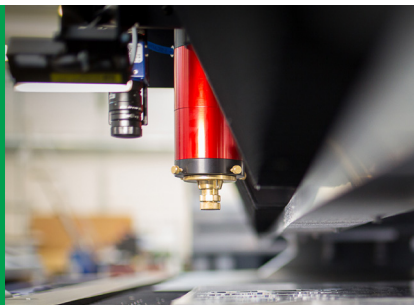


QUARTERLY FINANCIAL REPORT AS OF MARCH 31ST, 2020



EL.EN. S.p.A.

Headquarters in Calenzano (Florence), Via Baldanzese, 17
Capital stock: Underwritten and paid : € 2.546.540,36 (*)
Registry of Companies in Florence – C.F. 03137680488

(*) as of the date of approval of this document

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

CORPORATE BOARDS OF THE PARENT COMPANY

(as of the date of approval of the financial statement on March 31st 2020)

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.

ELEN. GROUP

**QUARTERLY MANAGEMENT
REPORT**

AS OF MARCH 31st 2020

Quarterly report

Introduction

This quarterly report as of March 31st 2020 for the El.En. Group was drawn up in compliance with the Regulations of the Italian Stock Market for the companies that are quoted in the STAR segment (art. 2.2.3, sub-section 3) which requires the publication of a quarterly report within 45 days after the end of each quarter, as per Notice 7587 of April 21st 2016 issued by the Borsa Italiana. Consequently, as stated in the above mentioned Notice, in relation to the contents of the Report for the quarter ending March 31st 2020, we have made reference to sub-section 5 of art. 154-ter of Legislative Decree February 24th 1998 no. 58. This document also contains the information previously inserted in the preceding quarterly reports.

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

The results as of March 31st 2020 are shown in comparative form with those for the same quarter last year. All amounts are expressed in thousands of Euros unless otherwise indicated.

Alternative Non-GAAP measures

The El.En. Group uses some alternative performance measures which are not identified as accounting measures that are part of the IFRS in order to offer a better evaluation of the performance of the Group. Consequently, the criteria applied by the Group may not be homogeneous with that used by other companies and the results obtained may not be comparable with the results shown by these latter.

These alternative performance measures, determined in conformity with the guidelines for alternative measures issued by ESMA/2015/1415 and adopted by the CONSOB with notice nr. 92543 on December 3rd 2015, refer only to the economic performance of the period being considered and those with which it is being compared.

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 **added value** 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.

As alternative performance indicators to evaluate its capacity to meet their financial obligations, the Group uses:

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

DESCRIPTION OF THE ACTIVITIES OF THE GROUP

El.En 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.

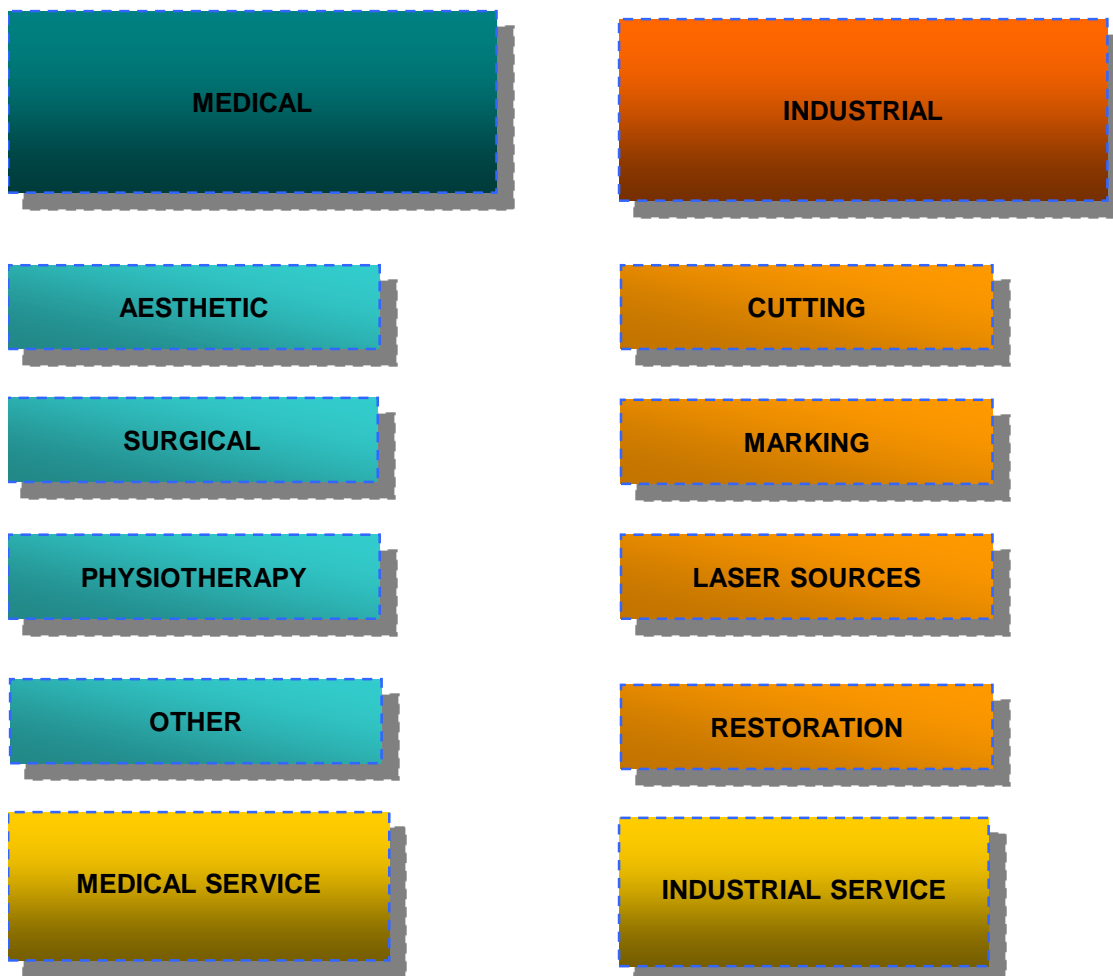
The founders, Professor Leonardo Masotti and his wife, Barbara Bazzocchi, and Ing, Gabriele Clementi, have always conducted the company and are still part of the top management.

