.

On the 14th of November the Board approved the work plan set up by the manager of the internal auditing functions after consulting the Committee for Control and Risks, the Board of Auditors and the executive manager for internal controls (Applicative criteria 7.C.1 letter c)).

Through the activities implemented and coordinated by the internal Committee for Controls and Risks by the Board of Statutory Auditors and by the reports on the activities conducted by the manager of the internal auditing, by the internal controls provost and the superintending institution 231, by the manager designated for the protection of data *ex* art. 37 Reg. UE 679/2016 ,during the meetings held on March 15th, May 15th, September 12th , 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); refers regularly to the Committee for Controls and Risks/ Board of Directors and Board of Auditors in relation to the issues which have emerged while conducting their activity or for which they have received a report, even if, during the year there has been no necessity for it (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 Committee 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 through an auditing plan approved annually by the Board based on a structured analysis process and prioritizing of the main risks (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 half-yearly 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., letter 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., letter f); they have not had an opportunity to report on events of particular significance (Applicative criteria 7.C.5, letter e); 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 supporting the accounting activity (Applicative criteria 7.C.5, letter 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. The Board, after the renewal of its mandate, designated the organization of the system of internal controls and risk management by confirming the preceding one, and determined a budget of a total of 80.000 Euros for the entire system of internal controls and risk management.

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; updating of the matrix of the areas subject to control and the control activities that have been conducted or scheduled, and analysis of the area of debt collection and re-organization of the administrative departments and central warehouse; 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-L. 262/05 area of monitoring has been assigned to Dott. Lorenzo Paci, CPA, an external subject involved in the activities for the implementation of ex D. Lgs. 231/2007, member of the supervising body 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 BETWEEN 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 Committee 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, the Board had originally 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.

The Internal Regulations for Operations with Related Parties was subjected to a review by the Committee for Risks and Controls during this year and the Board, during the meeting held on March 14th 2019, made additions to it by reproducing some of the regulations of the *Regolamento Parti Correlate Consob* to replace the simple reminders for the purpose of facilitating the reading and the reconstruction of the operating organization, as well as the detailed disciplining of the equivalent protected areas and to refine the contents of art. 6 in relation to the resolutions on the operations for which there is a correlation derived from the interest of an administrator or an auditor. For this purpose we have eliminated to requirement of removal or abstention from the resolution with the power of the independent administrators to request to postponement of the meeting and of the resolution in order to acquire further information.

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 the regulations relating to balance, as per 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 2018, 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.

The shareholders' meeting called to approve the financial statement for the year, as stated, will have to appoint the new Board of Statutory Auditors .
In compliance with art. 144-septies, subsection 2, Reg. Emittenti, the minimum equity quota in the capital stock necessary for presenting the lists of candidates to be members of the Board of Statutory Auditors is 4,5%, in conformity with art. 25 of the company By-laws, with art. 144-sexies Reg. Emittenti and with the resolution of CONSOB n. 13 of January 24th 2019.

14.0 COMPOSITION AND FUNCTION OF THE BOARD OF STATUTORY 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 of Auditors 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.
The shareholders meeting called to approve the financial statement for the year, as mentioned, will also have to appoint the new Board of Auditors.

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*").

El.En.spa constantly places at the disposal of the Board of Statutory Auditors 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 Statutory Auditors has participated in the Committee for Controls and Risks.

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 Code and the compliance with the Consob rules and the effective implementation of company procedures regarding dealings with related parties.
This body is 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 2018 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 2018 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 128,00 minutes.
During this year the Board of Statutory Auditors met five (5) times.
Four meetings of the Board of Statutory Auditors have been scheduled for the year 2019, two of which have already been held: one on January 7th and one on January 28th.
The President participated at 80% of the meetings, while the acting auditors, Rita Pelagotti and Paolo Caselli were present at all of the meetings.

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.

In the case of El.En., since the Borad of Auditors is identified with the “Committee for internal controls and audit” in compliance with art. 19 del D. Lgs. 39/2010 (as modified by D. Lgs. 135/2016), the components of the Board of Statutory Auditors must be, generally speaking, competent in the field in which the Company operates.

Moreover, the components must be diversified in their gender in the sense that at least one third of components must belong to the gender that is least represented (art. 148,sub-section 1-*bis*, TUF; applicative criteria 8.C.3) – and the age and professional background, so as to guarantee a different vision and approach to the issues of control and the skills suitable to assure a correct conduction of the functions they are asked to perform.
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. (Applicative criteria 1C.1., letter i).

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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 15^{th} .

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 Statutory 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 Statutory 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. (Applicative criteria 2.C.2.).
As far as the remuneration o the Board of Statutory 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 *Regolamento interno per le operazioni con parti correlate*, the independent Board members have the option of asking for a postponement in the meeting in order to acquire further information. (Applicative criteria 8.C.5.).

The Board of Statutory 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.6. and 8.C.7.).

The Board of Statutory Auditors has continued, among other things, to exert its control on the operations with related parties 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 15^{th} 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/Statutes and regulations.

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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 April 27th 2018, 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 the 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 (Nominations Committee), May 24th 2018 (Remuneration Committee), September 12th 2018, (Risks ad Controls Committee).

After the evaluations expressed by the commissions which deemed that the existence of a correct alignment with the recommendations contained there, we proceeded with a discussion of the subject during the meeting of the Board of Directors held on March 15th 2018 and September 12th 2018 which among the aspects considered by the non-executive members and the independent ones, could be improved upon in relation to the timing of the pre-meeting information with reference to just a few limited subjects and with reference to an improved codification of the board review procedure.

In relation to this we are now studying the formulation of a regulation of the Board of Directors which would bring improvements to both issue.
With reference to the Letter 2018, it has been brought to the attention of the President of the Board of Directors and Board of Statutory Auditors and will be examine during the meetings of the Board and the Committee in 2019.

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. S.R.L.	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.	5,804	5,804
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 2018											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 27th 2018	Appr. of annual report 2020	M	X				86%	0						
Managing director	Andrea Cangioli	April 27th 2018	Appr. of annual report 2020	M	X				100%							
Managing director	Barbara Bazzocchi	April 27th 2018	Appr. of annual report 2020	M	X				100%	0						
Director	Fabia Romagnoli	April 27th 2018	Appr. of annual report 2020	M		X	X	X	100%	0	X	100%	X	100%	X	100%
Director	Alberto Pecci	April 27th 2018	Appr. of annual report 2020	M		X			86%	0	X	100%	X	100%	X	100%
Director	Michele Legnaioli	April 27th 2018	Appr. of annual report 2020	M		X	X	X	100%	0	X	100%	X	100%	X	100%
Number of meetings held during 2018				Board of Directors: 7 (seven)		Control and risks committee 6 (six)				Remuneration committee: 3 (three)			Nomination committee: 2 (two)			
Quorum required for the presentation of lists during the last appointment				2,5%												

<u>Table 3</u>: **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**	**80%**	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**	**100%**	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 2018: 5							
CONSOB, with resolution 13 of January 24th 2019 set the percentage of equity 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, letter 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).

***

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.

***

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 2018

FINANCIAL CHARTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

Consolidated statement of financial position

Assets	Note		31/12/2018		31/12/2017
Intangible assets	1		4.483.948		4.259.031
Tangible assets	2		61.019.946		39.177.521
Equity investments	3				
- in associated compagnie		1.423.909		2.537.355	
- other		1.035.420		1.049.920	
Total Equity investments			2.459.329		3.587.275
Deferred tax assets	4		6.333.580		6.269.095
Other non-current assets	4		12.582.025		12.371.085
Total non current assets			**86.878.828**		**65.664.007**
Inventories	5		85.892.337		66.567.301
Accounts receivable	6				
- third parties		79.537.108		79.559.226	
- associated compagnie		709.240		885.882	
Total Accounts receivable			80.246.348		80.445.108
Tax receivables	7		11.435.801		8.941.974
Other receivables	7				
- third parties		12.362.979		13.465.479	
- associated compagnie		127.067		473.675	
Total Other receivables			12.490.046		13.939.154
Securities and other current financial assets	8		1.951.235		2.036.433
Cash and cash equivalents	9		80.966.102		97.351.479
Total current assets			**272.981.869**		**269.281.449**
Total Assets			**359.860.697**		**334.945.456**

Liabilities	Note		31/12/2018		31/12/2017
Share capital	10		2.508.671		2.508.671
Additional paid in capital	11		38.593.618		38.593.618
Other riserve	12		92.167.296		98.411.341
Treasury stock	13		-		-
Retained earnings / (accumulated deficit)	14		50.596.457		35.173.088
Net income / (loss)			16.794.077		15.634.293
Group shareholders' equità			**200.660.119**		**190.321.011**
Minority interest			18.575.570		13.975.165
Total shareholders' equità			**219.235.689**		**204.296.176**
Severance indemnity	15		4.378.486		4.216.537
Deferred tax liabilities	16		1.677.502		1.483.090
Other accruals	17		3.955.131		3.796.652
Financial debts and liabilities	18				
- third parties		12.492.839		5.875.176	
Total Financial debts and liabilities			12.492.839		5.875.176
Other non current liabilities					
Total non current liabilities			**22.503.958**		**15.371.455**
Financial liabilities	19				
- third parties		8.037.568		9.161.307	
- associated compagnie		276.608		-	
Total Financial liabilities			8.314.176		9.161.307
Accounts payable	20				
- third parties		63.891.040		63.257.059	
Total Accounts payable			63.891.040		63.257.059
Income tax payables	21		2.485.761		1.654.248
Other current payables	21				
- third parties		43.430.073		41.205.211	
Total Other current payables			43.430.073		41.205.211
Total current liabilities			**118.121.050**		**115.277.825**
Total Liabilities and Shareholders' equity			**359.860.697**		**334.945.456**

Consolidated Income Statement

Income Statement	Note		31/12/2018		31/12/2017
Revenues	22				
- third parties		343.416.119		301.483.292	
- associated compagnie		2.603.952		4.977.726	
Total Revenues			346.020.071		306.461.018
Other revenues and income	23				
- third parties		5.596.519		4.249.299	
- associated compagnie		16.251		15.019	
Total Other revenues and income			5.612.770		4.264.318
Revenues and income from operating activity			**351.632.841**		**310.725.336**
Purchase of raw materials	24				
- third parties		207.323.517		166.686.745	
- associated compagnie		63.531		7.694	
Total Purchase of raw materials			207.387.048		166.694.439
Changes in inventory of finished goods			(11.878.240)		(5.452.236)
Change in inventory of raw material			(8.169.518)		(418.898)
Direct services	25				
- third parties		26.815.540		22.618.069	
Total Direct services			26.815.540		22.618.069
Other operating services and charges	25				
- third parties		42.865.034		36.957.131	
- associated compagnie		5.213		110.852	
Total Other operating services and charges			42.870.247		37.067.983
Staff cost	26		58.989.326		54.090.981
Depreciation, amortization and other accruals	27		5.631.196		5.675.900
EBIT			**29.987.242**		**30.449.098**
Financial charges	28				
- third parties		(586.864)		(625.132)	
Total Financial charges			(586.864)		(625.132)
Financial income	28				
- third parties		902.263		892.192	
- associated compagnie		14.715		13.773	
Total Financial income			916.978		905.965
Exchange gain (loss)	28		539.316		(3.645.833)
Share of profit of associated companies			(1.305.679)		(430.284)
Other non operating charges	29		(5.700)		-
Other non operating income	29		-		563.655
Income (loss) before taxes			**29.545.293**		**27.217.469**
Income taxes	30		7.706.626		6.807.349
Income (loss) for the financial period			**21.838.667**		**20.410.120**
Net profit (loss) of minority interest			5.044.590		4.775.827
Net income (loss)			**16.794.077**		**15.634.293**

Basic net income/(loss) per share	31	0,87	0,81
Diluted net income/(loss) per share	31	0,84	0,78

Consolidated statement of comprehensive income

	Note	31/12/2018	31/12/2017
Reported net (loss) income (A)		21.838.667	20.410.120
Other income/(loss) that will not be entered in income statement net of fiscal effects:			
Measurement of defined-benefit plans		38.460	(101.010)
Other income/(loss) that will be entered in income statement net of fiscal effects:			
Cumulative conversion adjustments		572.769	(900.225)
Unrealized gain (loss) on investment AFS	33	0	0
Total other income/(loss), net of fiscal effects (B)		611.229	(1.001.235)
Total comprehensive (loss) income (A)+(B)		22.449.896	19.408.885
Referable to:			
Parent Shareholders		17.379.375	15.183.358
Minority Shareholders		5.070.521	4.225.527

Consolidated cash flow statement

Cash flow statement	Note	31/12/18	related parties	31/12/17	related parties
Operating activity					
Income (loss) for the financial period		**21.838.667**		**20.410.120**	
Amortizations and depreciations	27	4.424.863		3.833.190	
Gain/Loss on financial investments and equity investments	29			(563.655)	
Share of profit of associated companies		1.305.679	1.305.679	430.284	430.284
Write-downs for impairment losses	27-29	5.700		60.900	
Stock Option		862.662		1.662.662	
Severance indemnity	15	212.555		223.047	
Provisions for risks and charges	17	158.481		282.353	
Bad debt reserve	6	(546.577)		388.056	
Deferred income tax assets	4	(76.632)		288.797	
Deferred income tax liabilities	16	194.412		(123.956)	
Inventories	5	(19.325.036)		(4.429.013)	
Accounts receivable	6	745.335	176.641	(18.387.519)	374.613
Tax receivables	7	(2.493.828)		(3.729.255)	
Other receivables	7	941.645		(5.262.466)	
Accounts payable	20	633.979		18.563.090	
Income tax payables	21	831.513		(2.630.817)	
Other payables	21	2.224.860		6.132.937	
Cash flow generated by operating activity		**11.938.278**		**17.148.755**	
Investment activity					
Tangible assets	2	(25.856.830)		(3.124.360)	
Intangible assets	1	(635.375)		(694.351)	
Equity investments, securities and other financial assets	3-4-8	(219.140)	1.113.447	(3.773.148)	(115.053)
Financial receivables	4-7	417.431	346.608	(301.705)	(16.194)
Cash flow generated by investment activity		**(26.293.914)**		**(7.893.564)**	
Financing activity					
Non current financial liabilities	18	6.617.663		1.533.103	
Current financial liabilities	19	(847.131)	276.608	(1.451.448)	
Dividends paid	32	(8.433.957)		(9.437.616)	
Cash flow generated by financing activity		**(2.663.424)**		**(9.355.961)**	
Change in cumulative translation adjustment reserve and other no monetary changes		**633.684**		**(137.197)**	
Increase/(decrease) in cash and cash equivalents		**(16.385.376)**		**(237.967)**	
Cash and cash equivalents at the beginning of the financial period		**97.351.478**		**97.589.445**	
Cash and cash equivalents at the end of the financial period		**80.966.102**		**97.351.478**	

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 902 thousand Euros.
Income taxes for this financial year amounted to 7,7 million Euros.

Changes in the consolidated shareholders' equity

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

Total shareholders' equità	**31/12/2017**	**Net income allocation**	**Dividends distributed**	**Other movements**	**Comprehensive income (loss)**	**31/12/2018**
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	95.059.871	41.146	-7.718.989			87.382.028
Special reserve for grants received	426.657					426.657
Cumulative translation adjustment	-417.403				550.953	133.550
Other riserve	2.804.914			862.662	20.183	3.687.759
Retained earnings / (accumulated deficit)	35.173.088	15.593.147		-183.940	14.162	50.596.457
Net income / (loss)	15.634.293	-15.634.293			16.794.077	16.794.077
Total Group shareholders' equità	190.321.011		-7.718.989	678.722	17.379.375	200.660.119
Capital and reserve of minority interest	9.199.338	4.775.827	-714.968	244.852	25.931	13.530.980
Result of minority interest	4.775.827	-4.775.827			5.044.590	5.044.590
Total Minority interest	13.975.165		-714.968	244.852	5.070.521	18.575.570
Total shareholders' equità	204.296.176		-8.433.957	923.574	22.449.896	219.235.689

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 14th 2019.
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 2018 and 2017. The financial information, however, is supplied with reference to December 31st 2018 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 2018.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

This consolidated financial statement for the financial year ending December 31st 2018 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 2018

Accounting principles, amendments and interpretations applied since January 1st 2018:

- Standard **IFRS 15 – *Revenue from Contracts with Customers*** (published on the 28th of May 2014 and integrated with further clarifications published on April 12th 2016) which is intended to replace standards IAS 18 – *Revenue and* IAS 11 – *Construction Contracts*, as well as the interpretations IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* e SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The standard establishes a new model for revenue recognition, which will be applied to all the contracts stipulated with clients with the exception of those to which other IAS/IFRS standards are applied like those for leasing, insurance contracts and financial instruments. The fundamental steps for the entering into accounts of revenue according to the new model are as follows:

- The identification of the contract with the client;
- The identification of the performance obligations in the contract;
- The determining of the price;
- The allocation of the price to the performance obligations of the contract;
- The criteria for entering the revenue when the entity satisfies each performance obligation.

The standard has been applied since January 1st 2018 with retrospective modified application. From the application of the new standard and the relative interpretations no effects on the consolidated economic and financial situation for 2017 have emerged which would require a restatement. The Group manufactures and markets laser systems for medicine and for aesthetics (medical sector*)* and laser systems for manufacturing work (industrial sector) and on the basis of the type of contract the revenue recognition occurs "*at point of time*" i.e., at the time that the control of the good is transferred to the client, generally recognized as the moment in which the good is delivered; the guarantees that are provided in the contract moreover, are of a general type and not extended and consequently, the Group has entered them into accounts in compliance with IAS 37.

- On July 24th 2014 the IASB published the final version of **IFRS 9 – *Financial Instruments***: ***recognition and measurement***. The document contains the results of the IASB project intended to replace IAS 39. The new standard must be applied by the financial statements which started on January 1st 2018 or later. The standard introduces new criteria for the classification and evaluation of the financial assets and liabilities. In particular, for the financial assets, the new standard uses a single approach based on the management methods of the financial instruments and on the characteristics of contractual cash flow of the financial assets themselves for the purpose of determining the criteria for evaluation and replaces the rules contained in IAS 39. For the financial liabilities instead, the main modification which has been made regards the accounting treatment of the variations in fair value of a financial liability designated as a financial liability evaluated at fair value through the income statement in the case that these variations are due to the changes in the credit standing of the issuer of the liability. According to the new standard these variations must be shown in the chart "*Other comprehensive income*" and no longer in the income statement. Moreover, in the modifications of financial liabilities defined as not substantial, it is no longer allowed to spread the economic effects of the renegotiation on the residual duration of the debt by modifying the interest rate which is effective on that date, but the relative effect must be booked in the income statement.
With reference to impairment the new standard requires that the estimate of losses on receivables be effected on the basis of the model of expected losses (and not on the model of incurred losses used by IAS 39) using information which can be substantiated, available without charge or unreasonable effort which includes data from the past, present and future. The standard states that the impairment models be applied to all financial instruments, i.e., the financial assets evaluated at the cost of amortization, those that are evaluated at fair value through other comprehensive income, the receivables derived from rental contracts and accounts receivables.

Moreover, the standard introduces a new model for *hedge accounting* for the purpose of adapting the requirements set out by the present version of IAS 39 which sometimes have been considered to severe and not suitable to reflect the risk management policy of the Company. The main changes in the document are the following:

- The increase in the types of transactions eligible for *hedge accounting*, including also the risks of non-financial assets/liabilities which are eligible to be managed in *hedge accounting*;
- The change in the accounting methods for entering forward contracts and of the options included in a hedge accounting report for the purpose of reducing the volatility of the income statement;
- The modifications in the efficiency test by means of the replacement of the present methods based on the parameter of 80-125% with the standard of the "economic report" between the covering entry and covering instrument; moreover, an evaluation of the retrospective efficiency of the covering relation will no longer be required.

The greater flexibility of the new accounting regulations is offset by additional request for information on the risk management activity of the Company.

The new standard has been applied since January 1st 2018. The adoption of IFRS 9 did not generate any effects on the consolidated financial statement of the Group.

In particular:

- **Classification and evaluation**: The Group did not receive any impact from the application of the requirements for classification and evaluation required by IFRS 9. Financing, like the accounts receivables are held for the purpose of cashing them in when they come due and we expect that they generate cash flow represented solely by the payment and the interests; consequently, in compliance with IFRS9, they will continue to be evaluate at the amortized cost. Stocks and insurance policies, since they are a temporary use of cash, would be allocated in the Held to Collect and Sell (HTC&S) business model but if they don't pass the SPPI test they are evaluated at fair value with the impact in the income statement. This arrangement corresponds to the accounting treatment used in the past and therefore there is no impact on the initial shareholders' equity.

- ***impairment*:** There was no impact on the Group's shareholders' equity. In particular, with reference to accounts receivable and to the application of method of *expected credit losses*, after the assessment had been made, the bad debts reserve entered on December 31st 2018 was found to be adequate even after the application of the new standard.
- ***hedge accounting*:** The Group dies not use the accounting of *hedge accounting* of derivative instruments.

- On June 20th 2016 the IASB published an amendment to **IFRS 2** "***Classification and measurement of share-based payment transactions***" (published on June 20th, 2016), which contains some clarifications in relation to the accounting of the effects of the *vesting conditions* in the presence of cash-settled share-based payments, to the classification of *share-based payments* with characteristics of net settlement and to the accounting of the modifications to the terms and conditions of one *share-based payment* which modifies the classification from cash-settled to equity settled. The modifications have been applied since January 1st 2018. The adoption of this amendment had no effect on the consolidated financial statement of the Group.

- On December 8th 2016 the IASB published a document called "***Annual Improvements to IFRSs: 2014-2016 Cycle***", which partially integrates the pre-existing standards as part of the annual process for improving the standards. The main modifications regard:
  - IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*. The modification has been applied since January 1st 2018 and regards the elimination of some short-term exemptions provided for in paragraphs E3-E7 of Appendix E di IFRS 1 because the befits derived from that exemption are now believed to be outdated.
  - IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*. The modification clarifies that the option for a *venture capital organization* or any other entity qualified as such (like, for example, mutual funds or a similar entity) to measure the investments in associated companies and joint ventures through *fair value through profit or loss* (rather than the application of the shareholders' equity method) must be used for every single investment at the time it is made. The modification has been applied since January 1st 2018.
  - IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*. The modification clarifies the area of application of IFRS 12 specifying that the information required by the standard, with the exception of that described in paragraphs B10-B16, must be applied to all the equities that are classified as held for sale, held for distribution to the partners or as disposed operating assets according to IFRS 5. This modification has been applied since January 1st 2018.

  The adoption of this standard did not have any effect on the consolidated financial statement of the Group.

- On December 8th, 2016 the IASB published an amendment to **IAS 40** "***Transfers of Investment Property***". These modifications clarify the conditions necessary for the transfer of real estate to or from "real estate investment". In particular, an entity must reclassify a piece of real estate with or from the real estate investments only when their is evidence that a change in the use of the real estate has occurred. This change must refer to a specific event that has occurred and, therefore, cannot be limited to the intentions on the part of the Direction of the entity. These modifications have been applied since January 1st 2018. The adoption of these amendments has not had any effect on the consolidated financial statement of the Group.

- On December 8th, 2016 the IASB published the interpretation "***Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)***" which directs the use of exchange rates in transactions in which the amounts in foreign currency are paid or received in advance.

The following IFRS and IFRIC accounting standards, amendments, and interpretations approved by the European Union are not yet required and not applied in advance by the Group as of December 31st 2018:

- On January 13th 2016, the IASB published standard **IFRS 16 – *Leases*** which is meant to replace standard IAS 17 – *Leases*, as well as the interpretations IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and 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 the criteria based on control (*right of use*) of an asset in order to distinguish leasing contracts from contracts for the supplying of services by identifying as distinguishing features: the identification of the asset, the right to replace it, the right to obtain substantially all of the economic benefits derived from the use of the asset and the right to direct the use of the asset which is the subject of the contract.

The standard establishes a single model for the recognition and evaluation of leasing contracts for the lessee which includes the entering of the good which is the subject of the lease among the assets with the corresponding amount in the financial debts. However, the standard does not contain significant modifications for the lessor. The standard must be applied starting on January 1st 2019 but application in advance is permitted.

The Group completed the preliminary assessment project for the potential impact which might arise from the application of the new standard on the date of transition (January 1st 2019). This process occurred in several different phases, including the complete mapping of contracts potentially suitable for containing a lease agreement and the analysis of these latter for the purpose of understanding the main clauses that were relevant to the purposes of IFRS 16.

The Group is now completing the implementation phase of the standard which includes the setting of the computer infrastructure meant to be used for the accounting management of the standard and the alignment of the administrative processes and controls protecting the critical areas on which the standard is based. Completion of this process is expected to take place in the first half of 2019.

The Group plans to apply the new standard when it becomes obligatory, using the new approach of simplified transition and will not modify the amounts for the year preceding the adoption of the standard. The assets entered for right of use will be measured for the amount of the leasing debt on the date of transition. By adopting IFRS 16, the Group intends to take advantage of the exemption granted in relation to *short-term lease.* Analogously, the Group intends to take advantage of the exemption granted for leasing contracts in which the asset which is the subject of the lease belongs to the category of *low-value asset*.

For these contracts the introduction of IFRS 16 will not comport the recording of the financial liability of the lease and of the relative right of use, but the lease payments will be entered in the income statement on a linear basis for the duration of the respective contracts.

The Group has conducted an analysis of the impact of IFRS 16: the application of the new standard on the net capital invested and the net financial position (actualized net value of future rents) is 4,9 million Euros. This amount differs with respect to the value of the operative leasing, for which information is given in the next paragraph, "future commitments for use of goods belonging to others", due to the actualization of future cash flows (using the criteria of "*incremental borrowing rate*"), of low value leases or short-term leases and service components included in the lease contracts. For the purpose of facilitating comprehension of the impact derived from the first application of the standard, the chart below shows the reconciliation between future commitments related to leasing contracts and the expected impact of the adoption of IFRS 16 on January 1st 2019:

	Euro/000
Commitments for operative leasing as of December 31st 2018	**6.556**
Of which:	
Short term or low value leasing	609
Service components included in the rents	864
Actualization effect	176
Other variations	-
Value of right of use on January 1st 2019	4.907

- Document "***Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts***" (published on September 12th 2016). For the entities whose business consists mainly of insurance assets, the modification has the objective of clarifying the doubts related to the application of the new standard IFRS 9 (starting January 1st 2018) to the financial assets, before the IASB replaces the present standard IFRS 4 with the new standard now in the preparation phase, on the basis of which, however, the financial liabilities are evaluated. The administrators do not expect that the adoption of these modifications will have any impact on the consolidated financial statement of the Group.

- On June 7th 2017 the IASB published the interpretation "*Uncertainty over Income Tax Treatments* (IFRIC Interpretation 23)". The interpretation deals with the subject of the uncertainties concerning the fiscal treatment to be used for income taxes. In particular, the interpretation requires an entity to analyze the *uncertain tax treatments*

(individually and collectively, depending on their characteristics) always assuming that the tax authorities examine the fiscal position being considered having full knowledge of all of the relative information. In the case in which the entity believes that it is improbable that the tax authorities accept the fiscal treatment that has been followed, the entity must reflect the effect of the uncertainty on the measurement of its current and deferred income taxes. Moreover, the document does not contain any new requirement for information but emphasizes that the entity must establish if it will be necessary to supply information on the considerations made by the management and related to the uncertainty inherent to the accounting of the income taxes, in compliance with IAS 1.
The new interpretation must be applied starting on January 1st 2019, but application in advance is permitted. The administrators do not expect that the adoption of these interpretations will have any impact on the consolidated financial statement of the Group.

The other standards or modifications that have not yet been approved by the EU are summarized on the chart below::

Description	**Approved on the date of this report**	**Date the standard becomes operative**
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 set
Amendments to IAS 19: Plant Amendment, Curtailment or Settlement (issued in February 2018)	NO	Not set
Amendments to IAS 1 and IAS 8: Definition of Material (issued in October 2018)	NO	Not set
Annual improvements IFRSs: 2015-2017 Cycle	NO	Jan. 1st 2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued in October 2017)	NO	Jan. 1st 2019
Amendments to IFRS 3: Definition of a Business (issued in October 2018)	NO	Jan. 1st 2020
IFRS 17 Insurance Contracts (issued in May 2017)	NO	Jan. 1st 2021

The Group did not apply in advance any new standards, interpretations or modifications that 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%
Cutlite Penta S.r.l	1	Calenzano (ITA)	EUR	500.000		100,00%	100,00%	96,65%
Deka Mela S.r.l.		Calenzano (ITA)	EUR	40.560	85,00%		85,00%	85,00%
Esthelogue S.r.l.	2	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	3	Jena (GER)	EUR	2.025.000	50,00%	50,00%	100,00%	100,00%
ASA S.r.l.	4	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	5	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	6	Wuhan (CHINA)	CNY	20.467.304		55,00%	55,00%	53,16%
Penta-Laser Equipment Wenzhou Co., Ltd	7	Wenzhou (CHINA)	CNY	32.259.393		53,53%	53,53%	51,74%
Cutlite do Brasil Ltda		Blumenau (BRASIL)	BRL	8.138.595	98,27%		98,27%	98,27%
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%
Penta Laser Europe S.r.l.	9	Calenzano (ITA)	EUR	200.000		100,00%	100,00%	51,74%
Merit Due S.r.l.	10	Calenzano (ITA)	EUR	13.000		100,00%	100,00%	96,65%

(1) owned by Ot-las Srl (100%)
(2) owned by Elen SpA (50%) and by Asclepion (50%)
(3) owned by Elen SpA (50%) and by Quanta System SpA (50%)
(4) owned by Deka Mela Srl (60%)
(5) owned by BRCT Inc. (78,85%)

(6) owned by Ot-las Srl (55%)
(7) owned by Ot-las Srl (53,53%)
(8) owned by BRCT (100%)
(9) owned by Penta-Laser Equipment Wenzhou Co., Ltd (100%)
(10) 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 2018" 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	910.000	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	50.200		19,50%	19,50%	19,50%
Accure Inc.	3	Delaware (USA)	USD	-		39,44%	39,44%	39,44%

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

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

(3) owned by Quanta System S.p.A. (39,44%)

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 2018" 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 2018" in the Management Report.

TREASURY STOCK

The resolution taken by the shareholders' meeting of the parent company El.En. S.p.A on April 28th 2015 authorizing the Board of Directors to purchase treasury stock expire in October 2016 without any purchase having been made and consequently, El.En. S.p.A. on the date of this report does not own any treasury stock. The shareholders' meeting on January 17th 2019 authorized the Board of Directors to purchase treasury stock within 18 months of the resolution, as described in detail in the special section related to subsequent events.

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	**31/12/2017**	**31/12/2018**	**31/12/2018**
USD	1,20	1,18	1,15
Yen	135,01	130,40	125,85
Yuan	7,80	7,81	7,88
Real	3,97	4,31	4,44

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%) 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.

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.

Financial instruments and 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. This evaluation at cost considers the losses expected on the basis of past information, reviewed to consider the prospective elements with reference to the specific type of debtors and their economic environment.

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 derived from contracts with clients are recognized in the income statement for an amount which reflects the amount to which the entity expects to have the right in exchange for the transfer of the control of the goods or services to the client. The revenue is accounted net of returns, discounts, rebates, or taxes directly associated with the sale of the product or the performance of the service. Sales are recognized at fair value of the amount received for the sale of products and services when the following conditions have been met:

• the risks and benefits connected to the property of the asset have been substantially transferred;
• the value of the revenue has been determined in a reliable manner;
• it is probable that the economic benefits derived from the sale will be of use to the company;
• the costs sustained or which will be sustained have been determined in a reliable manner;

The financial income and charges are recorded on the basis of the interest which has matured on the net value of the relative financial assets and liabilities 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**
		01/01/2018	01/01/2018 - 31/12/2018	01/01/2018 - 31/12/2018	01/01/2018 - 31/12/2018	01/01/2018 - 31/12/2018	31/12/2018	31/12/2018	
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 2018 the average price recorded for El.En. stock was about 25,5 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:

	31/12/2017	Increase	Decrease	Revaluation / Devaluation	Other movements	Depreciation	Translation adjustment	31/12/2018
Goodwill	3.038.065							3.038.065
Development costs	86.096	205.485			9.800	-127.755		173.626
Patents and rights to use patents of others	27.302	25.110			1	-30.560		21.853
Concessions, licenses, trade marks and similar rights	343.009	248.078	-487		3.554	-221.624	1.211	373.741
Other intangible assets	47.139	1.950				-30.519		18.570
Intangible assets under construction and advance payments	717.420	154.028			-13.355			858.093
Total	**4.259.031**	**634.651**	**-487**			**-410.458**	**1.211**	**4.483.948**

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 31/12/2018**	**Goodwill 31/12/2017**
Quanta System S.p.A.	2.079.260	2.079.260
ASA S.r.l.	439.082	439.082
Cutlite Penta S.r.l.	407.982	0
Ot-las S.r.l.	7.483	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

On January 2nd 2018 Ot-Las S.r.l. transferred its cutting activities to the new company Cutlite Penta S.r.l.

As of December 31st 2018, 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 2019-2021. 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 added to a terminal amount assumed as equal to the perpetual revenue of the cash flow calculated by applying to the sales volume of the last year with a specific forecast, a growth rate “g” equal to 1,5% and considering a margin equal to the average one of the three year period with an 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 2018 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 8,91%; 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 9,91%.

Cutlite Penta 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 Cutlite Penta, which covered a time span from 2019-2021. 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 added to a terminal amount assumed as equal to the perpetual revenue of the cash flow calculated by applying to the sales volume of the last year with a specific forecast, a growth rate “g” equal to 1,5% and considering a margin equal to the average one of the three year period with an 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 2018 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 8,91%; 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 9,91%.

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 2019-2021. 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 added to a terminal amount assumed as equal to the perpetual revenue of the cash flow calculated by applying to the sales volume of the last year with a specific forecast, a growth rate “g” equal to 1,5% and considering a margin equal to the average one of the three year period with an 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 2018 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 8,91%; 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%.
The determination of the recoverable value on the basis of these parameters made it possible to avoid any reduction 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 9,91%.

The verification that the impairment test procedures correspond with the regulations of the International accounting standards was the subject of an autonomous approval by the Board of Directors of the Parent Company.

Other intangible fixed assets

The increase in "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 the subsidiary 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, Asa, and Penta-Laser Equipment Wenzhou 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 development costs 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	**31/12/2017**	**Increase**	**(Disposals)**	**Revaluation / Devaluation**	**Other movements**	**Translation adjustment**	**31/12/2018**
Lands and buildings	34.083.348	15.181.567			518.410	-90.256	49.693.069
Plants & machinery	7.831.347	1.301.750	-30.851		-1.526.305	-22.931	7.553.010
Industrial and commercial equipment	12.102.439	1.543.964	-969.589		1.596.534	54.756	14.328.104
Other assets	9.961.926	1.881.620	-404.162		-413.313	38.336	11.064.407
Tangible assets under construction and advance payments	1.402.688	6.514.119			-701.742	-1.473	7.213.592
Total	**65.381.748**	**26.423.020**	**-1.404.602**		**-526.416**	**-21.568**	**89.852.182**

Accumulated depreciation	**31/12/2017**	**Depreciations**	**(Disposals)**	**Revaluation / Devaluation**	**Other movements**	**Translation adjustment**	**31/12/2018**
Lands and buildings	5.620.397	1.101.077			-6.807	-5.979	6.708.688
Plants & machinery	4.526.683	501.321	-29.713		-399.154	-9.949	4.589.188
Industrial and commercial equipment	10.101.636	1.140.060	-657.731		346.047	46.218	10.976.230
Other assets	5.955.511	1.271.949	-254.218		-435.539	20.427	6.558.130
Tangible assets under construction and advance payments							
Total	**26.204.227**	**4.014.407**	**-941.662**		**-495.453**	**50.717**	**28.832.236**

Net value	**31/12/2017**	**Increase**	**(Disposals)**	**Revaluation / Devaluation / Depreciations**	**Other movements**	**Translation adjustment**	**31/12/2018**
Lands and buildings	28.462.951	15.181.567		-1.101.077	525.217	-84.277	42.984.381
Plants & machinery	3.304.664	1.301.750	-1.138	-501.321	-1.127.151	-12.982	2.963.822
Industrial and commercial equipment	2.000.803	1.543.964	-311.858	-1.140.060	1.250.487	8.538	3.351.874
Other assets	4.006.415	1.881.620	-149.944	-1.271.949	22.226	17.909	4.506.277
Tangible assets under construction and advance payments	1.402.688	6.514.119			-701.742	-1.473	7.213.592
Total	**39.177.521**	**26.423.020**	**-462.940**	**-4.014.407**	**-30.963**	**-72.285**	**61.019.946**

The heading of “Lands and 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, Cutlite Penta Srl, Esthelogue Srl, Pharmonia Srl, and Merit Due Srl, the building purchased last year by Cutlite Penta in the province of Prato for a relocation of its manufacturing activities that is more consistent with the volume of business they have developed, the buildings in the city of Torre Annunziata, one purchased in 2006 and the other this year 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 well as the new factory purchased by Quanta in this year and the new factory owned by the subsidiary Penta Laser Equipment (Wenzhou).