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. Telecommunications, 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.

In 2020 the integration of the Group networks will continue: the Asclepion laser systems for aesthetic applications will be available for sale in Italy through the Renaissance network which will further reinforce its leadership in the territory, while, at the same time, the distribution network of Asclepion in Germany will offer the Deka systems. 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 mid-term 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.

Growth in the industrial sector is expected thanks to the increase in productivity and in the quality of the products along with the great flexibility that laser operations bring to numerous manufacturing processes. Although they still refer to traditional manufacturing systems, both our cutting technologies, which transform the product, and our marking systems, which identify it or decorate it, respond to specific requirements of the manufacturing sector which are increasingly requested. Another factor which contributes to the demand are the technological innovations which make the products increasingly easy to use, productive and versatile and in this way increase the range of potential customers.

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

Group financial highlights

During the first three months of 2020 the Group registered a consolidated sales volume of 73 million Euros, an EBIT of 4,5 million, and income before taxes of 4,7 million. The results show a decrease with respect to those registered for the first quarter of 2019 for reasons that are entirely due to the effects of the Covid 19 virus.

The Group began their activities in 2020 with an outlook for great development and growth in all the applicative sectors and in all the geographic areas based on the exceptional results obtained in 2019 and a highly competitive organization and position on all of our main markets. The results of all of the companies were aligned with these ambitious expectations up until the impact of the Covid virus.

Because of the global presence of the Group, the particular characteristics of their markets, and the organization of their factories, the spread of Covid 19 along with all of the preventive measures taken by the various countries in order to protect the health of their citizens had different effects depending on the timing and the geographic area.

At the end of the month of January the Chinese government began to impose the first restrictive measures: the rigid lockdown of Wuhan, the epicenter of the pandemic, the limitation of movement inside of China, and finally the more or less total lockdown in all of China. The Group owns an important manufacturing and organizational structure which, from the cities of Wuhan, Wenzhou and Lin Yi serve the Chinese market in the sector of sheet metal cutting. This structure has about 600 employees and, in 2019 represented about 22% of the consolidated sales volume of the Group and well over half of its sales volume in the industrial sector. The impossibility to produce with the factories in Wenzhou and Lin Yi closed for more than a month and that in Wuhan for more than two months, the forced closure of all of our clients operating in this activity comported a reduction in sales of about 70% with respect to those registered in the first quarter of 2019, with the consequent operating loss registered for the volume of revenue which was not even close to breaking even.

From the point of view of the impact on the results for the first quarter of 2020, the trend of the Chinese companies was the one that had the greatest effect on the sales volume and profitability. On the other hand, since China was the first country to be hit by the pandemic and was the one that suffered the greatest impact but, all things considered, limited to just a part of their territory, to the extent that we have been able to register so far, China also has been the first and most decisive in returning to the pre-Covid levels of activity.

In the rest of the world record growth was registered in the months of January and February both in the medical and industrial sectors with a very significant portfolio of orders and the prospect of continued growth in the months to follow. At that time in China we were going through the experience of forced closure without knowing that within a few days, first in Italy and then in the other major Western countries, they would be obliged to impose restrictions of the same type as the Chinese ones.

The escalation of the various restrictive measures in Italy and the other countries had a serious impact on all of the activities of the Group. In the manufacturing structures we immediately adopted all of the safety and prevention measures required to protect the health of our employees: we limited the presence of workers in the company by using smart working where possible, we sanitized the rooms, we rigorously respected the safety distances and we measured the temperature of all the employees as they entered the company.

In the medical sector, the factories continued to work full time for all of the month of March with the exception of Quanta System which is located in the area which is the epicenter of the pandemic and, in order to protect the health of the workers and their families, decided to suspend production in the second half of March.

The direct distribution activity first in Italy and then in France was interrupted by government decree and because these same decrees interrupted the activity of all our clients in the medical and aesthetic sector. Production and sales activity continued at full speed until the lockdown in the countries of our clients, mainly the United States, began to cause requests for suspension and delays in the deliveries of current orders. The clients in the surgical sector and, in particular in the urological field, which depends less on the sector of personal services which was totally closed by the lockdown, was the one that was least influenced by these circumstances.

None of the companies in the Group had to completely cease their activities. Functions like quality, research and development, engineering, accounting and marketing used “smart working” with reduced hours, while a physical monitoring of customer assistance in order to solve service problems, shipment of spare parts, maintenance of the computer network which was subjected to overtime, were all continued in the company.

During the month of April and the first half of May we were able to only partially resume activities for direct sales in Italy and France, while awaiting new decrees which would allow our clients to reopen. The volume of sales to our

international distributors suffered a major decline since our distributors found themselves in the same position as we were, with the clients forced to close, which again in this case, had a greater impact on the aesthetics sector than the surgical one.