The heading of “Plants and machinery” is related in particular to investments made by Asclepion GmbH, Quanta System S.p.A., Lasit S.r.l, Asa Srl 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. 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, Asa Srl and Penta-Laser Equipment (Wenzhou) for new buildings now under construction.

As mentioned above, the amount entered in the column of “Other movements” refers to the transfer to the various categories to which they belong of the costs sustained by the Parent Company El.En. for the improvements and remodeling initiated last year and completed during 2018.

Equity investments (note 3)

The analysis of the equity investments is:

	31/12/2018	31/12/2017	Variation	Var. %
Equity investment in associated companies	1.423.909	2.537.355	-1.113.446	-43,88%
Other equity investments	1.035.420	1.049.920	-14.500	-1,38%
Total	**2.459.329**	**3.587.275**	**-1.127.946**	**-31,44%**

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.:	242	Thousand Euros
Actis S.r.l.:	1	Thousand Euros
Elesta S.r.l.:	1.170	Thousand Euros
Quanta Aesthetic Laser USA, LLC:	33	Thousand Euros
Chutian (Tianjin) Lasertechnology Co, Ltd:	101	Thousand Euros
Accure Inc.:	(123)	Thousand Euros

The decrease in the amount registered under the heading of Equities in associated companies is mainly due to the diminished value of the equity in Quanta Aesthetic Lasers Usa, LLC caused by the return of the part of the capital stock that was paid as well as for the devaluation of the goodwill considering that the company will be closed next year.

The chart below shows a summary of the data for the associated companies.

	Total Assets	Total liabilities	Net income (Loss)	Revenues and other income	Charges and expenses
Actis Active Sensors Srl (*)	498.864	112.165	365.043	480.990	115.947
Elesta Srl (ex IALT Scrl)	3.903.680	1.564.271	197.813	3.078.777	2.880.964
Immobiliare Del.Co. Srl	779.630	766.812	-19.817	183.605	203.422
Quanta Aesthetic Lasers USA, LLC	223.221	52.897	254.579	6.285.962	6.031.383
Chutian (Tianjin) Lasertechnology Co. Ltd	1.128.242	881.395	-12.460	582.381	594.841
Accure, Inc.	557.101	3.971.660	-2.000.302	0	2.000.302

(*) Data as of December 31st 2017

Equities in other companies

The equities in other companies are evaluated at fair value.
This heading refers mainly to the equity held in Epica International Inc. for an amount of 888 thousand Euros.
With reference to the evaluation of the equity, the Board members believed that, since the equity instrument was not quoted on the regular stock market, and since there was a wide range of possible evaluations of the fair value related to different underwriters, the cost represents the best estimate of the fair value in this range of amounts, also in consideration of the average stock price for underwriting it.

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

Other non-current assets	**31/12/2018**	**31/12/2017**	**Variation**	**Var. %**
Financial receivables - third parties	322.898	313.323	9.575	3,06%
Deferred tax assets	6.333.580	6.269.095	64.485	1,03%
Other non-current assets	12.259.127	12.057.762	201.365	1,67%
Total	**18.915.605**	**18.640.180**	**275.425**	**1,48%**

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 6.334 thousand Euros and refer mainly to to the obsolescence fund for inventory, to the variations in inter-group profits on the stock at the end of the year, to the bad debt reserve and for the warranty reserve.

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory:

	31/12/2018	31/12/2017	Variation	Var. %
Raw materials, consumables and supplies	39.987.777	31.936.890	8.050.887	25,21%
Work in progress and semi finished products	24.349.832	16.832.644	7.517.188	44,66%
Finished products and goods	21.554.728	17.797.767	3.756.961	21,11%
Total	**85.892.337**	**66.567.301**	**19.325.036**	**29,03%**

The final inventory amounted to about 85.892 thousand Euros, an increase of 29% over the 66.567 thousand Euros registered for December 31st 2017 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:

	31/12/2018	31/12/2017	Variation	Var. %
Gross amount of Inventory	97.104.090	78.580.436	18.523.654	23,57%
Devaluation provision	-11.211.753	-12.013.135	801.382	-6,67%
Total	**85.892.337**	**66.567.301**	**19.325.036**	**29,03%**

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 decreased by about 801 thousand Euros with respect to 2017 and its incidence on the gross value of the inventory fell from 15,3% on December 31st 2017 to 11,6% on December 31st 2018. The decrease in overall value was also due to scrapping made during the year.

Accounts receivables (note 6)

Receivables are composed as follows:

	31/12/2018	31/12/2017	Variation	Var. %
Accounts receivable from third parties	79.537.108	79.559.226	-22.118	-0,03%
Accounts receivable from associated	709.240	885.882	-176.642	-19,94%
Total	**80.246.348**	**80.445.108**	**-198.760**	**-0,25%**

Accounts receivable from third parties	31/12/2018	31/12/2017	Variation	Var. %
Italy	32.952.971	31.249.701	1.703.270	5,45%
EEC	9.244.690	10.133.886	-889.196	-8,77%
ROW	43.496.933	44.879.700	-1.382.767	-3,08%
minus: bad debt reserve	-6.157.486	-6.704.063	546.577	-8,15%
Total	**79.537.108**	**79.559.226**	**-22.116**	**-0,03%**

The chart shows a situation that is overall stable in the amounts owed by clients.

The chart below shows the operations which took place this year for bad debt reserve:

	2018
At the beginning of the period	6.704.063
Provision	932.179
Amounts utilized and unused amounts reversed	-1.454.388
Translation adjustment	-24.368
At the end of the period	**6.157.486**

Breakdown of accounts receivable from third parties is shown below:

Accounts receivable from third parties	31/12/2018	31/12/2017
To expire	56.014.134	55.145.939
Overdue:		
0-30 days	10.212.790	12.175.695
31-60 days	4.061.684	4.121.581
61-90 days	1.863.319	1.499.436
91-180 days	4.090.036	3.161.495
Over 180 days	3.295.144	3.455.080
Total	**79.537.108**	**79.559.226**

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

Accounts receivable in:	31/12/2018	31/12/2017
Euros	51.248.951	47.524.082
USD	6.556.327	6.063.392
Other currencies	21.731.830	25.971.752
Total	**79.537.108**	**79.559.226**

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 2018 and December 31st 2017.

For a detailed analysis of the accounts and financial receivable 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:

	31/12/2018	31/12/2017	Variation	Var. %
Tax receivables				
VAT receivables	8.079.923	5.195.999	2.883.924	55,50%
Income tax receivables	3.355.878	3.745.975	-390.097	-10,41%
Total	**11.435.801**	**8.941.974**	**2.493.827**	**27,89%**
Current financial receivables				
Financial receivables - third parties	74.326	154.725	-80.399	-51,96%
Financial receivables – associated	127.067	473.675	-346.608	-73,17%
Total	**201.393**	**628.400**	**-427.007**	**-67,95%**
Other current receivables				
Security deposits	264.627	568.414	-303.787	-53,44%
Advance payments to suppliers	4.816.076	5.482.706	-666.630	-12,16%
Other receivables	7.197.016	7.168.251	28.765	0,40%
Total	**12.277.719**	**13.219.371**	**-941.652**	**-7,12%**
Total Current financial receivables e Other current receivables	**12.479.112**	**13.847.771**	**-1.368.659**	**-9,88%**

	31/12/2018	31/12/2017	Variation	Var. %
Current derivative financial instruments (asset)	10.934	91.383	-80.449	-88,03%
Total	**10.934**	**91.383**	**-80.449**	**-88,03%**

The financial year closed with a VAT credit of over 8 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 heading of "Current derivative financial instruments (asset)" includes the evaluation at fair value according to IFRS 9 of the *currency rate swap* derivative contract for the coverage of risks in the exchange rate of yen/Euros stipulated by the subsidiary With Us in the preceding years. The contract expires in April 2020, notional value as of December 31st 2018 was 800.000 Euros, and the fair value was 10.934 Euros.

Securities and other current financial assets (note 8)

	31/12/2018	31/12/2017	Variation	Var. %
Securities and other current financial assets				
Other current financial assets	1.951.235	2.036.433	-85.198	-4,18%
Total	**1.951.235**	**2.036.433**	**-85.198**	**-4,18%**

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 last year for the purpose of temporary use of cash. These funds are evaluated at the market value on December 31st 2018 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:

	31/12/2018	31/12/2017	Variation	Var. %
Bank and postal current accounts	80.911.097	97.297.871	-16.386.774	-16,84%
Cash on hand	55.005	53.608	1.397	2,61%
Total	**80.966.102**	**97.351.479**	**-16.385.377**	**-16,83%**

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

Nat financial position as of December 31st 2018

The net financial position of the Group as of December 31st 2018 is the following (data shown in thousands of Euros):

Net financial position	31/12/2018	31/12/2017
Cash and bank	80.966	97.351
Financial instruments	1.951	2.036
Cash and cash equivalents	**82.917**	**99.388**
Current financial receivables	**74**	**155**
Bank short term loan	(6.720)	(8.230)
Part of financial long term liabilities due within 12 months	(1.318)	(932)
Financial short term liabilities	**(8.038)**	**(9.161)**
Net current financial position	**74.954**	**90.381**
Bank long term loan	(5.401)	(3.525)
Other long term financial liabilities - non current part	(7.092)	(2.350)
Financial long term liabilities	**(12.493)**	**(5.875)**
Net financial position	**62.461**	**84.506**

The net financial position of the Group decreased by about 22 million Euros with respect to the end of 2017, but, in any case showed a decided recovery in the fourth quarter with a net generation of cash amounting to over 7 million Euros.

During the period the Group paid dividends to third parties for a total of 8,4 million Euros. Investments in technical assets amounted to 26,4 million Euros. About 1,5 million Euros were used for improvements on pre-existing factories, 22,1 million for the purchase, construction and equipping of new factories in Calenzano, Torre Annunziata, Samarate, Jena, Vicenza and Wenzhou, part of a vast plan for the extension of the productive capacity for an amount that was originally expected to be around 28 million Euros in 2018-2019, and is destined to amount to over 30 million on account of the further costs of equipping them which was necessary to start production at the new sites in 2019.

Along with the investments in fixed assets the increase in the net working capital represented the main component of the uses of cash and is an effect of the increase and the preparation for the rapid growth which is expected. The most significant changes were registered by the Chinese companies, Quanta System and El.En. In particular, it was the inventory component which caused the increase in working capital.

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.
At the end of the year the fair value of the investment amounted to 12,3 million Euros.

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 2018, 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	**31/12/2017**	**Increase**	**Decrease**	**31/12/2018**
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.

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 2018 the share premium reserve, coinciding with that of the Parent Company, amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2017.

Other reserves (note 12)

	31/12/2018	31/12/2017	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	87.382.028	95.059.871	-7.677.843	-8,08%
Cumulative translation adjustment	133.550	-417.403	550.953	-132,00%
Stock option/ stock based compensation reserve	3.794.219	2.931.557	862.662	29,43%
Special reserve for grants received	426.657	426.657		0,00%
Other reserves	-106.460	-126.643	20.183	-15,94%
Total	**92.167.296**	**98.411.341**	**-6.244.045**	**-6,34%**

On December 31st 2018 the "extraordinary reserve" amounted to 87.382 thousand Euros; the decrease with respect to December 31st 2017 is due to the use for payment of dividends, in compliance with the resolution of the shareholders' meeting of the Parent Company on April 27th 2018.

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 2017 (*stock based compensation)*. For the evaluation of this latter underwriting please refer to Note 26 of the explanatory notes of the consolidated financial statement of the Group on December 31st 2017.

The cumulative translation adjustments summarize the effects of the variations in the exchange rate on the investments in foreign currency. The effects for the year 2018 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 December 31st 2017.

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)

Since 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, El.En. S.p.A does not own any treasury stock. The shareholders' meeting held on January 17th 2019 authorized the Board of Directors to purchase treasury stock within 18 months of the resolution, as better described in the special section of the Management report "Subsequent events".

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.

31/12/2017	Provision	(Utilization)	Payment to complementary pension forms, to INPS fund and other movements	31/12/2018
4.216.537	1.656.549	-484.019	-1.010.581	4.378.486

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 2018 amounted to 4.353 thousand Euros.

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

Financial hypotheses	Year 2017	Year 2018
Annual implementation rate	1,30%	1,57%
Annual inflation rate	1,50%	1,60%
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 1,57% 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:

	31/12/2017	Provision	(Utilization)	Other movements	Translation adjustment	31/12/2018
Deferred tax assets on inventory devaluation	2.176.415	168.643	(279.434)		5.646	2.071.269
Deferred tax assets on warranty reserve	441.789	8.139	(49.124)		2.290	403.095
Deferred tax assets on bad debt reserve	968.724	8.735	(214.512)	-	(1.685)	761.262
Deferred tax assets on losses carryforwards	13.783	476.705	-	-	16.422	506.910
Deferred tax assets on intercompany profits and consolidation adjust.	856.736	194.696	-	-	(205)	1.051.227
Other deferred tax assets and on IAS adjust.	1.811.648	82.357	(366.384)	(10.382)	22.578	1.539.817
Total	**6.269.095**	**939.275**	**(909.454)**	**(10.382)**	**45.046**	**6.333.580**
Deferred tax liability on advance depreciations	135.171	-	(10.702)	-	-	124.469
Deferred tax liability on grants on capital account	195.068	10.990	(47.096)	-	-	158.962
Other deferred tax liabilities and on IAS adjust.	1.152.851	230.980	(26.691)	-	36.931	1.394.071
Total	**1.483.090**	**241.970**	**(84.489)**	**-**	**36.931**	**1.677.502**
Net	4.786.005	697.305	(824.965)	(10.382)	8.115	4.656.078

Deferred tax assets amounted to about 6.334 thousand Euros. The deferred tax assets calculated on inventory devaluations of the various companies decreased as did the deferred tax assets related to the bad debt reserve and warranty reserve. The credits from for the fiscal effect calculated on inter-Group profits increased as well as the fiscally deductable losses for the following periods.

Deferred tax liabilities amounted to 1.677 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” we have entered 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:

	31/12/2017	Provision	(Utilization)	Other movements	Translation adjustment	31/12/2018
Reserve for pension costs and similar	912.570	302.249	-150.826			1.063.992
Warranty reserve on the products	2.461.413	558.674	-610.486		-3.110	2.406.490
Reserve for risks and charges	397.669	68.480	-6.500			459.649
Other minor reserves	25.000					25.000
Total	**3.796.652**	**929.403**	**-767.812**		**-3.110**	**3.955.131**

The clients' agents' indemnity fund which is included under the heading of "Reserve for pension funds and similar" on December 31st 2018, amounted to 1.029 thousand Euros as opposed to the 883 thousand Euros on December 31st 2017. 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 2017	Year 2018
Annual implementation rate	1,30%	1,57%
Annual inflation rate	1,50%	1,60%

The warranty reserve 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.

Other potential debts and liabilities

On April 24th and on May 4th El.En. Spa and its subsidiary, Cutlite Penta Srl, received a citation to appear in front of the Superior Court of Hartford (Connecticut) in relation to their responsibility for damages caused in the factory of one of clients which was destroyed by a fire. At the time of the fire on the factory there were three laser systems produced by Cutlite Penta.

El.En. and Cutlite Penta vehemently rejected every hypothesis that considers them even remotely connected with this event.

At this time the case is just at the beginning and there are not enough elements to evaluate the eventuality of an economic risk for the two companies.. In fact, no evidence has been presented and the amount of damages requested has not yet been established. In any case, for precautionary purposes, the company immediately proceeded to activte the insurance policy related to responsibility for damages caused by a product, which has a ceiling of 15.000.000 Euros for each claim. The insurance company has taken on the claim and has hired at its own expense an American lawyer to protect the rights of the companies insured.

Following a suit filed by a client in 2018 regarding a presumed breach of contract, a case is currently pending for compensation of damages against the subsidiary Lasit Spa. Since the case is still in the preliminary investigation phase and Lasit has presented a counter-claim accusing the client in turn of breach of contract, at his time it is not possible to determine the amount which might be due.

Financial debts and liabilities (note 18)

Financial m/l term debts	31/12/2018	31/12/2017	Variation	Var. %
Amounts owed to banks	5.400.717	3.525.342	1.875.375	53,20%
Amounts owed to leasing companies	6.083.228	1.278.898	4.804.330	375,66%
Amounts owed to other financiers	1.008.894	1.070.936	-62.042	-5,79%
Total	**12.492.839**	**5.875.176**	**6.617.663**	**112,64%**

The mid- to long-term debts owed to banks as of December 31st 2018 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 by Unicredit to ASA Srl for the construction of new building for an overall amount of 2,4 million Euros which will be issued in several tranches to be paid half-yearly for ten years starting on the date that the last tranche is paid at the rate of eurirs 12 months +0,5%; the first tranche paid amounted to 1,4 million Euros;
c) bank financing granted to With Us as shown below:
- 2.519 thousand Yen falling due on 31/03/2020 at the annual rate of 0,87%;
- 2.500 thousand Yen falling due on 31/03/2020 at the annual rate of 1,15%.
- 45.000 thousand Yen falling due on 28/02/2022 at the annual rate of 0,60%;

d) ban financing issued to Penta-Laser Equipment Wenzhou Co. Ltd as follows:
- 3.360 thousand Rmb with the last installment due on 20/12/2021 at the annual rate of 4,842%;
- 1.802 thousand Rmb falling due 20/09/2021 at the annual rate of del 5%.
- 3.920 thousand Rmb falling due 20/09/2021 at the annual rate of del 5,19%.

The debts owed to leasing companies refer mostly to the subsidiary companies Quanta System S.p.A. and Cutlite Penta S.r.l. which acquired under leasing contracts new buidings for conducting their company activities and consequently treated for accounting according to standard IAS 17. The contract stipulated by Quanta System has a duration of seven years and expires in the month of November 2021; the residual debt, as of December 31st 2018 amounted to about 1,1 million Euros. The contract stipulated by Cutlite Penta Srl has a duration of twelve years and expire in the month of October 2030; the residual debt as of December 31st 2018 amounted to about 5,5 million Euros.

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	31/12/2018	31/12/2017	Variation	Var. %
Amounts owed to banks	6.719.724	8.229.616	-1.509.892	-18,35%
Amounts owed to associated companies	276.608		276.608	
Amounts owed to leasing companies	974.369	585.510	388.859	66,41%
Amounts owed to other financiers	337.330	346.181	-8.851	-2,56%
Total	**8.308.031**	**9.161.307**	**-853.276**	**-9,31%**

	31/12/2018	31/12/2017	Variation	Var. %
Current liabilities for derivative financial instruments	6.145		6.145	
Total	**6.145**		**6.145**	

The heading of "Amounts owed to banks" is mainly composed of:

- Short-term quota on financing contracted by Asclepion GmbH (see note 18);
- Short term financing contracted by With Us besides the short-term quota on financing regarding the latter (see note 18);
- short-term financing contracted by Penta-Laser Equipment Wenzhou Co for an overall amount of 3,1 million Euros (corresponding to 24,5 million Yuan) falling due for 6,8 million Yuan in the month of February 2019 at the annual rate of 4,35% increased by 0,05%,for 7,5 million Yuan falling due in the month of July 2019 at the annual rate of 4,75%, for 8 million Yuan falling due in the month of August 2019 at the annual rate of 4,75% and for 2,2 million Yuan falling due in the month of April 2019 at the annual rate of 2,16%;
- bank financing granted to Penta Chutian Laser (Wuhan) Co. Ltd for about 1,3 million Euros, corresponding to 10 million Yuan at the annual rate of the PBC (Central Bank of China) increased on December 31st 2018 by 1,74%;
- 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 heading of Amounts owed to associated companies includes the residual amount owed to the associated company Elesta Srl which arose after the increase in capital stock underwritten at the end of the year and has not yet been deposited.

The heading of Amounts owed to leasing companies includes the amounts for short-term leasing mentioned in the preceding note.

The heading of Amounts owed to other financers includes the short-term financing described in the preceding note.

The heading of "Current liabilities for derivative financial instruments" includes the fair value according to IFRS 9 of the derived *currency rate swap* contract for covering the risk of the Euro/Yen exchange rate initiated by the subsidiary With Us. The contract expires in February 2019, the notional value on December 31st 2018 was 100.000 euro, the fair value was –6.145 euro.

Accounts payable (note 20)

	31/12/2018	31/12/2017	Variation	Var. %
Accounts payable	63.891.040	63.257.059	633.981	1,00%
Total	**63.891.040**	**63.257.059**	**633.981**	**1,00%**

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

The chart below shows the accounts payable to third parties for 2018 divided according to the currency.

Accounts payable in:	31/12/2018	31/12/2017
Euros	40.890.115	39.119.306
USD	2.237.198	1.644.590
Other currencies	20.763.727	22.493.163
Total	**63.891.040**	**63.257.059**

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 2018.

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 2018 amounted to 2.486 thousand Euros and are entered net of the down payments and deductions.

The subdivision of the other debts is as follows:

	31/12/2018	31/12/2017	Variation	Var. %
Social security debts				
Debts to INPS	2.892.179	2.608.868	283.311	10,86%
Debts to INAIL	218.744	169.451	49.293	29,09%
Debts to other Social Security Institutions	517.188	454.999	62.189	13,67%
Total	**3.628.111**	**3.233.318**	**394.793**	**12,21%**
Other debts				
Debts to the tax authorities for VAT	254.986	2.055.551	-1.800.565	-87,60%
Debts to the tax authorities for withholding	2.034.035	1.840.463	193.572	10,52%
Other tax liabilities	259.723	223.613	36.110	16,15%
Debts to staff for wages and salaries	12.036.362	10.250.824	1.785.538	17,42%
Down payments	14.033.952	11.319.402	2.714.550	23,98%
Other debts	11.182.904	12.282.040	-1.099.136	-8,95%
Total	**39.801.962**	**37.971.893**	**1.830.069**	**4,82%**
Total Social security debts e Other debts	**43.430.073**	**41.205.211**	**2.224.862**	**5,40%**

The amounts owed to staff include, among other things, the debts for deferred salaries of personnel employed as of December 31st 2018.
The entry of “Down payments” consists of down payments received from clients for orders received; the increase refers in particular to the Chinese subsidiary Penta-Laser Equipment Wenzhou Co., Ltd and the Japanese subsidiary With Us. 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.

Analysis of debts by due date

	31/12/2018			31/12/2017		
	<= 1 year	**>1 year <= 5 years**	**> 5 years**	**<= 1 year**	**>1 year <= 5 years**	**> 5 years**
Amounts owed to banks	6.719.724	4.030.717	1.370.000	8.229.616	3.223.652	301.690
Amounts owed to leasing companies	974.369	1.038.210	5.045.019	585.510	1.278.899	
Current liabilities for derivative financial instruments	6.145					
Amounts owed to other financiers	337.330	940.217	68.677	346.181	968.091	102.845
Accounts payable	63.891.040			63.257.059		
Amounts owed to associated companies	276.608					
Income tax payables	2.485.761			1.654.248		
Social security debts	3.628.111			3.233.318		
Other debts	39.801.962			37.971.893		
Total	**118.121.050**	**6.009.144**	**6.483.696**	**115.277.825**	**5.470.642**	**404.535**

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.

31/12/2018		Total	Medical	Industrial	Other
Revenues		347.490	197.853	148.450	1.187
Intersectorial revenues		(1.470)		(283)	(1.187)
Net Revenues		346.020	197.853	148.167	
Other revenues and income		5.613	1.787	3.524	301
Gross Margin		137.478	89.860	47.317	301
	Inc.%	*39%*	*45%*	*31%*	*100%*
Margin		46.205	29.009	16.895	301
	Inc.%	*13%*	*15%*	*11%*	*100%*
Not assigned charges		16.218			
EBIT		29.987			
Net financial income (charges)		869			
Share of profit of associated companies		(1.306)	(1.295)	(5)	(6)
Other Income (expense) net		(6)			
Income (loss) before taxes		29.545			
Income taxes		7.707			
Income (loss) before minority interest		21.839			
Minority interest		5.045			
Net income (loss)		16.794			

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			

31/12/2018	Total	Medical	Industrial	Other
Assets assigned	294.947	153.709	141.238	
Equity investments	1.900	1.651	249	
Assets not assigned	63.015			
Total assets	359.861	155.360	141.487	0
Liabilities assigned	108.194	38.269	69.925	
Liabilities not assigned	32.431			
Total liabilities	140.625	38.269	69.925	0

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

31/12/2018	Total	Medical	Industrial	Other
Changes in fixed assets:				
- assigned	22.133	9.431	12.702	0
- not assigned	(66)			
Total	22.067	9.431	12.702	0

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

Information according to the geographical area

31/12/2018	Total	Italy	Europe	Row
Revenues	346.020	65.768	68.464	211.788

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

31/12/18	Total	Italy	Europe	Row
Assets assigned	357.401	243.818	27.640	85.943
Equity investments	2.459	2.325	0	134
Total assets	359.861	246.143	27.640	86.077
Liabilities assigned	140.625	75.593	14.544	50.488
Total liabilities	140.625	75.593	14.544	50.488

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

31/12/18	Total	Italy	Europe	Row
Changes in fixed assets:				
- assigned	22.067	17.214	2.584	2.270
Total	22.067	17.214	2.584	2.270

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)

Information on the consolidated Income Statement

Revenue (note 22)

The chart below shows the sub-division of the sales volume for 2018 among the activity sectors of the Group compared with the same data for last year and shows the good overall growth mainly generated by the exceedingly rapid expansion of the industrial sector.

	31/12/2018	31/12/2017	Variation	Var. %
Medical	197.853.568	174.415.918	23.437.650	13,44%
Industrial	148.166.503	132.045.100	16.121.403	12,21%
Total revenue	**346.020.071**	**306.461.018**	**39.559.053**	**12,91%**

Other income (note 23)

The analysis of the other income is as follows:

	31/12/2018	31/12/2017	Variation	Var. %
Other income due to Insurance refunds	92.416	56.663	35.753	63,10%
Recovery of expenses	1.155.625	1.136.511	19.114	1,68%
Capital gains on disposal of fixed assets	252.288	108.879	143.409	131,71%
Other income	4.112.441	2.962.265	1.150.176	38,83%
Total	**5.612.770**	**4.264.318**	**1.348.452**	**31,62%**

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 301 thousand Euros and federal grants related both to the new production center and to the research projects for an amount of about 2.186 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:

	31/12/2018	31/12/2017	Variation	Var. %
Purchases of raw materials and finished products	202.934.677	162.880.401	40.054.276	24,59%
Packaging	1.480.937	1.369.890	111.047	8,11%
Shipping charges on purchases	1.276.024	1.049.000	227.024	21,64%
Other purchase expenses	681.570	464.330	217.240	46,79%
Other purchases	1.013.840	930.818	83.022	8,92%
Total	**207.387.048**	**166.694.439**	**40.692.609**	**24,41%**

Costs for purchases of goods as of December 31st 2018 were 207.387 thousand Euros opposed to the 166.694 thousand Euros for last year, showing an increase of 24,41%.

Direct services/ Other operating services and charges (note 25)

Breakdown of this category is shown on the chart below:

	31/12/2018	31/12/2017	Variation	Var. %
Direct services				
Outsourced processing	7.426.690	5.604.215	1.822.475	32,52%
Technical services on products	1.279.259	785.371	493.888	62,89%
Shipment charges on sales	2.739.301	2.680.101	59.200	2,21%
Sale commissions	12.887.070	11.617.279	1.269.791	10,93%
Royalties	1.680	1.590	90	5,66%
Travel expenses for technical assistance	1.083.808	992.558	91.250	9,19%
Other direct services	1.397.732	936.955	460.777	49,18%
Total	**26.815.540**	**22.618.069**	**4.197.471**	**18,56%**
Other operating services and charges				
Maintenance and technical assistance on equipment	635.991	651.369	-15.378	-2,36%
Commercial services and consulting	2.137.286	1.480.981	656.305	44,32%
Legal and administrative services and consulting	1.490.796	1.479.368	11.428	0,77%
Audit fees	423.496	342.590	80.906	23,62%
Insurances (no staff cost)	723.426	783.861	-60.435	-7,71%
Travel and accommodation expenses	4.392.801	3.690.174	702.627	19,04%
Trade shows	3.889.414	3.183.987	705.427	22,16%
Promotional and advertising fees	6.703.966	4.869.071	1.834.895	37,68%
Expenses related to real estate	2.401.728	2.147.943	253.785	11,82%
Other taxes	653.615	537.939	115.676	21,50%
Vehicles maintenance expenses	1.650.852	1.416.846	234.006	16,52%
Office supplies	491.060	440.473	50.587	11,48%
Hardware and Software assistance	766.103	633.089	133.014	21,01%
Bank charges	351.155	334.185	16.970	5,08%
Leases and rentals	2.874.512	2.478.693	395.819	15,97%
Salaries and indemnity to the Board of Directors and Board of Auditors	2.277.739	2.486.675	-208.936	-8,40%
Temporary employment	546.336	500.915	45.421	9,07%
Other services and charges	10.459.971	9.609.824	850.147	8,85%
Total	**42.870.247**	**37.067.983**	**5.802.264**	**15,65%**

The most significant changes in the category of Direct services are related to the costs for outsourced processing, for technical assistance on products and for commissions due to the increase in the level of activity and sales and the costs for “Other direct services” for the increase in technical and marketing consulting.

The single most significant amounts in the category of “Other operating services and charges” are represented by the marketing consultants and publicity expenses sustaining the sales activity, travel and accommodation expenses and trade shows, while for the heading of “Other services and charges” the main costs refer to technical and scientific consulting for 1.866 thousand Euros mand research and studies for about 2.629 thousand Euros.

For the costs of research and development activities, 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	31/12/2018	31/12/2017
<= 1 year	2.223.921	1.577.710
>1 year <= 5 years	4.134.222	2.173.232
> 5 years	89.714	88.856
Total	**6.447.857**	**3.839.798**

Staff costs (note 26)

The chart below shows the costs for staff:

	31/12/2018	31/12/2017	Variation	Var. %
Wages and salaries	45.518.357	41.240.340	4.278.017	10,37%
Social security contributions	10.794.659	9.573.815	1.220.844	12,75%
Severance indemnity	1.600.811	1.491.155	109.656	7,35%
Staff costs for stock options/stock based compensation	692.825	1.492.825	-800.000	-53,59%
Other costs	382.674	292.846	89.828	30,67%
Total	**58.989.326**	**54.090.981**	**4.898.345**	**9,06%**

The costs for personnel was 58.989 thousand Euros, showing an increase of 9,06% over the 54.091 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 1.212 employees as of December 31st 2017 to 1.368 on December 31st 2018.

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 (see Note 10). In 2017 this category also included the figurative cost of 800 thousand Euros entered into accounts 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.

Depreciation, amortization and other accruals (note 27)

The table below shows the breakdown for this category:

	31/12/2018	31/12/2017	Variation	Var. %
Amortization of intangible assets	410.458	330.996	79.462	24,01%
Depreciation of tangible assets	4.014.407	3.502.195	512.212	14,63%
Devaluation (Rival.) of fixed assets		60.900	-60.900	-100,00%
Accrual for bad debts	664.171	1.175.918	-511.747	-43,52%
Accrual for risks and charges	542.160	605.891	-63.731	-10,52%
Total	**5.631.196**	**5.675.900**	**-44.704**	**-0,79%**

The accrual for credit risks includes some devaluations made for cautionary purposes on some amounts owed which have been delayed in their payment.

Financial income and charges and exchange gain (loss)(note 28)

The breakdown of the category is as follows:

	31/12/2018	31/12/2017	Variation	Var. %
Financial income				
Interests income on bank and postal deposits	493.163	527.334	-34.171	-6,48%
Dividends from other investments		10.506	-10.506	-100,00%
Financial income from associated companies	14.715	13.773	942	6,84%
Interests income from current securities and financial assets	201.381	209.199	-7.818	-3,74%
Capital gain and other income from current securities and financial assets		21.553	-21.553	-100,00%
Other financial income	207.719	123.600	84.119	68,06%
Total	**916.978**	**905.965**	**11.013**	**1,22%**
Financial charges				
Interests on bank debts and on short term loans	156.273	299.253	-142.980	-47,78%
Interests on bank debts and on other m/l term loans	5.713	7.939	-2.226	-28,04%
Capital losses and other charges on current securities and financial assets	85.198		85.198	
Other financial charges	339.680	317.940	21.740	6,84%
Total	**586.864**	**625.132**	**-38.268**	**-6,12%**
Exchange gain (loss)				
Exchange gains	1.818.897	760.601	1.058.296	139,14%
Exchange losses	-1.189.586	-4.773.078	3.583.492	-75,08%
Financial income fair value of on exchange rate derivatives		366.644	-366.644	-100,00%
Financial charges fair value on exchange rate derivatives	-89.995		-89.995	
Total	**539.316**	**-3.645.833**	**4.185.149**	**-114,79%**

The "interests income 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 55 thousand Euros for the interests charges deriving from the application of the IAS 19 accounting standard to the severance indemnity; the "Financial charges fair value on exchange rate derivatives" are related to the evaluation of the derivative currency swap rate contracts stipulated by the subsidiary With Us in conformity with IFRS 9.

Other non-operating income and charges (note 29)

	31/12/2018	31/12/2017	Variation	Var. %
Other non operating charges				
Devaluation of equity investment	5.700		5.700	
Total	**5.700**		**5.700**	
Other non operating income				
Capital gains on equity investments		563.655	-563.655	-100,00%
Total		**563.655**	**-563.655**	**-100,00%**

Income taxes (nota 30)

	31/12/2018	31/12/2017	Variation	Var. %
IRES and other foreign income taxes	7.112.497	6.464.213	648.284	10,03%
Income taxes - IRAP	1.062.908	957.604	105.304	11,00%
Deferred income taxes - IRES and for foreign companies	76.662	68.633	8.029	11,70%
Deferred income taxes - IRAP	50.998	18.889	32.109	169,99%
Income tax receivables	-518.271	-805.988	287.717	-35,70%
Other income tax		101.946	-101.946	-100,00%
Previous years tax	-78.168	2.052	-80.220	-3909,36%
Total	**7.706.626**	**6.807.349**	**899.277**	**13,21%**

The costs for current and deferred income taxes this year is 7.706.626 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.

	2018	2017
Profit/loss before taxes	29.545.293	27.217.469
Theoretical IRES Aliquot	24,00%	24,00%
Theoretical IRES	7.090.870	6.532.192
Higher (lower) fiscal incidence of the foreign companies with respect to the theoretical aliquot	(18.192)	(333.520)
One time income tax charges	(78.168)	2.052
Tax credits	(518.271)	(805.988)
Participation exemption		(127.527)
Higher (lower) fiscal incidence of Italian companies with respect to the theoretical aliquot	(327.783)	(544.428)
Higher (lower) fiscal incidence due to the effects of consolidation	444.263	1.108.074
Actual IRES	6.592.720	5.830.856
Actual IRES aliquot	22,31%	21,42%

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 2018 therefore amounted to 0,87 Euros. The diluted profit per share, which takes into consideration also the stock option assigned last year, was 0,84 Euros.

Dividends distributed (note 32)

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.

The shareholders' meeting of El.En. S.p.A. held on May 27th 2018 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)

On December 31st 2018 there were no other components of the statement of comprehensive income worthy of note.

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 General Director</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 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 6.000 Euros, besides the incentive bonus of 4.807 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*.

<u>Physical persons possessing an equity in El.En. SpA</u>
The partner Carlo Raffini to whom the Parent Company El.En. assigned a specific professional task for the entire year, received a salary of 27 thousand Euros; moreover, for a similar task performed for the subsidiary Deka M.E.L.A. Srl he received 12 thousand 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 2018 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.