For our German company, Asclepion, which is located in Jena, there was a slight drop in demand and they continued to work using all of the necessary precautions including working in shifts, so that their activity was never interrupted. Our distributing companies in Japan were able to work for the first three months of the year in conditions that were almost normal and only when the lockdown was imposed in a few regions did they suffer limitations in their operations, although nothing as drastic as those in China and Italy since most of their aesthetic centers remained open and continued to operate.

In the industrial sector which was going through a phase of rapid growth, the ban on manufacturing activities prevented our company and, in particular, Cutlite Penta, from concluding numerous sales. In this sector also, no orders had been cancelled. In fact, once they had received authorization to start up production again, always with the maximum protection of the health of the workers who were involved in the phases of manufacture and installation, in some applicative segments like sheet metal cutting, we found that the demand remained high while in other segments the recovery was not so strong.

The sales activity in Brazil where we have a manufacturing structure dedicated mainly to servicing the huge number of installations in that country, was interrupted and this prevented them from continuing the rapid growth that they had shown in the last few months.

At this time it is difficult to evaluate what might be the evolution of our markets in the next few months, as they emerge from the lockdown phase and enter a phase of transition and co-existence with Covid, if and when we will return to normal or if we will move on to a new normality. In the medical sector, on the Italian market which we serve with networks for direct sales, with the clients who are still not yet operative, there are signs of great impatience from the customers who can't wait for them to go back to full operations. This clientele, even during the lockdown phase was encouraged by us and involved in numerous creative activities by means of the web, like webinar, for example, which drew the attention of hundreds of clients and potential clients to training activities and the presentation of new products. On the international markets where we operate through distributors, it is still too early to evaluate the effect of the reopening on the recovery in the demand for our systems. In the industrial sector, which was the sector hardest hit by the closures which completely blocked all of their activity, signs of recovery appear to be quite convincing.

Activities for the development of new products continued during this period so that a series of new systems for various applications was made available for sale. The commercial launching of these products was planned for the beginning of the year when the fairs and symposiums take place since these events traditionally represent the ideal time for sharing the latest products with the market: the Cosmoprof for professional aesthetics, Laser China for sheet metal cutting systems, the Anti-Aging congress in Montecarlo for aesthetic medicine, the AAD (American Academy of Dermatology) for dermatology and the American market. All of these events were either cancelled or postponed. In any case, the products were launched using web instruments like webinar and web TV. Among the novelties launched during this period, we should mention Red Touch by Deka for vascular applications, the important innovation in the applicators of Onda's system *Coolwaves* for body contouring which make it possible, among other things, to conduct submental treatments, and the addition of new applicators for the Motus and Luxea systems which make them even more effective and versatile in particular for vascular applications. Asclepion has just perfected new emission modes for the Picostar system which have just been released for sale, and which further extend the potential of the system for the treatment of pigmented lesions.

As far as costs are concerned, some categories of expenses were reduced due to the impossibility of travelling and participating in fairs and symposiums. This produced a positive effect on the quarterly income statement and this effect will continue for as long as there are limitations on national and international travel. These expenses however are highly productive and in their absence there will be a major reduction in promotional activity which, along with all of the other effects of the limitations imposed by the Covid virus, will not have a positive effect on the future acquisition of orders. As far as staff costs are concerned, in China they do not have a social security system equivalent to our payment system for layoffs and the government has only recognized a decontribution of the wages for a few months (with a contribution level which is much lower than the Italian one). In Italy, in the month of March in some of the factories we had already requested the layoff payments for our workers which still involves all of the companies of the Group.

The chart below shows the income statement for the first quarter of 2020, shown in comparative form with the analogous results for last year.

Income Statement	31/03/2020	Inc %	31/03/2019	Inc %	Var. %
Revenues	72.945	100,0%	83.865	100,0%	-13,02%
Change in inventory of finished goods and WIP	9.742	13,4%	4.172	5,0%	133,52%
Other revenues and income	914	1,3%	444	0,5%	105,81%
Value of production	83.601	114,6%	88.481	105,5%	-5,52%
Purchase of raw materials	51.173	70,2%	50.874	60,7%	0,59%
Change in inventory of raw material	(6.096)	-8,4%	(2.558)	-3,0%	138,36%
Other direct services	7.012	9,6%	6.935	8,3%	1,11%
Gross margin	31.512	43,2%	33.229	39,6%	-5,17%
Other operating services and charges	8.773	12,0%	9.867	11,8%	-11,09%
Added value	22.738	31,2%	23.362	27,9%	-2,67%
Staff cost	15.661	21,5%	15.682	18,7%	-0,13%
EBITDA	7.077	9,7%	7.679	9,2%	-7,84%
Depreciation, amortization and other accruals	2.579	3,5%	1.954	2,3%	32,00%
EBIT	4.498	6,2%	5.726	6,8%	-21,43%
Net financial income (charges)	317	0,4%	783	0,9%	-59,50%
Share of profit of associated companies	(106)	-0,1%	(74)	-0,1%	43,15%
Other non-operating income (charges)	0	0,0%	0	0,0%	
Income (loss) before taxes	4.710	6,5%	6.435	7,7%	-26,81%

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

Net financial position	31/03/2020	31/12/2019
Cash and bank	69.916	97.031
Financial instruments	0	2.127
Cash and cash equivalents	69.916	99.158
Current financial receivables	14	84
Bank short term loan	(14.687)	(11.794)
Part of financial long term liabilities due within 12 months	(4.337)	(4.913)
Financial short term liabilities	(19.024)	(16.706)
Net current financial position	50.905	82.535
Bank long term loan	(14.679)	(11.802)
Other long term financial liabilities - non current part	(8.749)	(9.314)
Financial long term liabilities	(23.428)	(21.116)
Net financial position	27.477	61.419

Operational performance

The chart below shows the subdivision of the sales volume for the first three months of 2020 according to the sector of activity of the Group, compared with the same subdivision for the same period last year.

	31/03/2020	Inc %	31/03/2019	Inc %	Var. %
Medical	53.518	73,37%	49.814	59,40%	7,44%
Industrial	19.426	26,63%	34.051	40,60%	-42,95%
Total revenue	72.945	100,00%	83.865	100,00%	-13,02%

There was a significant decrease in the overall sales volume which amounted to 13% with the medical sector growing by 7% and the industrial sector dropping sharply.

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

	31/03/2020	Inc %	31/03/2019	Inc %	Var. %
Italy	11.532	15,81%	15.507	18,49%	-25,64%
Europe	18.709	25,65%	16.508	19,68%	13,33%
ROW	42.704	58,54%	51.849	61,82%	-17,64%
Total revenue	72.945	100,00%	83.865	100,00%	-13,02%

The effects of the Covid virus totally blocked all sales in China for more than two months and this is the reason for the decrease in sales outside of Europe. Even more significant is the drop in sales in Italy, where in the month of March the sales in both the medical and industrial sectors were completely blocked. The European area on the other hand showed excellent growth, with a trend that was in line with the pre-Covid expectations, since we were able to make deliveries to the distributors up until the end of March, when the lockdown in all of Europe became effective in the month of April.

For the medical and aesthetic sectors, which represent more than 73% of the sales of the Group, the results in the various segments are shown on the chart below.

	31/03/2020	Inc %	31/03/2019	Inc %	Var. %
Aesthetic	28.531	53,31%	25.392	50,97%	12,36%
Surgical	11.097	20,73%	11.147	22,38%	-0,45%
Physiotherapy	2.060	3,85%	2.671	5,36%	-22,90%
Others	230	0,43%	217	0,44%	5,59%
Total medical systems	41.917	78,32%	39.428	79,15%	6,31%
Medical service	11.602	21,68%	10.385	20,85%	11,71%
Total medical revenue	53.518	100,00%	49.814	100,00%	7,44%

Despite the unfavorable conditions, the medical sector this quarter registered a growth in sales volume of about 7,5% with respect to that shown for the same period last year.

Attention should be called to the two-digit growth in the segment of aesthetics and for service which, considering the circumstances, are remarkable. In the aesthetics sector one should note the excellent trend in the first three months of the Japanese market, one of the least affected by the Covid virus. A decrease was also shown in the physical therapy sector which was hit before the others with a drop in demand, while the surgical segment is substantially stable and represents a result which is worse than average in this sector, but which should be transformed into one that is better than average in

the next few months due to the lesser impact of the Covid on the demand for surgical systems as opposed to those for aesthetics.

In relation to the sales in the surgical segment, those for applications in urology registered an increase this quarter both for systems and single and multi-use optical fibers that are used for surgical operations.

Customer assistance service maintained a growth rate of over 10% thanks to the full-risk maintenance contracts and the upgrades sold on the Japanese market and the sale of optical fibers for urological applications.

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

	31/03/2020	Inc %	31/03/2019	Inc %	Var. %
Cutting	12.854	66,17%	25.337	74,41%	-49,27%
Marking	3.440	17,71%	4.160	12,22%	-17,30%
Laser sources	752	3,87%	1.248	3,67%	-39,76%
Conservation	228	1,17%	70	0,20%	226,98%
Total industrial systems	17.274	88,92%	30.815	90,50%	-43,94%
Industrial service	2.153	11,08%	3.236	9,50%	-33,48%
Total industrial revenue	19.426	100,00%	34.051	100,00%	-42,95%

The sales volume in the industrial sector shows an overall decrease of 43%, and registered a drop between 30% and 50% in all the main segments. In general, the amount of the decrease in the sales volume for the quarter is in proportion to the length of downtime that each activity had to deal with. The decrease was greatest in the cutting sector in China and then in Italy, and relatively minor in the other segments of activity outside of China that came to a halt only for the month of March.

The excellent trend in the little segment of restoration is only a partial consolation for the negative results of this sector.

The following are comments on the Income Statement:

The gross margin was 31.512 thousand Euros, a decrease of 5,2% with respect to the 33.229 thousand Euros shown on March 31st 2019 on account of the decrease in sales volume.

The incidence of the gross margin on sales increased from 39,6% on March 31st 2019 to 43,2% on March 31st 2020. The increase is due mainly to the change in the mix of sales with a drop in the sales volume in the industrial sector which registered margins that were lower with respect to the medical sector, in particular in the cutting segment which showed a greater decrease. It should also be noted that the income registered in China for grants to the research activity during this quarter amounted to 0,7% of the sales volume.

The application of the regulations in compliance with accounting standard IFRS 15 on the revenue did not determine any material effects during this quarter.

The costs for operating services and charges were 8.773 thousand Euros showing a decrease with respect to the 9.867 thousand Euros shown on March 31st 2019. Their incidence on the sales volume was practically unchanged, showing an amount of 12% with respect to the 11,8% for the first quarter of 2019. The savings are derived mainly from the limitations in travel and the cancellation of events like trade fairs and symposiums, as well as the reduction in the volume of activity and the decrease in the amounts spent on travel logistics and overhead. Unfortunately, most of these savings are related to highly productive expenses and we would have preferred to avoid them.