Associated companies:	Financial Receivables		Accounts receivable	
	< 1 year	> 1 year	< 1 year	> 1 year
Actis Srl	30.000		1.764	
Immobiliare Del.Co. Srl	31.565			
Elesta Srl			640.708	
Chutian (Tianjin) Laser Technology Co. Ltd			51.517	
Quanta Aesthetic Lasers USA, LLC			13.243	
Accure LLC	65.502		2.009	
Total	**127.067**	**-**	**709.240**	**-**

Associated companies:	Financial Payables		Other payables		Accounts Payable	
	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Elesta Srl	276.608					
Total	**276.608**	**-**	**-**	**-**	**-**	**-**

Associated companies:	Sales	Service	Total
Elesta Srl	996.069	20.349	1.016.418
Quanta Aesthetic Lasers USA, LLC	1.587.158	375	1.587.533
Total	**2.583.227**	**20.725**	**2.603.951**

Associated companies:	Other revenues
Elesta Srl	15.051
Actis Srl	1.200
Total	**16.251**

Associated companies:	Purchase of raw materials	Services	Other	Total
Quanta Aesthetic Lasers USA, LLC	63.531	5.213		68.744
Total	**63.531**	**5.213**	**-**	**68.744**

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	2.459.329	1.423.909	57,90%
Receivables LT	322.898	-	0,00%
Accounts receivable	80.246.348	709.240	0,88%
Other current receivables	12.490.046	127.067	1,02%
Non current financial liabilities	12.492.839	-	0,00%
Current financial liabilities	8.314.176	276.608	3,33%
Accounts payable	63.891.040	-	0,00%
Other current payables	43.430.073	-	0,00%
Impact of related parties transactions on the income statement			
Revenues	346.020.071	2.603.952	0,75%
Other revenues and income	5.612.770	16.251	0,29%
Purchase of raw materials	207.387.048	63.531	0,03%
Direct services	26.815.540	-	0,00%
Other operating services and charges	42.870.247	5.213	0,01%
Financial charges	586.864	-	0,00%
Financial income	916.978	14.715	1,60%
Income taxes	7.706.626		0,00%

Risk factors and procedures for the management of financial risks (note 36)

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 two 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	€ 100.000	-€ 6.145
Currency swap	€ 800.000	€ 10.934
Total	**€ 900.000**	**€ 4.789**

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 7% 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 from third parties are concerned:

The Parent Company El.En. has underwritten:

- in 2013, a bank guarantee for a maximum of 50 thousand Euros, later increased to a maximum of 100 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 2019 with possibility of extension annually.

The subsidiaryDeka M.E.L.A. S.r.l. in 2016 underwrote a bank guarantee for a maximum of 127.925 Euros as a guarantee in the evento f a request for the return of the advance payment on the Inside project of *bando POR FESR* 2014 – 2020 "Strategic Research and Development Projects - phase 2", conceded a grant by the *Bando Unico* approved by the Regione Toscana with Decree n. 3389 on July 30th , with expiration date in May 2020.

The Chinese subsidiary Penta-Laser Equipment (Wenzhou) obtained financing for the construction of a new factory and the relative equipment by obtaining a mortgage for an overall amount of about 41 million RMB.

The subsidiary ASA S.r.l. underwrote a loan contract to be used for the construction of a new factory by obtaining a mortgage for an overall amount of 4,8 million Euros. Also, during this year, ASA underwrote a bank guarantee issued by CREDEM to the supplier ENI Spa for 8.000 Euros with expiration date on December 31st 2021, as a guarantee for issuing thirteen "MULTICARD ENI" vouchers after the underwriting of the contract for supplying fuel.

The German subsidiary Asclepion underwrote a contract for a loan to be used for the construction of a new factory by obtaining a mortgage for an overall amount of 4 million Euros which is added to the residual mortgage initiated for the construction of the old factory for the amount of about 400 thousand Euros.

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	Book value	Fair value	Fair value
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets				
Non current financial receivables	322.898	313.323	322.898	313.323
Current financial receivables	201.393	628.400	201.393	628.400
Securities and other non-current financial assets	12.256.886	12.055.531	12.256.886	12.055.531
Securities and other current financial assets	1.951.235	2.036.433	1.951.235	2.036.433
Cash and cash equivalents	80.966.102	97.351.479	80.966.102	97.351.479
Financial debts and liabilities				
Non current financial liabilities	12.492.839	5.875.176	12.492.839	5.875.176
Current financial liabilities	8.314.176	9.161.307	8.314.176	9.161.307

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 2018, the Group holds the following securities evaluated at fair value:

	Level 1	Level 2	Level 3	Total
Investment contracts		12.256.886		12.256.886
Mutual funds	1.951.235			1.951.235
Currency swap		4.789		4.789
Total	**1.951.235**	**12.261.675**		**14.212.910**

Other information (note 38)

Information on public financing as per art. 1, sub-section 125 of Law no. 124 of August 4th 2017 ("Annual law for the market and the competition")

Law no.124 of August 4th 2017 introduced to art, 1, sub-sections 125-129, some measures intended to insure transparency in the system of public financing; in particular, it states that companies must indicate in the Explanatory Notes of the financial statement for 2018 and in the consolidated Notes if there is one, information regarding any "subsidies, grants, paid assignments and, in any case, all economic advantages of any type received from the public administration and from the other subjects indicated in the above mentioned law".
In consideration of the fact that this regulation has raised some doubts about its interpretation and application, we have referred to the orientation suggested by the Association of the Category (ASSONIME and CNDCEC) and we believe that they are not part of the information which we are required by law to publish:

- the fees related to the sale of assets and performance of services inherent to operations conducted as part of the regular activity in the presence of synallagmatic relations managed according to market regulations, we believe do not pertain to the field of liberality;
- the general measures which can be utilized by all the companies that are part of the general structure of the system to which we refer defined by the nation (for example, ACE).
- The selective economic advantages, received from the application of a program of assistance that is accessible to all companies that meet certain requirements on the basis of predetermined criteria (fiscal facilitations and contributions, also in relation to the hiring of the disabled);
- The subsidies for training received from inter-professional funds like, for example Fondimpresa, because they are institutions financed with the contributions of the companies themselves.

Moreover, it should be recalled that since August of 2017, the National Register of State Assistance at the Ministry of Economic Development is active. At this Registry they are required to publish the assistance given by the State and the "de minimis" help issued to each company by the entities that grant the assistance and to whom we refer to further information.

Consequently, in compliance with art. 1, sub-section 125, of Law 124 of August 4th, 2017, the chart below shows the amounts received this year under the heading of "subsidies, grants, contributions, paid appointments and, in any case, economic advantages of every type".

El.En. spa

Institution granting	Institution paying	Type of facilitatio	Description	Amount
Regione Toscana	Sviluppo Toscana	Grants for Research and Development projects	POR FESR 2014-2020 – Asse Prioritario 1 – Contest for help in the investments in research, development and innovation.– Project co-financed by the Regione Toscana and named : "FOMEMI" Sensors and instruments with Fotonic technology for minimally invasive medicine.	139.810
Consortium CALEF		Paid appointment	R&D activity related to the LACER project for the part for the El.En.Spa consortium. (approved for financing in the form of a grant for the expenses by MUR with *Decreto Dirigenziale* n. 04 on January 10th 2005)	57.295

Quanta System spa

Institution	Type of facilitation	Tax and social security breaks and grants	Amount
Financial adminisration	Tax credits for research and development	D.L. 145/2013 e S.M.	208.486

It should be noted that the Company received financing in the form of facilitated credit for the amount of 806.300 Euros during the 2012 tax period from MIUR for the development of a Femtosecond laser. The Company returned the amount of 97.007 Euros (of which 1.323 was interest) during 2018.

ASA srl

Institution	Type of facilitation	Tax and social security breaks and grants	Amount
Financial administration	Tax credits for research and development	D.L. 145/2013 e S.M.	297.312

Date	Nr. Of Contract	Name of company	Description of the subject of the contract	Amount
21/03/2007 - renewal 20/02/2018	Agr 00549	Department of experimental and clinical biomedical sciences of the University of Florence	With the contract stipulated on 21/03/2007 (last renewal ultimo 13-20 February 2018) they created a joint laboratoy between the Dept. of experimental and clinical biomedical sciences and of the University of Florence and Asa S.r.l. which has been called Asacampus joint laboratory for the study of the effects of physical stress, in particular gravitational, mechanical, photonic, photo-mechanic and magnetic fields at the cellular and molecular level: the joint laboratory has the rooms and equipment made available by the University of Florence and Asa Srl places at their disposal the staff and equipment listed in the agreement.	Value of benefits cannot be quantified

It should be noted that the charts above do not show the economic advantages under 10 thousand Euros; this threshold is meant to refer to the total of economic advantages received by the same institution during 2018, whether the benefit was issued in a single act or issued in multiple acts.

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 2018 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	2018 fees (Euros)
Audit	Deloitte & Touche SpA	Parent Company		61.239
	Deloitte & Touche SpA	Italian subsidiaries		80.842
	Deloitte & Touche SpA	Foreign subsidiaries		18.509
	Deloitte network	Foreign subsidiaries		61.501
Certification services	Deloitte & Touche SpA	Parent Company	(1)	15.680
Other services	Deloitte & Touche SpA	Parent Company	(2)	10.000
				247.771

(1) Revision of the Non-Financial Statement
(2) Methodological assistance in relation to the adoption of IFRS 16

The honorariums shown in the chart that are related to Italian companies include the annual adaptation on the basis of the ISTAT index; they are shown net of the reimbursements for expenses incurred and supervising contributions in favor of Consob.

Average number of employees

Personnel	Average of the period	31/12/2018	Average of previous period	31/12/2017	Variation	Var. %
Total	1.290	1.368	1.153	1.212	156	12,87%

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. S.p.A., in conformity with art. 154-bis, sub-section 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 separate financial statement, during 2018.

2. No significant aspect emerged concerning the above

3. We also declare that:

3.1 the consolidated financial statement dated December 31st 2018:

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 activity as well as the situation of the quoted 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 14th, 2019

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 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, 2018, 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, 2018, 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, 2018 are Euro 97,104 thousand, net of a provision for inventory writedowns of Euro 11,212 thousand which, as explained in Note 5 to the financial statements, was estimated to align the value of the inventories to their net realizable value, taking into account obsolete and slow-moving inventories.

Deloitte.

	The valuation process for the provision is complex, and is based on assumptions regarding possible excess inventories with respect to their future use, and additional conditions that could cause the carrying amount to exceed the realizable value. The valuations are based on estimates influenced by future expectations referring primarily to the disposal rate of articles in stock and by market conditions. Given the significant amount of inventories recognized in the financial statements and the uncertainties relating to the valuation process, we consider the valuation 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; - examining the appropriateness of the methods adopted by Management for the estimate as per the applicable accounting principles; - analyzing the assumptions used by Management to estimate the provision; - verifying, on a random sample basis, 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; - processing and analyzing the data to develop an accurate, independent estimate 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.

Deloitte.

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.

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, 2018 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, 2018 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, 2018 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
Neri Bandini
Partner

Florence, Italy
March 29, 2019

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 2018**.**

To the shareholders of the Parent Company El.En. S.p.A.

Consolidated financial statement as of December 31st 2018.

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 2018 and on the Management Report for 2018 (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 2018, 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 adopted 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 2018 and early 2019.

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 Auditor 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 2018 gives adequate information concerning the annual results in terms of sustainability performance achieved this year by the company and by its subsidiaries.

Florence, March 29th 2019.

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 2018

ACCOUNTING CHARTS AND NOTES

Statement of financial position

Assets	Note		31/12/2018		31/12/2017
Intangible assets	1		267.146		223.149
Tangible assets	2		15.852.213		13.239.359
Equity investments	3				
- in subsidiary companies		15.833.989		15.765.822	
- in associated companies		809.457		388.405	
- other		1.024.498		1.024.498	
Total Equity investments			17.667.944		17.178.725
Deferred tax assets	4		2.226.387		2.532.100
Other non-current assets	4		12.259.994		12.058.639
Total non current assets			**48.273.684**		**45.231.972**
Inventories	5		24.509.573		21.415.446
Accounts receivable	6				
- third parties		5.609.392		7.693.984	
- subsidiary companies		34.463.726		28.542.363	
- associated companies		642.472		315.291	
Total Accounts receivable			40.715.590		36.551.638
Tax receivables	7		4.140.432		4.009.505
Other receivables	7				
- third parties		485.634		910.230	
- subsidiary companies		7.065.903		5.527.825	
- associated companies		61.565		61.565	
Total Other receivables			7.613.102		6.499.620
Securities and other current financial assets	8		1.951.235		2.036.433
Cash and cash equivalents	9		26.194.767		43.373.454
Total current assets			**105.124.699**		**113.886.096**
Total Assets			**153.398.383**		**159.118.068**

Liabilities	Note		31/12/2018		31/12/2017
Share capital	10		2.508.671		2.508.671
Additional paid in capital	11		38.593.618		38.593.618
Other reserves	12		92.033.747		98.828.744
Treasury stock	13		-		-
Retained earnings / (accumulated deficit)	14		(984.283)		(984.283)
Net income / (loss)			2.814.039		41.146
Total shareholders' equity			**134.965.792**		**138.987.896**
Severance indemnity	15		851.830		888.612
Deferred tax liabilities	16		410.337		475.974
Other accruals	17		1.224.121		578.044
Financial debts and liabilities	18				
- third parties		488.285		488.285	
Total Financial debts and liabilities			488.285		488.285
Total non current liabilities			**2.974.573**		**2.430.915**
Financial liabilities	19				
- third parties		4.474		-	
- associated companies		276.608		-	
Total Financial liabilities			281.082		-
Accounts payable	20				
- third parties		9.752.407		12.476.422	
- subsidiary companies		800.205		900.560	
Total Accounts payable			10.552.612		13.376.982
Income tax payables	21		-		-
Other current payables	21				
- third parties		4.473.622		4.300.223	
- subsidiary companies		150.702		22.052	
Total Other current payables			4.624.324		4.322.275
Total current liabilities			**15.458.018**		**17.699.257**
Total Liabilities and Shareholders' equity			**153.398.383**		**159.118.068**

Income Statement

Income Statement	Note	31/12/2018		31/12/2017	
Revenues	22				
- third parties		22.677.406		19.694.707	
- subsidiary companies		38.588.594		33.805.833	
- associated companies		871.219		560.076	
Total Revenues			62.137.219		54.060.616
Other revenues and income	23				
- third parties		345.969		417.207	
- subsidiary companies		592.388		388.050	
- associated companies		16.251		9.238	
Total Other revenues and income			954.608		814.495
Revenues and income from operating activity			**63.091.827**		**54.875.111**
Purchase of raw materials	24				
- third parties		35.621.405		25.896.381	
- subsidiary companies		1.115.702		1.542.023	
Total Purchase of raw materials			36.737.107		27.438.404
Changes in inventory of finished goods			(2.594.113)		(539.469)
Change in inventory of raw material			(782.618)		1.179.467
Direct services	25				
- third parties		4.990.831		3.986.988	
- subsidiary companies		41.606		82.626	
Total Direct services			5.032.437		4.069.614
Other operating services and charges	25				
- third parties		6.948.426		6.857.056	
- subsidiary companies		129.375		37.834	
- associated companies		-		30.000	
Total Other operating services and charges			7.077.801		6.924.890
Staff cost	26		15.759.709		15.519.164
Depreciation, amortization and other accruals	27		1.378.611		1.263.312
EBIT			**482.893**		**(980.271)**
Financial charges	28				
- third parties		(96.991)		(13.058)	
- subsidiary companies		116.318		(117.898)	
Total Financial charges			19.327		(130.956)
Financial income	28				
- third parties		571.965		643.800	
- subsidiary companies		2.391.381		1.957.091	
- associated companies		300		300	
Total Financial income			2.963.646		2.601.191
Exchange gain (loss)	28		584.170		(2.610.088)
Other non operating charges	29		(799.359)		(100.000)
Other non operating income	29		-		563.655
Income (loss) before taxes			**3.250.677**		**(656.469)**
Income taxes	30		436.638		(697.615)
Income (loss) for the financial period			**2.814.039**		**41.146**

Statement of comprehensive income

	31/12/2018	31/12/2017
Reported net (loss) income (A)	2.814.039	41.146
Other income/(loss) that will not be entered in income statement net of fiscal effects:		
Measurement of defined-benefit plans	20.183	(13.922)
Total other income/(loss), net of fiscal effectes (B)	20.183	(13.922)
Total comprehensive (loss) income (A) + (B)	2.834.222	27.224

Cash flow statement

Cash flow statement	Note	31/12/18	related parties	31/12/17	related parties
Operating activity					
Income (loss) for the financial period		**2.814.039**		**41.146**	
Amortizations and depreciations	27	1.303.375		1.194.190	
Gain/Loss on financial investments and equity investments	29			(563.655)	
Write-downs for impairment losses	29	156.067	156.067		
Stock Option		638.428		666.058	
Severance indemnity	15	(10.224)		(74.880)	
Provisions for risks and charges	17	646.076		88.887	
Bad debt reserve	6	158.321	157.192	(818.943)	(683.000)
Deferred income tax assets	4	299.339		209.157	
Deferred income tax liabilities	16	(65.637)		(208.670)	
Inventories	5	(3.094.127)		762.182	
Accounts receivable	6	(4.322.272)	(6.405.735)	(2.140.846)	(737.823)
Tax receivables	7	(130.927)		(1.520.484)	
Other receivables	7	1.340.913	983.494	(964.054)	(799.008)
Accounts payable	20	(2.824.372)	(100.355)	1.626.547	149.287
Income tax payables	21			(648.725)	
Other payables	21	302.052	128.650	276.543	
Cash flow generated by operating activity		**(2.788.949)**		**(2.075.547)**	
Investment activity					
Tangible assets	2	(3.709.016)		(1.576.156)	
Intangible assets	1	(251.209)		(185.022)	
Equity investments, securities and other financial assets	3-4-8	(537.210)	(421.053)	(3.128.828)	
Financial receivables	7	(2.454.398)	(2.521.572)	844.615	911.503
Cash flow generated by investment activity		**(6.951.833)**		**(4.045.391)**	
Financing activity					
Current financial liabilities	19	281.083	276.608	(6)	
Dividends paid	31	(7.718.989)		(7.718.989)	
Cash flow generated by financing activity		**(7.437.906)**		**(7.718.995)**	
Increase/(decrease) in cash and cash equivalents		**(17.178.688)**		**(13.839.933)**	
Cash and cash equivalents at the beginning of the financial period		**43.373.455**		**57.213.388**	
Cash and cash equivalents at the end of the financial period		**26.194.767**		**43.373.455**	

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 656 thousand Euros, of which 84 thousand Euros from subsidiary companies.
Income taxes for this financial year were 103 thousand Euros.