The staff costs were 15.661 thousand Euros, and were practically unchanged with respect to the 15.682 thousand Euros shown on March 31st 2019, with an incidence on the sales volume which increased from 18,7% in the first quarter of 2019 to 21,5% on March 31st 2020. The reduction in the cost, thanks to the adoption of the layoff in the Italian factories will be significant in the second quarter, while in the first quarter it has had a limited impact. For the Chinese companies there was no significant contribution offered to help the difficulties of the personnel obliged to remain at home because of the interruption of the activity.

As of March 31st 2020, there were 1.526 employees in the Group, an increase with respect to the 1.498 on December 31st 2019. The new employees were hired by the Chinese companies, by some of the Italian subsidiary companies and by the Parent Company, El.En.

A large portion of the personnel expenses is directed towards research and development costs, for which the Group receives grants and reimbursements in relation to specific contracts underwritten by the institutions created for this purpose. On account of the stock options/stock based compensation for employees and collaborators, the income statement includes among the staff costs the figurative cost calculated for the stock option plans: for the first quarter, the overall costs were 50 thousand Euros with respect to the 143 thousand Euros booked during the same period last year.

Consequently, the EBITDA amounted to 7.077 thousand Euros, a decrease of 7,8% with respect to the 7.679 thousand Euros shown on March 31st 2019.

The incidence of the EBITDA on the sales volume remained practically unchanged at 9,7% with respect to the 9,2% shown on March 31st 2019.

The costs for amortizations, depreciations and accruals showed an increase, rising from 1.954 thousand Euros on March 31st 2019 to 2.579 thousand Euros on March 31st 2020, with an incidence on the sales volume which rose from 2,3% to 3,5%. The depreciations rose on account of the important investments made during 2019. The accruals are more significant than usual in order to represent in the fairest way possible, the potential deterioration of some bad debts.

The EBIT therefore amounted to 4.498 thousand Euros, a decrease with respect to the 5.726 thousand Euros del March 31st 2019, with an incidence on the sales volume which dropped to 6,2% from 6,8% for the same period last year.

The financial income amounted to 317 thousand Euros with respect to the 783 thousand Euros registered for the same period last year. A lesser positive effect was shown for currency exchange.

The income before taxes amounted to 4.710 thousand Euros, a decrease with respect to the 6.435 thousand Euros shown on March 31st 2019.

Financial position and investments

Comments on the net financial position

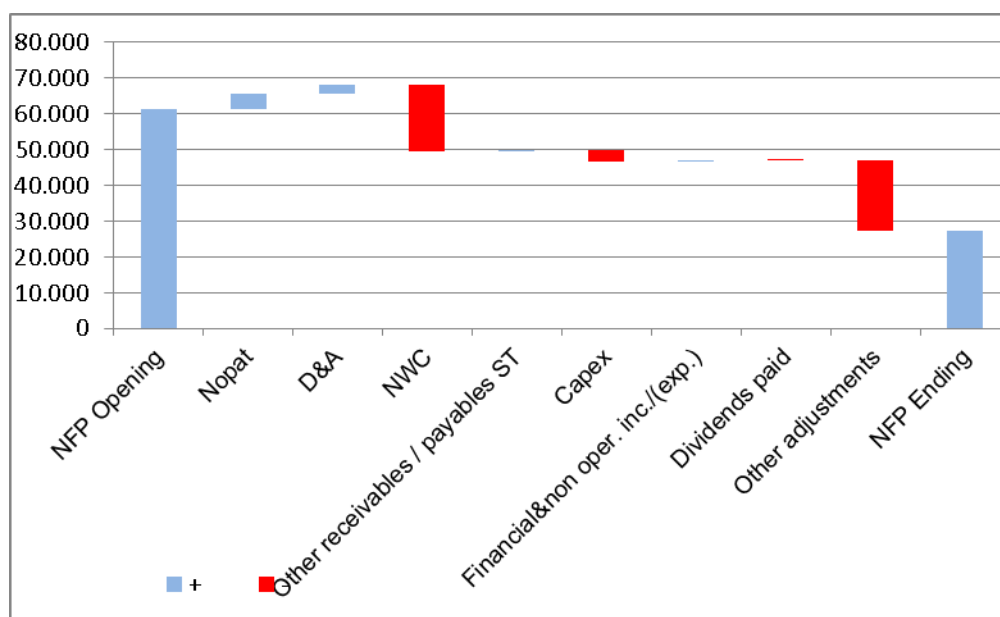
The net financial position decreased by about 34 million, from 61,4 million on December 31st 2019 to 27,4 million on March 31st 2020.

About 20 million in cash was spent for the acquisition of a minority share of Penta Laser Wenzhou, which has become the Parent Company of all our companies in China in the industrial sector; this operation was part of a major plan to expand the manufacturing activity and the development of products to better serve the local market from which an increase in demand is expected. The payment of the remaining sum for the acquisition was paid at the start of the Chinese New Year which also marked the start of this very troubled period for China and for the rest of the world afflicted by the tragic event of Covid 19. Our confidence in the mid-term future of this business unit remains unchanged in the conviction that the difficulties caused by the pandemic will be overcome although not necessarily in a short time.

The increase in the net working capital comported the use of cash for an amount of about 18,5 million, especially on account of the increase in the value of the inventory. This was the result of the sudden interruption of the manufacturing activities first in China and then in the rest of the world, in the presence of a considerable number of orders which, in order to fill, we had already made all the necessary purchases, in consideration of the duration of our production cycles.