Changes in the Shareholders' equity

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

Total shareholders' equity	**31/12/2017**	**Net income allocation**	**Dividends distributed**	**Other movements**	**Comprehensive income (loss)**	**31/12/2018**
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	95.059.871	41.146	-7.718.989			87.382.029
Special reserve for grants received	426.657					426.657
Cumulative translation adjustment						
Other reserves	2.804.914			862.662	20.183	3.687.759
Retained earnings / (accumulated deficit)	-984.283					-984.283
Net income / (loss)	41.146	-41.146			2.814.039	2.814.039
Total shareholders' equity	138.987.896		-7.718.989	862.662	2.834.222	134.965.792

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 14th 2019.

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 2018 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 2018 and 2017. The financial information on the other hand refer to the situations on December 31st 2018 and December 31st 2017.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The statement as of December 31st 2018 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 statement are in compliance with the accounting standards used for drawing up the financial statement on December 31st 2017 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 2018" 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.

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 IFRS 9. 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 fair value. The assumption for this evaluation is that "fair value" can be estimated relaibly. When the fair value cannot be reliably estimated, te investment is evaluated at cost.

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. This evaluation at cost considers the losses expected on the basis of past information, reviewed to consider the prospective elements with reference to the specific type of debtors and their economic environment.

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 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

Revenue derived from contracts with clients are recognized in the income statement for an amount that reflects the corresponding amount to which the entity expects to have the right in exchange for the control of the merchandise or services to the client. The revenue is entered into accounts net of returns, discounts, rebates and taxes directly associated with the product or with the service performed. The sales are recognized at fair value of the amount received for the sale of the product and services at the following conditions:

• the substantial transfer of the risks and benefits connected with the property actually takes place;
• the amount of the revenue is determined in a reliable manner.
• it is probable that the economic benefits derived from the sale be taken advantage of by the company;
• the costs sustained or that will be sustained are determined in a reliable manner.

Financial income and charges are registered on the basis of the interest that has matured on the net value of the relative financial assets and liabilities using the actual interest rate.

Dividends from equities are entered into accounts 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.

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IFRS 16

On January 13th 2016 the IASB published standard **IFRS 16 – *Leases*** which is supposed to replace standard IAS 17 – *Leases*, as well as the IFRIC 4 interpretations 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 principle supplies a new definition of *lease* and introduces a principle based on control (*right of use*) of an asset in order to distinguish leasing contracts from contracts for supplying a service and identifies as the distinguishing factors: the right to replace it, the right to obtain substantially all of the economic benefits derived from the use of the asset and, the right to direct the use of the asset which is the subject of the contract.

The standard establishes the sole model for recognition and evaluation of leasing contracts for the lessee which requires the entry of the good being leased among the assets with the corresponding financial debt. On the contrary, the standard does not include significant modifications for the lessor.

The standard must be applied starting on January 1st 2019 but application in advance is permitted.

The company has completed its preliminary assessment of the potential impact of the application of the new standard on the date of transition (January 1st 2019). This process was divided into different phases which included a complete mapping of the contracts which might potentially contain leasing and the analysis of these contracts for the purpose of understanding the main clauses relevant for IFRS 16 purposes.

The company is now completing the process of implementation of the standard which requires a setting of the computer infrastructure used for the accounting management of the principle and the alignment of the administrative processes and the controls which protect the critical areas on which the standard is based. The completion of this process will take place in the first half of 2019.

The Company expects to apply the new standard starting on the required date and using the simplified transition approach and they do not intend to modify the comparative amounts from the years preceding the first adoption. The assets entered for the *right of use* will be calculated for the amount of the leasing debt on the date of transition. By adopting IFRS 16, the Company intends to take advantage of the exemption granted for short-term leases. At the same time, the Company intends to take advantage of the exemption granted for leasing contracts in which the underlying asset consists of a *low-value asset*.

For contracts of this type the introduction of IFRS 16 will not comport the registering of the financial liability related to the lease and the relative right of use, but the leasing payments will be entered in the income statement on a linear basis for the duration of the relative contracts.

The Company has conducted an analysis of the impact of IFRS 16: the application of the new standard on the net capital invested and on the net financial position (actualized net value of the future leasing payments) is about 290 thousand Euros. This amount differs with respect to the amount of the operating leases for which information can be found in the next paragraph on “future commitments for use of goods belonging to others”, on account of the actualization of future cash flows (using the criteria of “*incremental borrowing rate*”), of the “low value leases” or short-term leases and the components of the service included in the leasing contract. In order to help comprehend the impact derived from the first application of the standard, the chart below shows the reconciliation between future commitments related to leasing contracts and the expected impact from the adoption of IFRS 16 on January 1st 2019.

	Euro/000
Obligations for operative leases on December 31st 2018	**854**
Of which:	-
Low value or short term leasing	137
Service components included in the rents	417
Actualization effects	8
Other variations	0
Value of the right of use on January 1st 2019	292

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
		01/01/2018	01/01/2018 - 31/12/2018	01/01/2018 - 31/12/2018	01/01/2018 - 31/12/2018	01/01/2018 - 31/12/2018	31/12/2018	31/12/2018	
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 2018 the average price registered for the El.En. S.p.A. stock was about 25,5 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:

	31/12/2017	Increase	Decrease	Revaluation / Devaluation	Other movements	Depreciation	31/12/2018
Development costs	86.096	205.485				-125.795	165.786
Patents and rights to use patents of others	10.157					-10.157	
Concessions, licences, trade marks and similar rights	62.152	26.448				-49.668	38.934
Other intangible assets	33.544	1.950				-21.594	13.901
Intangible assets under construction and advance payments	31.200	17.325					48.525
Total	**223.149**	**251.208**				**-207.214**	**267.146**

Under the heading of “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 heading of “Intangible assets under construction” is mainly composed of the costs of a new software now being implemented.

Tangible fixed assets (note 2)

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

Cost	**31/12/2017**	**Increase**	**(Disposals)**	**Revaluation / Devaluation**	**Other movements**	**31/12/2018**
Lands and buildings	14.233.018	2.110.758			518.411	16.862.187
Plants & machinery	2.523.909	592.798			-14.037	3.102.670
Industrial and commercial equipment	5.318.787	532.288	-9.080		-76.936	5.765.059
Other assets	2.299.128	293.942	-92.100		113.325	2.614.295
Tangible assets under construction and advance payments	801.992	207.416			-701.742	307.666
Total	**25.176.834**	**3.737.202**	**-101.180**		**-160.979**	**28.651.877**

Accumulated depreciation	**31/12/2017**	**Depreciations**	**(Disposals)**	**Revaluation / Devaluation**	**Other movements**	**31/12/2018**
Lands and buildings	3.524.257	387.505			-6.806	3.904.956
Plants & machinery	1.976.666	189.249			-14.313	2.151.602
Industrial and commercial equipment	4.803.354	306.417	-9.080		-81.946	5.018.745
Other assets	1.633.198	212.991	-92.100		-29.728	1.724.361
Tangible assets under construction and advance payments						
Total	**11.937.475**	**1.096.162**	**-101.180**		**-132.793**	**12.799.664**

Net value	**31/12/2017**	**Increase**	**(Disposals)**	**Revaluation / Devaluation / Depreciations**	**Other movements**	**31/12/2018**
Lands and buildings	10.708.761	2.110.758		-387.505	525.217	12.957.231
Plants & machinery	547.243	592.798		-189.249	276	951.068
Industrial and commercial equipment	515.433	532.288		-306.417	5.010	746.314
Other assets	665.930	293.942		-212.991	143.053	889.934
Tangible assets under construction and advance payments	801.992	207.416			-701.742	307.666
Total	**13.239.359**	**3.737.202**		**-1.096.162**	**-28.186**	**15.852.213**

The heading of “Lands and 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 Srl, Cutlite Penta Srl, Esthelogue Srl, Pharmonia Srl and Merit Due 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 column of “Increase” we have entered the purchase of a new building and the costs for remodeling in some parts of the complex in via Baldanzese.
The amount entered under the heading of “Other movements” is related to the transfer entry from the category of tangible assets under construction of the amount of down payment already paid last year for the purchase of the lands and buildings mentioned above.

The increase under the heading of “Other assets” is related in particular to the purchase of furniture, light constructions and electronic machinery.
The amounts entered in the column of “Other movements” in the categories of “Plants and machinery”, “Industrial and Commercial equipment” and “”Other assets” refer to the scrapping of assets.

The amounts entered under the heading of “Tangible assets under construction and advance payments” is mostly related to further improvements and remodeling in progress at the headquarters in Via Baldanzese on the date of this report.

Equity investments (note 3)

Equities in subsidiary companies

Company name	Headquarters	Percentage held	Book value	Equity 31/12/2018	Result 31/12/2018	Share of equity	Difference
Ot-Las S.r.l.	Calenzano (ITA)	96,65%	2.601.101	6.444.860	212.545	6.228.957	3.627.856
Deka Mela S.r.l.	Calenzano (ITA)	85,00%	1.499.751	13.884.951	2.042.214	11.802.208	10.302.457
Esthelogue S.r.l.	Calenzano (ITA)	50,00%	279.787	451.355	-537.687	225.678	-54.110
Deka Sarl	Lione (FRA)	100,00%	0	-151.292	-354.191	-151.292	-151.292
Lasit S.p.A.	Torre Annunziata (ITA)	70,00%	1.093.187	6.207.955	1.735.954	4.345.569	3.252.382
Quanta System S.p.A.	Milano (ITA)	100,00%	8.012.867	25.689.688	7.848.482	25.689.688	17.676.821
Asclepion GmbH	Jena (GER)	50,00%	1.126.265	17.118.487	2.891.799	8.559.244	7.432.979
BRCT Inc.	New York (USA)	100,00%	1.128.446	-52.055	-1.677.374	-52.055	-1.180.501
Deka Japan Co., Ltd	Tokyo (JAP)	55,00%	42.586	1.222.118	181.465	672.165	629.579
Cutlite do Brasil Ltda	Blumenau (BRASIL)	98,27%	0	-1.285.652	-722.020	-1.263.410	-1.263.410
Pharmonia S.r.l.	Calenzano (ITA)	100,00%	50.000	288.127	-3.859	288.127	238.127
Total			15.833.989	69.818.542	11.617.328	56.344.878	40.510.888

It should be noted that for the subsidiaries Deka Sarl and Cutlite do Brasil the Company has accrued a reserve for covering the losses of companies in which they hold an equity, as described in Note (17).

For the subsidiary companies Esthelogue Srl and BRCT Inc. the negative difference between the book value and the share of equity is not of a type of long duration.

Equities in associated companies

Company name	Headquarters	Percentage held	Book value	Equity 31/12/2018	Result 31/12/2018	Share of equity	Difference
Actis S.r.l. (*)	Calenzano (ITA)	12,00%	1.240	386.699	365.043	46.404	45.164
Elesta S.r.l.	Calenzano (ITA)	50,00%	534.018	2.339.408	197.813	1.169.704	635.686
Immobiliare Del.Co. S.r.l.	Solbiate Olona (ITA)	30,00%	274.200	12.819	-19.817	3.846	-270.354
Total			809.458	2.738.926	543.039	1.219.954	410.496

(*) Data as of December 31st 2017

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 (*)	498.864	112.165	365.043	480.990	115.947
Elesta Srl (ex IALT Scrl)	3.903.680	1.564.271	197.813	3.078.777	2.880.964
Immobiliare Del.Co. Srl	779.630	766.812	-19.817	183.605	203.422

(*) Data as of December 31st 2017

Equities in other companies

Equity investments	31/12/2017			Movements of the period			31/12/2018		
	Cost	Reval/(Dev	Balance 31/12/2017	Changes	Reval./(Deval.)	Other movements	Balance 31/12/2018	Reval./(Deval.)	Cost
- in subsidiary companies									
Deka Mela S.r.l.	1.470.097		1.470.097	29.654			1.499.751		1.499.751
Ot-Las S.r.l.	2.839.196	-309.746	2.529.450	71.651			2.601.101	-309.746	2.910.847
Esthelogue S.r.l.	1.843.586	-1.574.583	269.003	10.784			279.787	-1.574.583	1.854.370
Deka Sarl	2.855.684	-2.710.401	145.283	10.784	-156.067			-2.866.468	2.866.468
Lasit S.p.A.	1.071.621		1.071.621	21.566			1.093.187		1.093.187
Quanta System S.p.A.	7.976.743		7.976.743	36.124			8.012.867		8.012.867
BRCT Inc.	1.128.446		1.128.446				1.128.446		1.128.446
Asclepion GmbH	1.082.593		1.082.593	43.672			1.126.265		1.126.265
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	23.745.471	-7.979.649	15.765.822	224.235	-156.067	0	15.833.989	-8.135.716	23.969.706

Equity investments	31/12/2017			Movements of the period			31/12/2018		
	Cost	Reval./(Deval.)	Balance 31/12/2017	Changes	Reval./(Deval.)	Other movements	Balance 31/12/2018	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	421.053			534.018	-628.747	1.162.765
Immobiliare Del.Co. S.r.l.	274.200		274.200				274.200		274.200
Total	1.017.152	-628.747	388.405	421.053	0	0	809.457	-628.747	1.438.205

The increase under the heading of “Equities in associated companies” is due to the increase in the value of the equity in Elesta Srl following the increase in capital underwritten at the end of the year.

Equity investments	31/12/2017			Movements of the period			31/12/2018		
	Cost	Reval./(Deval.)	Balance 31/12/2017	Changes	Reval./(Deval.)	Other movements	Balance 31/12/2018	Reval./(Deval.)	Cost
- other									
Concept Laser Solutions GmbH	19.000		19.000				19.000		19.000
Consorzio Energie Firenze	1.000		1.000				1.000		1.000
CALEF	3.402		3.402				3.402		3.402
R&S	516		516				516		516
R.T.M. S.p.A.	364.686	-364.686						-364.686	364.686
Hunkeler.it S.r.l.	112.100		112.100				112.100		112.100
EPICA International Inc.	888.480		888.480				888.480		888.480
Total	1.389.184	-364.686	1.024.498	0	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	**31/12/2018**	**31/12/2017**	**Variation**	**Var. %**
Deferred tax assets	2.226.387	2.532.100	-305.713	-12,07%
Other non-current assets	12.259.994	12.058.639	201.355	1,67%
Total	**14.486.381**	**14.590.739**	**-104.358**	**-0,72%**

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:

	31/12/2018	31/12/2017	Variation	Var. %
Raw materials, consumables and supplies	11.795.999	11.013.381	782.618	7,11%
Work in progress and semi finished products	8.165.008	6.973.910	1.191.098	17,08%
Finished products and goods	4.548.566	3.428.155	1.120.411	32,68%
Total	**24.509.573**	**21.415.446**	**3.094.127**	**14,45%**

The chart shows an increase in inventory of about 14% it should be recalled that the amounts shown in the chart are net of the devaluation fund as shown in the chart below.

	31/12/2018	31/12/2017	Variation	Var. %
Gross amount of Inventory	29.428.971	27.361.943	2.067.028	7,55%
Devaluation provision	-4.919.398	-5.946.496	1.027.098	-17,27%
Total	**24.509.573**	**21.415.447**	**3.094.126**	**14,45%**

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 2018 was about 17% as opposed to 22% registered on December 31st 2017. The decrease in the overall value of the fund is also due to the scrapping which occurred in 2018.

Accounts receivable (note 6)

Receivables are composed as follow:

	31/12/2018	31/12/2017	Variation	Var. %
Accounts receivable from third parties	5.609.392	7.693.984	-2.084.592	-27,09%
Accounts receivable from subsidiaries	34.463.726	28.542.363	5.921.363	20,75%
Accounts receivable from associated	642.472	315.291	327.181	103,77%
Total	**40.715.590**	**36.551.638**	**4.163.952**	**11,39%**

Accounts receivable from third parties	31/12/2018	31/12/2017	Variation	Var. %
Italy	2.176.077	1.856.194	319.883	17,23%
EEC	869.474	1.617.435	-747.961	-46,24%
ROW	3.038.805	4.694.191	-1.655.386	-35,26%
minus: bad debt reserve	-474.965	-473.836	-1.129	0,24%
Total	**5.609.392**	**7.693.984**	**-2.084.592**	**-27,09%**

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.

	2018
At the beginning of the period	473.836
Provision	223.743
Amounts utilized and unused amounts reversed	-222.614
At the end of the period	**474.965**

The chart below shows the accounts receivable from third parties divided according to the type of currency.

Accounts receivable in:	**31/12/2018**	**31/12/2017**
Euros	3.646.203	4.275.805
USD	1.963.189	3.418.179
Total	**5.609.392**	**7.693.984**

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 2018 and December 31st 2017.