The amount of investments in fixed assets was about 3,2 million, a decrease with respect to the first quarter of 2019. The investments in the enlargement of the manufacturing structures were in fact, less than in preceding years since most of the new structures had already been or were about to be completed. During this quarter, costs were sustained at Jena, Lin Yi, Wenzhou and Torre Annunziata.

The graph below shows the determining factors in the variations of the net financial position (data expressed in thousands of Euros).



It should also be recalled that 11,5 million Euros in cash was invested in previous years by the Parent Company El.En. in financial instruments of an insurance type which, because of their characteristics do not have to be entered among the non-current financial assets and last year the subsidiary company Quanta System for 2,5 million Euros in similar financial instruments; although these investments represent a use of cash, they are not part of the net financial position. At the end of this period the total fair value of the investments was 14,9 million Euros.

Gross investments made this quarter

The chart below shows the gross investments made this quarter.

	31/03/2020	31/03/2019
Intangible assets	167	128
Tangible assets	3.156	4.521
Financial fixed assets	20.130	
Total	23.453	4.649

The investment plan that was aimed at enlarging the operative structures of the Group was mostly completed in 2019. We are still in the process of completing some of the buildings at the new factory in Wenzhou, the installation of a part of Lasit's building in Torre Annunziata and the new department for the manufacture of mid-powered laser sources in Calenzano.

The above mentioned investment in financial fixed assets for an amount of 20 million refers to the acquisition of 29,7% of Penta Laser Wenzhou by the minority shareholders.

Comments on Research and Development

Despite the considerable difficulties created by the emergency of the Covid pandemic, during the first quarter of 2020 we continued our intense activity of Research and Development for the purpose of creating new applications for lasers and for other light sources, both in the medical sector and the industrial sector (which includes applications for the restoration of works of art) and to place on the market products that are innovative because of the performance of the devices and/or the technologies that are used.

In general, for highly technological products in particular, the global market requires that the competition be met by rapidly and continually placing on the market completely new products and innovative versions of old products with new applications or improved performance which use the most recent technologies and components. 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 electromagnetic waves, mainly from laser light with biological materials by running tests and preliminary verifications in the laboratories that were specifically created for this purpose at the El.En headquarters. For the applications in industry and for the conservation of works of art, they also study the interaction between electromagnetic waves 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 that are highly innovative and consequently represent major entrepreneurial risks; they are, however, typical of our international status and 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. The research which is conducted is applied for most of the activities, while it is basic for some specific subjects generally related to highly innovative objectives with mid- to long-terms.

The research is sustained by our own financial resources and, in part, by research contracts received from the institutions create for this purpose operating for 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 one of the few companies in the world that produces such a vast range of laser sources, in terms of the different type of active agent (liquid, solid, semiconductor and gas mixture) with different wave lengths, various power versions and, in some cases, using various manufacturing technologies. Consequently, research and development activity has been directed to many different systems and subsystems and accessories. Without going into excessive detail, a description of the numerous sectors in which the research activities of the Parent Company and some of the subsidiary companies have been involved is given below.

Systems and applications for lasers in medicine

The Parent Company **El.En.**, in collaboration with **DEKA** and, more recently, **Quanta System**, have been active conducting research on biological samples and cell cultures in the laboratory and clinical experiments for applications in medicine, in devices and sub-systems based on the use of electro-magnetic energy. There are numerous applications in the fields of general surgery, otolaryngology, aesthetic medicine, gynecology, dermatology and skin ulcers.

An application that is extremely important and has already obtained considerable commercial success, is related to urogynecology with the *Monna Lisa* (or *Mona Lisa*, depending on the country) Touch treatment to reduce the effects of the atrophy of the vaginal mucous. The atrophy of the vaginal mucous is a widespread and debilitating condition with interaction with other pathologies and afflicts a high percentage of women in menopause or younger women affected by tumors for which, in order to avoid a re-occurrence, they have used therapies which affect the hormonal balance and cause a kind of premature menopause. We are convinced 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 as leaders in the field.

Clinical studies conducted by prestigious research centers in the United States and in Italy have repeatedly confirmed that this laser treatment is effective, safe and without any negative collateral effects. We are now conducting further research aimed at improving our knowledge of the action mechanisms to develop new applications of laser biostimulation or, as is now being affirmed, photobiomodulation. The results of research conducted in the last few years which have been presented at numerous symposiums at a national and international level, have been validated by specific reviewers and published in international scientific journals which consequently represent the public and indisputable scientific validity of the results and the increased commercial credibility of the equipment used.

The evaluation of the results of the treatments and the information which is derived from them for the improvement of the conditions for the use of the equipment are based mainly on histological and histochemical methodologies of light microscopy including interferential and laser confocal, and on electronic transmission microscopy which is able to discriminate ultrastructural modifications up to 0,2 nanometers resolution. Along with these methods there are also others, with molecular cytology, immunohistochemical, and computerized morphometry; this latter makes it possible to quantitatively evaluate the difference induced by the treatments on the structure of the tissues and the cells.

The modifications which can be identified after the treatments represent the mirror of the functional adaptations which are a consequence of the effects of the stimulation, and therefore one can demonstrate, for example, a new synthesis of collagen, an increase in the amorphous matrix of connective tissue and an increase in the blood capillaries, which define a greater amount of nutrients arriving in the tissues and an improved diffusion towards the epithelium for a better support or the renewed state of health. Besides the nutrients, several different growth and stimulation factors are released in the turnover of molecular regulator components essential for a new functional balance in the tissues and the organs.