The chart below shows the analysis of the accounts receivable from third parties and from subsidiary companies for 2018 and for 2017:

Accounts receivable from third parties	**31/12/2018**	**31/12/2017**
To expire	3.890.463	4.405.269
Overdue:		
0-30 days	583.786	1.790.692
31-60 days	145.526	157.848
61-90 days	438.260	238.558
91-180 days	68.798	383.570
Over 180 days	482.559	718.047
Total	**5.609.392**	**7.693.984**

Accounts receivable from subsidiaries	**31/12/2018**	**31/12/2017**
To expire	10.293.095	8.755.220
Overdue:		
0-30 days	701.964	778.768
31-60 days	524.683	512.737
61-90 days	729.206	610.875
91-180 days	1.935.551	1.786.134
Over 180 days	20.279.226	16.098.629
Total	**34.463.726**	**28.542.363**

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:

	31/12/2018	31/12/2017	Variation	Var. %
Tax receivables				
VAT receivables	1.768.369	1.431.751	336.618	23,51%
Income tax receivables	2.372.063	2.577.754	-205.691	-7,98%
Total	**4.140.432**	**4.009.505**	**130.927**	**3,27%**
Current financial receivables				
Financial receivables - third parties	63.005	130.180	-67.175	-51,60%
Financial receivables – subsidiaries	6.852.262	4.330.690	2.521.572	58,23%
Financial receivables – associated	61.565	61.565		0,00%
Total	**6.976.832**	**4.522.435**	**2.454.397**	**54,27%**
Other current receivables				
Security deposits	2.448	21.380	-18.932	-88,55%
Advance payments to suppliers	120.003	170.193	-50.190	-29,49%
Other receivables	300.178	588.477	-288.299	-48,99%
Other receivables from subsidiary companies	213.641	1.197.135	-983.494	-82,15%
Total	**636.270**	**1.977.185**	**-1.340.915**	**-67,82%**
Total Current financial receivables e Other current receivables	**7.613.102**	**6.499.620**	**1.113.482**	**17,13%**

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 excess in the amounts of down payments paid for IRES and IRAP with respect to the debt that had matured in the year and includes, besides the credit from the tax authorities, the amount of the reimbursement 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%
Cutlite Penta S.r.l.	500	Eur	BCE + 1%
Esthelogue S.r.l.	2.117	Eur	BCE + 1% (up to 1.065 thousand Euros) 4% (over 1.065 thousand Euros)
Lasit S.p.A.	1.974	Eur	BCE + 1%
BRCT Inc.	997	USD	2,50%
Deka Medical Inc.	279	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 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)

	31/12/2018	31/12/2017	Variation	Var. %
Securities and other current financial assets				
Other current financial assets	1.951.235	2.036.433	-85.198	-4,18%
Total	**1.951.235**	**2.036.433**	**-85.198**	**-4,18%**

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 last year for the purpose of a temporary use of cash. These securities have been evaluated at the market value shown on December 31st 2018, with the adaptation of the value registered in the income statement.

Cash and cash equivalents (note 9)

Cash and cash equivalents is composed as follows:

	31/12/2018	31/12/2017	Variation	Var. %
Bank and postal current accounts	26.188.529	43.368.631	-17.180.102	-39,61%
Cash on hand	6.238	4.823	1.415	29,34%
Total	**26.194.767**	**43.373.454**	**-17.178.687**	**-39,61%**

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 2018

The net financial position as of December 31st 2018 is composed as follows (in thousands of Euros).

Net financial position	31/12/2018	31/12/2017
Cash and bank	26.195	43.373
Financial instruments	1.951	2.036
Cash and cash equivalents	**28.146**	**45.410**
Current financial receivables	**63**	**130**
Bank short term loan	(4)	0
Financial short term liabilities	**(4)**	**0**
Net current financial position	**28.205**	**45.540**
Other long term financial liabilities - non current part	(488)	(488)
Financial long term liabilities	**(488)**	**(488)**
Net financial position	**27.716**	**45.052**

The net financial position decreased by about 17,3 million Euros with respect to the amount registered on December 31st 2017 and amounted to 28 million Euros, but showed a recovery in the fourth quarter and generated a net amount of about 1,3 million Euros. During the year the Company paid dividends for an amount of about 7,7 million Euros and made investments in technical assets for 3,7 million Euros. Around 0,6 million Euros were used for improvements in the existing factories, 2,3 million for the purchase, building and equipping of new production facilities in Calenzano.

It should also be recalled that in preceding years 11,5 million Euros in cash was invested in financial instruments of an insurance type that requires that they be entered as non-current financial assets; even though this represents a use of cash, this amount is not part of the net financial position. At the end of the year the fair value of the investment was 12,3 million Euros.

Financial receivables from subsidiaries and associated companies for an amount of 6.914 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 2018, 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	31/12/2017	Increase	Decrease	31/12/2018
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.

Increase of 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 2018 the share premium reserve amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2017.

Other reserves (note 12)

	31/12/2018	31/12/2017	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	87.382.029	95.059.871	-7.677.842	-8,08%
Stock option/ stock based compensation reserve	3.794.219	2.931.557	862.662	29,43%
Special reserve for grants received	426.657	426.657		0,00%
Other reserves	-106.460	-126.643	20.183	-15,94%
Total	**92.033.747**	**98.828.744**	**-6.794.997**	**-6,88%**

On December 31st 2018 the "extraordinary reserve" amounted to 87.382 thousand Euros; the decrease with respect to December 31st 2017 is due to the use for payment of dividends, in accordance with the resolution of the shareholders' meeting held on April 27th 2018.

The reserve for "*stock option/stock based compensation*" includes the amount for the figurative costs determined in compliance with IFRS 2 of the stock option plans assigned by the Company. The increase is due to the quota of the stock option plan described above that matured on December 31st 2018.

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)

Since 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, El.En. S.p.A does not own any treasury stock. The shareholders' meeting held on January 17th 2019 authorized the Board of Directors to purchase treasury stock within 18 months of the resolution, as better described in the special section of the Management report "Subsequent events".

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:	31/12/2018	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	87.382.029	ABC	87.382.029		7.677.843
Reserve for contribution on capital account	426.657	ABC	426.657		
Retained earnings	-984.283	ABC	-984.283		
Other reserves	3.687.759	AB	13.392		
			125.968.715		**7.677.843**
Portion not distributable					
Portion distributable			**125.968.715**		

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.

31/12/2017	Provision	(Utilization)	Payment to complementary pension forms, to INPS fund and other movements	31/12/2018
888.612	657.347	-142.030	-552.099	851.830

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 2018 was 854 thousand Euros.

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

Financial hypotheses	Year 2017	Year 2018
Annual implementation rate	1,30%	1,57%
Annual inflation rate	1,50%	1,60%
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 1,57% 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.

	31/12/2017	Provision	(Utilization)	Other movements	31/12/2018
Deferred tax assets on inventory devaluation	1.411.639	-	(239.581)	-	1.172.058
Deferred tax assets on warranty reserve	114.138	-	(16.458)	-	97.680
Deferred tax assets on bad debt reserve	893.691	-	(674)	-	893.017
Deferred tax assets on losses carryforwards	-	20.883	-	-	20.883
Other deferred tax assets and on IAS adjust.	112.632	-	(63.510)	(6.373)	42.749
Total	**2.532.100**	**20.883**	**(320.223)**	**(6.373)**	**2.226.387**
Deferred tax liability on advance depreciations	135.114	-	(10.644)	-	124.470
Deferred tax liability on grants on capital account	184.078	-	(47.096)	-	136.982
Other deferred tax liabilities and on IAS adjust.	156.782	-	(7.896)	(1)	148.885
Total	**475.974**	**-**	**(65.636)**	**(1)**	**410.337**
Net	2.056.126	20.883	(254.587)	(6.372)	1.816.050

Deferred tax assets amounted to about 2,2 million Euros. The main variations this year are due to the decrease in deferred tax assets calculated on inventory devaluation.

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Deferred tax liabilities amounted to 410 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” 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.

	31/12/2017	Provision	(Utilization)	Other movements	Translation adjustment	31/12/2018
Reserve for pension costs and similar	71.043	2.785				73.828
Warranty reserve on the products	407.001					407.001
Other accruals	100.000	643.292				743.292
Total	**578.044**	**646.077**				**1.224.121**

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 warranty reserve 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.

The accrual under the heading of “Other accruals” refers to the reserve for losses on equity in Cutlite Do Brasil and Deka Sarl, which, during the year, registered losses that eroded its capital.

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 technical evaluations are made on the basis of the hypotheses described below:

Financial hypotheses	Year 2017	Year 2018
Annual implementation rate	1,30%	1,57%
Annual inflation rate	1,50%	1,60%

Other potential debts and potential liabilities

On April 24th and on May 4th El.En. Spa and its subsidiary, Cutlite Penta Srl, received a citation to appear in front of the Superior Court of Hartford (Connecticut) in relation to their responsibility for damages caused in the factory of one client which was destroyed by a fire. At the time of the fire on the factory there were three laser systems produced by Cutlite Penta.

El.En. and Cutlite Penta vehemently rejected every hypothesis that considers them even remotely connected with this event.

At this time the case is just at the beginning and there are not enough elements to evaluate the eventuality of an economic risk for the two companies. In fact, no evidence has been presented and the amount of damages requested has not yet been established. In any case, for precautionary purposes, the company immediately proceeded to activate the insurance policy related to responsibility for damages caused by a product, which has a ceiling of 15.000.000 Euros for each claim. The insurance company has taken on the claim and has hired at its own expense an American lawyer to protect the rights of the companies insured.

Financial debts and liabilities (note 18)

The chart below shows the breakdown of the amounts owed:

Financial m/l term debts	31/12/2018	31/12/2017	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	31/12/2018	31/12/2017	Variation	Var. %
Amounts owed to banks	4.474		4.474	
Amounts owed to associated companies	276.608		276.608	
Total	**281.082**		**281.082**	

The entry of "Amounts owed to associated companies" refers to the residual amount owed to the associated company Elesta Srl which arose after the increase in capital stock underwritten at the end of the year.

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.

	31/12/2018	31/12/2017	Variation	Var. %
Accounts payable	9.752.407	12.476.422	-2.724.015	-21,83%
Amounts owed to subsidiary companies	800.205	900.560	-100.355	-11,14%
Total	**10.552.612**	**13.376.982**	**-2.824.370**	**-21,11%**

The chart below shows a detailed breakdown of the accounts payable to third parties divided according to the type of currency:

Accounts payable in:	31/12/2018	31/12/2017
Euros	8.800.472	11.780.536
USD	913.777	652.964
Other currencies	38.158	42.922
Total	**9.752.407**	**12.476.422**

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 2018 and on December 31st 2017.

Income tax payables /Other current payables (note 21)

The breakdown of the other current payables is the following:

	31/12/2018	31/12/2017	Variation	Var. %
<u>*Social security debts*</u>				
Debts to INPS	1.005.779	938.699	67.080	7,15%
Debts to INAIL	69.785	66.428	3.357	5,05%
Debts to other Social Security Institutions	145.798	145.232	566	0,39%
Total	**1.221.362**	**1.150.359**	**71.003**	**6,17%**
<u>*Other debts*</u>				
Debts to the tax authorities for withholding	787.487	771.382	16.105	2,09%
Other tax liabilities	1.789	2.439	-650	-26,65%
Debts to staff for wages and salaries	1.982.992	1.831.929	151.063	8,25%
Down payments	211.392	29.349	182.043	620,27%
Other debts to subsidiary companies	150.702	22.052	128.650	583,39%
Other debts	268.600	514.765	-246.165	-47,82%
Total	**3.402.962**	**3.171.916**	**231.046**	**7,28%**
Total Social security debts e Other debts	**4.624.324**	**4.322.275**	**302.049**	**6,99%**

The "Debts to staff for wages and salaries" includes, among other things, the debts for deferred salaries matured by employees as of December 31st 2018.

Analysis of debts according to due date

	31/12/2018			31/12/2017		
	<= 1 year	>1 year <= 5 years	> 5 years	<= 1 year	>1 year <= 5 years	> 5 years
Amounts owed to banks	4.474					
Amounts owed to other financiers	-	488.285			488.285	
Accounts payable	9.752.407			12.476.422		
Amounts owed to subsidiary companies	950.907			922.612		
Amounts owed to associated companies	276.608					
Social security debts	1.221.362			1.150.359		
Other debts	3.252.260			3.149.864		
Total	**15.458.018**	**488.285**		**17.699.257**	**488.285**	

Information on the Income Statement

Revenue (note 22)

	31/12/2018	31/12/2017	Variation	Var. %
Medical	49.400.074	43.111.271	6.288.803	14,59%
Industrial	12.737.145	10.949.345	1.787.800	16,33%
Total revenue	**62.137.219**	**54.060.616**	**8.076.603**	**14,94%**

The company registered a significant increase in the volume of business (about+15% with respect to 2017) in both of the sectors in which it operates, medical and industrial.

Subdivision of revenue by geographical area

	31/12/2018	31/12/2017	Variation	Var. %
Italy	41.075.148	35.483.771	5.591.377	15,76%
Europe	9.531.097	7.691.020	1.840.077	23,93%
ROW	11.530.974	10.885.825	645.149	5,93%
Total revenue	**62.137.219**	**54.060.616**	**8.076.603**	**14,94%**

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:

	31/12/2018	31/12/2017	Variation	Var. %
Other income due to Insurance refunds	62	621	-559	-90,02%
Recovery of expenses	125.423	154.470	-29.047	-18,80%
Capital gains on disposal of fixed assets	31.537	34.152	-2.615	-7,66%
Other income	797.586	625.252	172.334	27,56%
Total	**954.608**	**814.495**	**140.113**	**17,20%**

Under the heading of “Other income” we have entered grants of about 140 thousand Euros, as payment for the co-financed research project FOMEMI – *Sensori e strumenti a tecnologia FOtonica per MEdicina a MInima Invasività* REG. TOSCANA BANDO UNICO R&S 2014, Fondi della Unione Europea :POR FESR 2014-2020, Bandi RSI Bando 1 – Strategic research and development projects.

Costs for the purchase of goods (note 24)

The analysis of these purchases is shown on the chart below.

	31/12/2018	31/12/2017	Variation	Var. %
Purchases of raw materials and finished products	35.784.189	26.614.743	9.169.446	34,45%
Packaging	421.773	378.079	43.694	11,56%
Shipping charges on purchases	253.223	215.183	38.040	17,68%
Other purchase expenses	226.981	204.009	22.972	11,26%
Other purchases	50.941	26.390	24.551	93,03%
Total	**36.737.107**	**27.438.404**	**9.298.703**	**33,89%**

Direct services/ other operating services and charges (note 25)

Breakdown of this category is shown on the chart below:

	31/12/2018	31/12/2017	Variation	Var. %
Direct services				
Outsourced processing	3.976.981	2.993.320	983.661	32,86%
Technical services on products	131.904	154.903	-22.999	-14,85%
Shipment charges on sales	240.095	281.013	-40.918	-14,56%
Sale commissions	36.568	125.466	-88.898	-70,85%
Royalties	1.680	1.440	240	16,67%
Travel expenses for technical assistance	188.517	173.919	14.598	8,39%
Other direct services	456.692	339.553	117.139	34,50%
Total	**5.032.437**	**4.069.614**	**962.823**	**23,66%**
Other operating services and charges				
Maintenance and technical assistance on equipment	363.650	406.525	-42.875	-10,55%
Commercial services and consulting	198.540	109.633	88.907	81,10%
Legal and administrative services and consulting	386.724	351.655	35.069	9,97%
Audit fees	108.316	112.301	-3.985	-3,55%
Insurances (no staff cost)	155.855	194.445	-38.590	-19,85%
Travel and accommodation expenses	623.297	488.208	135.089	27,67%
Trade shows	385.030	337.458	47.572	14,10%
Promotional and advertising fees	202.746	203.841	-1.095	-0,54%
Expenses related to real estate	892.680	712.912	179.768	25,22%
Other taxes	92.165	74.154	18.011	24,29%
Vehicles maintenance expenses	284.214	271.077	13.137	4,85%
Office supplies	61.336	59.389	1.947	3,28%
Hardware and Software assistance	229.377	188.431	40.946	21,73%
Bank charges	38.248	38.830	-582	-1,50%
Leases and rentals	326.936	377.235	-50.299	-13,33%
Salaries and indemnity to the Board of Directors and Board of Auditors	567.887	758.939	-191.052	-25,17%
Temporary employment	84.633	138.972	-54.339	-39,10%
Other services and charges	2.076.167	2.100.885	-24.718	-1,18%
Total	**7.077.801**	**6.924.890**	**152.911**	**2,21%**

The most significant variations in the category of "Direct services" are related to the costs of outsourced processing due to the increase in the level of activity and sales and the costs for "Other direct services" for more technical and marketing consulting.

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 283 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	**31/12/2018**	**31/12/2017**
<= 1 year	282.818	261.915
>1 year <= 5 years	570.034	435.396
> 5 years	1.010	934
Total	**853.862**	**698.245**

These costs are mostly related to leasing contracts for company vehicles.

Staff costs (note 26)

The chart below shows the costs for staff:

	31/12/2018	**31/12/2017**	**Variation**	**Var. %**
Wages and salaries	11.352.822	11.236.415	116.407	1,04%
Social security contributions	3.256.411	3.138.894	117.517	3,74%
Severance indemnity	645.761	611.510	34.251	5,60%
Staff costs for stock options/stock based compensation	504.715	532.345	-27.630	-5,19%
Total	**15.759.709**	**15.519.164**	**240.545**	**1,55%**

The heading for "Staff costs for stock options/stock based compensation" includes the figurative costs for the stock options assigned by the company to some of the employees of the Group.

Depreciation, amortization and other accruals (note 27)

The table below shows the breakdown for this category:

	31/12/2018	**31/12/2017**	**Variation**	**Var. %**
Amortization of intangible assets	207.214	178.555	28.659	16,05%
Depreciation of tangible assets	1.096.162	1.015.635	80.527	7,93%
Accrual for bad debts	75.235	84.122	-8.887	-10,56%
Accrual for risks and charges		-15.000	15.000	-100,00%
Total	**1.378.611**	**1.263.312**	**115.299**	**9,13%**

Financial income and charges and exchange gain (loss)(note 28)

The breakdown of the category is as follows:

	31/12/2018	31/12/2017	Variation	Var. %
Financial income				
Interests income on bank and postal deposits	347.423	396.761	-49.338	-12,44%
Dividends	2.307.500	1.862.500	445.000	23,89%
Dividends from other investments		10.506	-10.506	-100,00%
Financial income from subsidiary companies	83.881	94.591	-10.710	-11,32%
Financial income from associated companies	300	300		0,00%
Interests income from current securities and financial assets	201.355	209.199	-7.844	-3,75%
Capital gain and other income from current securities and financial assets		21.553	-21.553	-100,00%
Other financial income	23.187	5.781	17.406	301,09%
Total	**2.963.646**	**2.601.191**	**362.455**	**13,93%**
Financial charges				
Capital losses and other charges on current securities and financial assets	85.198		85.198	
Financial charges - subsidiary companies	-116.318	117.898	-234.216	-198,66%
Other financial charges	11.793	13.058	-1.265	-9,69%
Total	**-19.327**	**130.956**	**-150.283**	**-114,76%**
Exchange gain (loss)				
Exchange gains	937.815	310.827	626.988	201,72%
Exchange losses	-207.945	-3.343.201	3.135.256	-93,78%
Other exchange gains (losses)	-145.700	422.286	-567.986	-134,50%
Total	**584.170**	**-2.610.088**	**3.194.258**	**-122,38%**

During this year dividends from subsidiaries were entered into accounts for an amount of about 2.307 thousand Euros distributed by the subsidiary Deka M.E.L.A. S.r.l. for 807 thousand Euros and by Quanta System S.p.A. for 1,5 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.

Other net income and charges (note 29)

	31/12/2018	31/12/2017	Variation	Var. %
Other non operating charges				
Accrual for losses in group companies	643.292	100.000	543.292	543,29%
Devaluation of equity investment	156.067		156.067	
Total	**799.359**	**100.000**	**699.359**	**699,36%**
Other non operating income				
Capital gains on equity investments		563.655	-563.655	-100,00%
Total		**563.655**	**-563.655**	**-100,00%**

The amount shown under the heading of “Accrual for losses in group companies” is related to the subsidiaries Cutlite do Brasil Ltda and Deka Sarl.

The heading of “Devaluation of equity investments” in 2018 included the devaluation operation conducted directly on the value of the equity held in Deka Sarl.

The “Capital gains on equity investments” referred to the capital gains earned in 2017 by the total sale of the equity in Imaginalis S.r.l..

Income taxes (note 30)

	31/12/2018	31/12/2017	Variation	Var. %
Income taxes - IRAP	103.455	53.181	50.274	94,53%
Deferred income taxes - IRES	219.388	5.820	213.568	3669,55%
Deferred income taxes - IRAP	14.315	-5.333	19.648	-368,42%
Charges (Income) for IRES from tax consolidation	95.832	-746.295	842.127	-112,84%
Other income tax		-4.987	4.987	-100,00%
Previous years tax	3.648		3.648	
Total	**436.638**	**-697.615**	**1.134.253**	**-162,59%**

Income taxes for this year were 437 thousand Euros as opposed to the -698 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).

	2018	2017
Profit/loss before taxes	3.250.677	(656.469)
Theoretical IRES Aliquot	24,00%	24,00%
Theoretical IRES	780.162	(157.553)
One time income tax charges	3.648	(1)
Charges (income) for IRES from fiscal consolidation	95.832	(746.295)
Participation exemption		(127.527)
Higher (lower) fiscal incidence with respect to the theoretical aliquot	(560.775)	285.912
Actual IRES	318.868	(745.464)
Actual IRES aliquot	9,81%	113,56%

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 application of the ACE exemption.

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 was held on May 15th 2017 voted to distribute a dividend of 0,40 Euros for each of the 19.297.472 shares in circulation (after the splitting operations), on the date the coupon came due. The amount of the dividend that was paid was 7.718.988,80 Euros.

The shareholders' meeting of El.En. SpA which was held on May 27th 2018 voted to distribute a dividend of 0,40 Euros for each of the 19.297.472 shares in circulation on the date the coupon came due. The amount of the dividend that was paid was 7.718.988,80 Euros.

Non-recurring significant, atypical and unusual events and operations (note 32)

For the year 2018 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 Director 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 Director 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, and the General Director

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 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 6.000 Euros, besides the incentive bonus of 4.807 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*.

Physical persons possessing an equity in El.En. SpA
The partner Carlo Raffini to whom the El.En. assigned a specific professional task for the entire year, received a salary of 27 thousand Euros; moreover, for a similar task performed for the subsidiary mDeka M.E.L.A. Srl he received 12 thousand 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 charts 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		Other receivables		Accounts receivable	
	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Asclepion Laser Technologies GmbH	984.966				1.131.325	
Deka MELA Srl					7.471.426	
Ot-las Srl			47.483		2.688.607	
Cutlite Penta Srl	500.000				14.574.408	
Esthelogue Srl	2.117.246		166.158		3.156.282	
Deka Sarl					1.665.897	
Deka Japan Ltd					970	
BRCT Inc.	996.743				62.399	
Lasit Spa	1.973.831				46.012	
Quanta System SpA					147.048	
ASA Srl					333.367	
Cutlite do Brasil Ltda					288.299	
Penta-Chutian Laser (Wuhan) Co. Ltd					3.648.296	
Deka Medical Inc	279.476				3.043.994	
Pharmonia Srl					3.660	
- Bad debt reserve					-3.798.264	
Total	**6.852.262**		**213.641**		**34.463.725**	

Associated companies:	Financial Receivables		Accounts Receivable	
	< 1 year	> 1 year	< 1 year	> 1 year
Actis Srl	30.000		1.764	
Immobiliare Del.Co. Srl	31.565			
Elesta Srl			640.708	
Total	**61.565**	**-**	**642.472**	**-**

Subsidiary companies:	Financial payables		Other payables		Accounts Payable	
	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Asclepion Laser Technologies GmbH					8.583	
Deka MELA Srl					36.907	
Ot-las Srl			4.942		135.023	
Cutlite Penta Srl					335.136	
Esthelogue Srl			145.760			
Lasit Spa					110.677	
Quanta System SpA					39.779	
Cutlite do Brasil Ltda					19.210	
Deka Medical Inc					98.467	
Penta-Chutian Laser (Wuhan) Co. Ltd					9.686	
Penta-Laser Equipment (Wenzhou) Co. Ltd					6.738	
Total			**150.702**		**800.205**	

Associated companies:	Financial payables		Other payables		Accounts Payable	
	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Elesta Srl	276.608					
Total	**276.608**	**-**	**-**	**-**	**-**	**-**

Subsidiary companies:	Purchase raw materials	Services	Other	Total
Deka MELA Srl	12.281	127.307		139.588
Ot-las Srl	127.530	3.887		131.417
Cutlite Penta Srl	9.852	8.479		18.331
Lasit Spa	498.408			498.408
Quanta System SpA	206.686	17.309		223.995
Asclepion Laser Technolohies GmbH	229.188	12.797		241.985
ASA Srl	26.500			26.500
With Us Co Ltd	5.258	368		5.626
Deka Japan Ltd		836		836
Total	**1.115.702**	**170.983**		**1.286.684**

Subsidiary companies:	Sales	Services	Total
Deka MELA Srl	29.055.022	1.013.575	30.068.597
Ot-las Srl	1.693.131	65.143	1.758.275
Cutlite Penta Srl	2.097.597	485.351	2.582.948
Esthelogue Srl	72.432	34.229	106.661
Deka Sarl	1.157.069	35.528	1.192.597
Lasit Spa	25.848	620	26.468
Asclepion Laser Technologies GmbH	529.470	215.165	744.635
Quanta System SpA	370.827	104.699	475.526
ASA Srl	1.110.914	1.221	1.112.135
Penta-Laser Equipment (Wenzhou) Co. Ltd	247.579		247.579
Cutlite do Brasil Ltda	47.215		47.215
Pharmonia Srl		2.000	2.000
Jena Surgical GmbH	223.959		223.959
Total	**36.631.063**	**1.957.531**	**38.588.594**

Associated companies:	Sales	Service	Total
Elesta Srl	850.870	20.349	871.219
Total	**850.870**	**20.349**	**871.219**

Subsidiary companies:	Other revenues
Deka MELA Srl	343.101
Ot-las Srl	98.119
Cutlite Penta Srl	24.531
Esthelogue Srl	16.971
Deka Sarl	1.838
Lasit Spa	105.654
Asclepion Laser Technologies GmbH	350
Penta Laser Equipment (Wenzhou) Co. Ltd	1.824
Total	**592.388**

Associated companies:	Other revenues
Elesta Srl	15.051
Actis Srl	1.200
Total	**16.251**

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. 84 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 214 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	17.667.944	16.643.446	94,20%
Accounts receivable	40.715.590	35.106.198	86,22%
Other current receivables	7.613.101	7.127.468	93,62%
Non current financial liabilities	488.285	-	0,00%
Current financial liabilities	281.082	276.608	98,41%
Accounts payable	10.552.612	800.205	7,58%
Other current payables	4.624.324	150.702	3,26%
Impact of related parties transactions on the income statement			
Revenues	62.137.219	39.459.813	63,50%
Other revenues and income	954.608	608.639	63,76%
Purchase of raw materials	36.737.107	1.115.702	3,04%
Direct services	5.032.437	41.606	0,83%
Other operating services and charges	7.077.801	129.375	1,83%
Financial charges	(19.327)	(116.318)	601,84%
Financial income	2.963.646	2.391.681	80,70%
Income taxes	436.638	-	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 represents about 8% 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.

The company has underwritten:

- in 2013, a bank guarantee for a maximum of 50 thousand Euros, later increased to a maximum of 100 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 2019 with possibility of extension annually.

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	Book value	Fair value	Fair value
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets				
Current financial receivables	6.976.832	4.522.435	6.976.832	4.522.435
Securities and other non-current financial assets	12.256.886	12.055.531	12.256.886	12.055.531
Securities and other current financial assets	1.951.235	2.036.433	1.951.235	2.036.433
Cash and cash equivalents	26.194.767	43.373.454	26.194.767	43.373.454
Financial debts and liabilities				
Non current financial liabilities	488.285	488.285	488.285	488.285
Current financial liabilities	281.082	-	281.082	-

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 2018 the Company possesses the following securities evaluated at fair value:

	Level 1	Level 2	Level 3	Total
Investment contracts		12.256.886		12.256.886
Mutual funds	1.951.235			1.951.235
Total	**1.951.235**	**12.256.886**	**0**	**14.208.121**

Other information (note 36)

Remuneration of directors and statutory auditors

	31/12/2018	31/12/2017	Variation	Var. %
Remuneration of directors	475.587	666.639	-191.052	-28,66%
Remuneration of statutory auditors	72.800	72.800	0	0,00%
Total	**548.387**	**739.439**	**-191.052**	**-25,84%**

Information on public financing as per art. 1, sub-section 125 of Law no. 124 of August 4th 2017 ("Annual law for the market and the competition")

Law no.124 of August 4th 2017 introduced to art, 1, sub-sections 125-129, some measures intended to insure transparency in the system of public financing; in particular, it states that companies must indicate in the Explanatory Notes of the financial statement for 2018 and in the consolidated Notes if there is one, information regarding "any subsidies, grants, paid assignments and, in any case, all economic advantages of any type received from the public administration and from the other subjects indicated in the above mentioned law".
In consideration of the fact that this regulation has raised some doubts about its interpretation and application, we have referred to the orientation suggested by the Association of the Category (ASSONIME and CNDCEC) and we believe that they are not part of the information which we are required by law to publish:

- the fees related to the sale of assets and performance of services inherent to operations conducted as part of the regular activity in the presence of synallagmatic relations managed according to market regulations, we believe do not pertain to the field of liberality;
- the general measures which can be utilized by all the companies that are part of the general structure of the system to which we refer defined by the nation (for example, ACE).
- The selective economic advantages, received from the application of a program of assistance that is accessible to all companies that meet certain requirements on the basis of predetermined criteria (fiscal facilitations and contributions, also in relation to the hiring of the disabled);
- The subsidies for training received from inter-professional funds like, for example Fondimpresa, because they are institutions financed with the contributions of the companies themselves.

Moreover, it should be recalled that since August of 2017, the National Register of State Assistance at the Ministry of Economic Development is active. At this Registry they are required to publish the assistance given by the State and the "de minimis" help issued to each company by the entities that grant the assistance and to whom we refer to further information.

Consequently, in compliance with art. 1, sub-section 125, of Law 124 of August 4th, 2017, the chart below shows the amounts received by El.En. spa this year under the heading of "subsidies, grants, contributions, paid appointments and, in any case, economic advantages of every type".

Institution granting	Institution paying	Type of facilitatio	Description	Amount
Regione Toscana	Sviluppo Toscana	Grants for Research and Development projects	POR FESR 2014-2020 – Asse Prioritario 1 – Contest for help in the investments in research, development and innovation.– Project co-financed by the Regione Toscana and named : "FOMEMI" Sensors and instruments with Fotonic technology for minimally invasive medicine.	139.810
Consortium CALEF		Paid appointment	R&D activity related to the LACER project for the part of El.En.Spa consortium. (approved for financing in the form of a grant for the expenses by MUR with *Decreto Dirigenziale* n. 04 on January 10th 2005)	57.295

We wish to point out that in the chart above we have not included economic advantages under 10 thousand Euros; this threshold must be referred to the economic advantages that the Company has received from the same institution in 2018, whether the benefit was issued in a single act or whether it was issued in several acts.

***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 2018 related to auditing services.

	Company providing the service	Receiver	note	2017 fees (Euros)
Audit	Deloitte & Touche SpA	El.En. SpA		61.239
Certification servises	Deloitte & Touche SpA	El.En. SpA	(1)	15.680
Other services	Deloitte & Touche SpA	El.En. SpA	(2)	10.000
				86.919

(1) Revision of the Non-Financial Statement
(2) Assistance in drawing up the report related to the adoption of IFRS 16

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	31/12/2018	Average of previous period	31/12/2017	Variation	Var. %
Executives	14	14	15	14	0	0,00%
Middle managers	15	13	16	16	-3	-18,75%
White collar workers	121	123	111	119	4	3,36%
Blue collar workers	90	94	83	85	9	10,59%
Total	**239**	**244**	**225**	**234**	**10**	**4,27%**

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 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. S.p.A., in conformity with art. 154-bis, sub-section 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 separate financial statement, during 2018.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the separate financial statement dated December 31st 2018:

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 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 14th, 2019

Managing Director	Executive officer responsible for the preparation of the financial statements
Ing. Andrea Cangioli	Dott. Enrico Romagnoli

Deloitte & Touche S.p.A.
Corso Italia, 17
50123 Firenze
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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, 2018, 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, 2018, 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 El.En. S.p.A. as at December 31, 2018 are Euro 29,429 thousand, net of a provision for inventory writedowns of Euro 4,919 thousand which, as explained in Note 5 to the financial statements, was estimated to align the value of the inventories to 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 disposal rate of articles in stock and by market conditions. Given the significant amount of inventories recognized in the financial statements and the uncertainties relating to the valuation process, we consider the valuation 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; - examining the appropriateness of the methods adopted by Management for the estimate as per the applicable accounting principles; - analyzing the assumptions used by Management to estimate the provision; - verifying, on a random sample basis, 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; - processing and analyzing the data to develop an accurate, independent estimate 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, 2018, 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, 2018 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, 2018 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
Neri Bandini
Partner

Florence, Italy
March 29, 2019

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 2018 which was consigned to the Board of Statutory Auditors on March 14th 2019.

During the financial year 2018 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 the 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, following a proposal by 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 2018 the Board of Auditors conducted the activities assigned to them by holding 5 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, 7 Board meetings, 5 meetings of the Risks and Controls Commission and 2 meetings of the Nominations Committee and 3 meetings 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 Shareholders meetings, 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, subsection 1 of TUF. 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 which occurred in 2018 (described in the Management Report for 2018) that the Board of Auditor's deems important to recall considering their relevance, are the following:

- On January 2nd 2018 the constitution of the Cutlite Penta Srl company became effective in which Ot-las Srl company, as part of a process of reorganization of the activities of the industrial sector of the Group, conferred to it all of the activities related to laser cutting;
- In March of 2018 the subsidiary Lasit S.p.A. concluded the purchase of an industrial building adjacent to their headquarters in Torre Annunziata for an overall amount of 3,1 million Euros.
- On April 27th 2018, the shareholders of El.En S.p.a. approved the financial statement for 2017 and voted to

distribute to the shareholders the net income (from this year and the preceding years) for an overall amount of 7.718.988,80 Euros.

- The same shareholders' meeting also proceeded to appoint the Board of Directors for the years 2018-2020 and, consequently, until the approval of the financial statement for the year 2020; they also determined that the Board should be made up of six members, and appointed Gabriele Clementi as president and Barbara Bazzocchi, Andrea Cangioli, Alberto Pecci, Fabia Romagnoli, and Michele Legnaioli as board members in compliance with the gender equilibrium required by Art.147-ter, subsection 1-ter of D.Legs 58/1998.
- On June 1st 2018, the subsidiary Deka Mela Srl sold, for an amount of 100 thousand Euros their equity of 50% in Jena Surgical GmbH to Asclepion Laser Technologies GmbH which already held the other 50%. On the same day, after this operation, Asclepion Laser Technologies GmbH incorporated Jena Surgical GmbH through a merger which had effect starting on July 1st 2018.
- On July 9th 2018 the subsidiary Quanta System S.p.A. concluded the purchase of an industrial building adjacent to their headquarters in Samarate for an overall amount of 3,2 million Euros.
- On October 5th 2018, El.En. S.p.A. underwrote their quota of 400 thousand Euros for the increase in the capital which had been approved on July 19th 2018 by the associated company Elesta Srl for a total amount of 800 thousand Euros.
- On November 6th 2018, the subsidiary Cutlite Penta Srl purchased an industrial building in the province of Prato for an overall amount of 6,2 million Euros.

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, to be effective on July 1st 2017, of the organizational structure of El.En. S.p.A. which created the new position of General Director in the person of Paolo Salvadeo. 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, Cutilite Penta S.r.l., Deka MELA S.r.l. and Esthelogue 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 not 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 on the basis of the *Norme di Comportamento del Collegio Sindacale* (Regulations for Boards of Auditors) recommended by the CNDCEC (regulation Q.1.1 relative to the self-evaluation of the board and the periodical internal process of evaluation concerning the suitability requirements for its members and the Self-disciplining Code (Applicative criteria 3.C.1).

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 meetings 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 2018.
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 2018 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 14th 2019.
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.

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 28th 2018 and examined the Deloitte’s annual Auditing Plan of El.En. S.p.a. 2018 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 2018, 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 14th 2019 and was entirely placed at the disposal of the Board of Auditors, in preparation for the shareholder’s meeting convened for April 30th 2019 for the first convocation and May 15th for the second convocation.
On March 29th 2019 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 2018.

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 2018, 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 2018 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 Auditor, Deloitte, was also charged with the following tasks during 2018, 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**	**2018 fees (thousands of euros)**
Audit	Deloitte & Touche SpA	El.En. SpA		61
Certification services	Deloitte & Touche SpA	El.En. SpA	(1)	16
Other services	Deloitte & Touche SpA	El.En. SpA	(2)	10
		Total		**87**

(1) Revision of the non-financial statement

(2) Methodological assistance in relation to the adoption of IFRS 16

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 14th 2019.

10. Omissions, reprehensible facts, opinions given and initiatives undertaken

During the financial year 2018 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 2018 and for the destination of the net income for the period as proposed by the Board of Directors.

Florence, March 29th 2019

The Board of Auditors

Dott. Vincenzo Pilla, President of the Board of Auditors

Dott. Paolo Caselli, Acting auditor

Dott.ssa Rita Pelagotti, Acting auditor