Moreover, this research must also guarantee complete safety in the use of the equipment and be able to identify, if present, possible adverse reactions in the tissues like dead cells (necrosis), a massive mobilization of the immune system, the uncontrolled activation of cell growth, and suggest modifications to the set up of the equipment. In particular, for vaginal atrophy (Vulvo-vaginal syndrome) we have conducted the analysis of numerous biopsy specimens of atrophied vaginal mucous after the treatment with Mona Lisa Touch, and four years after the first treatment with computerized morphometry evaluations of the regenerative phenomena of the single tissues and of the mucous complex.

For the treatment of UTI (urinary tract infections) we have conducted preliminary tests to evaluate the feasibility and the effectiveness of the CO₂ laser, on the basis of a study of the specific embryonic development of the bladder trine, which is the location of active colonies of bacteria which can be decimated by lasers.

For a new laser which emits in the red with ultra-short impulses and tissues (epidermis and dermis) studies have been conducted for the characterization and dosage by Photo Bio Lab at El.En. We have completed the development of laser equipment for dermatology called "RED TOUCH" and have requested an international patent for the device and for the method in the USA.

Moreover, exceptional results are being obtained for the treatment of chronic wounds and lesions at several different centers using the CO₂ with particular technical performance which has been further specialized with respect to the equipment used for treatments like Mona Lisa Touch.

We have continued the study of new equipment and new accessories in the sector of aesthetic medicine including those for hair removal applications and body shaping.

Now that we have received FDA clearance for the Luxea platform, we have been able to continue gathering clinical data which confirms the methodology of the equipment whose performance makes it possible to obtain a wide range of various applications in aesthetic medicine: in this platform we have integrated the main laser sources for many applications. The level of integration and management have been recognized by the experimenters and by the first clients that purchased it. EC certification and that from other non-European countries have already been obtained.

With the high resolution vision system with multispectral illumination for images including three-dimensional ones, which has been developed with the research project called FOMEMI (Sensors and Instruments with photonic technology for minimally invasive medicine) we have continued research with which we intend to obtain data for the treatment of chronic pathologies of diabetic feet. 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 and document the evolution over time during the various therapeutic sessions.

We have continued to gather objective data for the clinical evaluation of the results to enrich the specific scientific literature related to our innovative system for "Body Shaping", *Onda Coolwaves*. We have continued the study of a new instrument system for acquiring position and motion data used to guide the operator in the maneuvering of the applicators in order to guarantee the greatest uniformity of treatment in the area involved.

The development of a new model of RF feeder for exciting a sealed CO₂ source for medical applications (surgical and dermatological) that are directly integrated on the laser source for the purpose of reducing the volume and the cost of the complete system, has made it possible to create the Punto system with the applicative method of *Coolpeel* which is

revolutionizing the field of micro-ablation treatments for skin rejuvenation. Activities for obtaining PCT approval for the recognition of patentability are now in progress.

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

We have presented requests for new patents at the patent offices in Italy and other countries.

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 for medical therapy in urology also through the creation of sources with emission characteristics that are able to further improve the performance of the system currently available on the market.

We have continued experiments on innovative applications in the field of gastroenterology.

At Asclepion they have continued the development activities that are part of a strategy of updating of all the systems in the catalog which includes a new philosophy of user interface, new electronics and new design.

Our associated company Accure Acne Inc. obtained the EC brand for the Accure Laser™ system for the treatment of patients with moderate acne vulgaris. Accure Laser is the first laser platform in the world developed to selectively strike the sebaceous glands which are the source of sebum and the key to an effective and long lasting treatment of acne.

Asa has continued the clinical experimentation and validation of the therapeutic effectiveness of their equipment for physical therapy using their own research structure, ASAcampus, which characterizes the high scientific content of the documentary corpus for clinical reference for the Asa instruments.

They have developed an automatic recognition system for blood vessels for vascular treatments using a camera, and started experimentation.

Laser systems and applications for industry

At **El.En.** they have continued the perfecting of the range of sealed mid-powered CO₂ sources and the applicative experimentation on the first series examples of the Blade RF1222 sources which, with 1200 Watt is currently the most powerful in the range.

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

They have optimized the FIRMW systems for dynamic scanning performance in order to obtain an incremental precision.

At **Cutlite Penta** they have continued experimentation on a new line of machines and 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 fluo-dynamic and sensoristic developments of our EVO2 cutting heads made it possible to introduce levels of laser power over 15kw into the range of products. They have developed and released on to the market systems for tube cutting.

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.

The development and amplification of a range of machines for making American dies also continued, a field in which Cutlite Penta has always been a world leader.

At **Ot-las** they have continued experimentation on the use of the new source, El.En's CO₂ RF1222 and on the special scanning optics. 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:

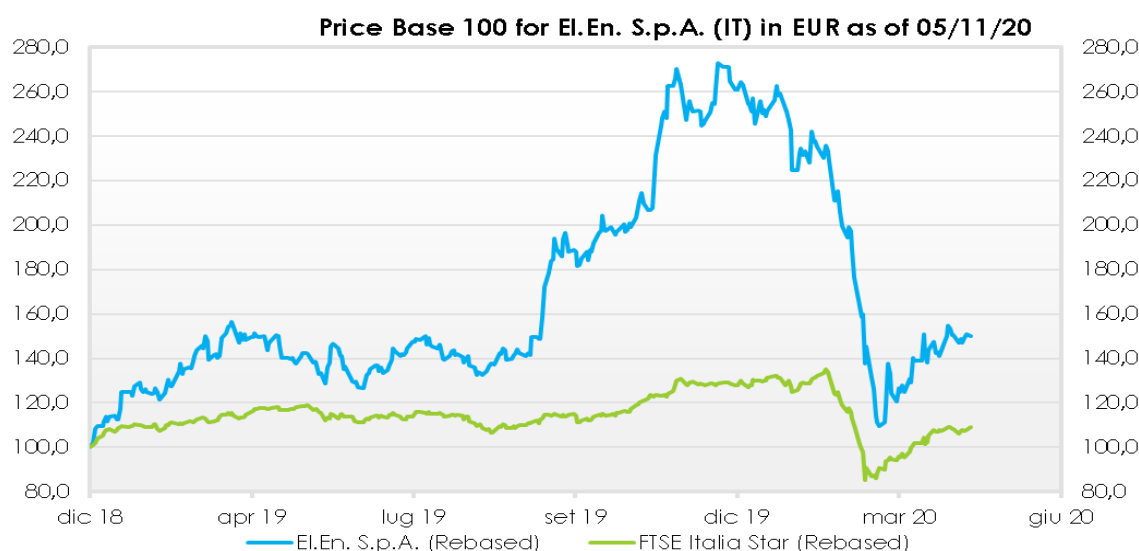
Thousands of Euros	31/03/2020	31/03/2019
Staff costs and general expenses	2.509	2.685
Equipment	116	84
Costs for testing and prototypes	714	975
Consultancy fees	308	140
Other services	10	20
Intangible assets	-	7
Total	3.657	3.912

Following the usual company policy, the expense shown in the chart have all been entered in the operating costs since it is not possible to make a reasonable estimate of the investment.

The amount of expenses sustained this quarter 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.

Trend of El.En. stock

The graph below shows the performance of the stock:



Other information

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

Significant events which occurred during this quarter

On January 3rd 2020 the new business license of Penta Laser Wenzhou was registered at the Chamber of Commerce of Wenzhou; this license records the acquisition of a further quota of 29,7% of the company by Ot-las. The amount paid for this quota was about 20 million Euros which was paid within the next 15 days once the authorization of the Chinese institution for the importation of currency had been received. An earn out of 40 million Renminbi (about 5 million Euros at the current Exchange rate) will be paid under certain circumstances and, specifically, if there is an IPO of Penta Wenzhou within 5 years of the agreement.

The percentage of ownership of 83,23% acquired through this operation in Penta Wenzhou is therefore relative to the group of Chinese activities which are now controlled 100% by Penta Wenzhou, that is, Penta Chutian of Wuhan and Penta Shandong of Lin Yi. With the decrease in the power of the minority shareholders, the Group believes that they can improve the opportunities for development and growth of the operative structure in terms of the manufacturing and commercial capacity that has been organized and expanded in China in recent years and they are confident that the setback caused by Covid 19 can be overcome and the positive trend which characterized recent years will be recovered.

Subsequent events

On April 24th the Board of Directors of the Parent Company voted to suspend the distribution of dividends.

Starting in the middle of the month of March, to reduce costs in order to deal with the sudden drop in demand, all of the companies in Italy have made use of *Cassa Integrazione* (a system paying lay-off benefits) in compliance with the government decree. Dekka Sarl in France also made use of the same institution.

In the section of this document devoted to the financial highlights, there is a description of the evolution of our activities in the presence of the Covid 2019 emergency.

Current outlook

The evolution of the Covid 19 pandemic and its effects on daily life and on the economy are still very uncertain; we do not yet have a clear idea concerning when and if there will be a return to normality or what the “new normality” may consist of.

The trend for the first six weeks of the second quarter of 2020 tends to indicate a significant slowdown in the sales in the medical sector and a rapid recovery in those in the industrial sector.

This situation does not allow us to make a more precise estimate regarding the trend of the financial results of the Group until conditions have become more stable.

For the Board of Directors

The Managing Director
Ing. Andrea Cangioli

Appendix “A”: List of consolidated companies as of March 31st 2020

Subsidiary companies

Company name	Headquarters	Percentage held			Consolidated percentage
		Direct	Indirect	Total	
<u>Parent company</u>					
El.En. S.p.A.	Calenzano (ITA)				
<u>Subsidiary companies</u>					
Ot-Las S.r.l.	Calenzano (ITA)	96,65%		96,65%	96,65%
Cutlite Penta S.r.l.	Calenzano (ITA)		100,00%	100,00%	96,65%
Deka Mela S.r.l.	Calenzano (ITA)	85,00%		85,00%	85,00%
Esthelogue S.r.l.	Calenzano (ITA)	50,00%	50,00%	100,00%	100,00%
Deka Sarl	Lione (FRA)	100,00%		100,00%	100,00%
Lasit S.p.A.	Torre Annunziata (ITA)	70,00%		70,00%	70,00%
Quanta System S.p.A.	Milano (ITA)	100,00%		100,00%	100,00%
Asclepion GmbH	Jena (GER)	50,00%	50,00%	100,00%	100,00%
ASA S.r.l.	Arcugnano (ITA)		60,00%	60,00%	51,00%
BRCT Inc.	New York (USA)	100,00%		100,00%	100,00%
With Us Co., Ltd	Tokyo (JAP)		78,85%	78,85%	78,85%
Deka Japan Co., Ltd	Tokyo (JAP)	55,00%		55,00%	55,00%
Penta-Chutian Laser (Wuhan) Co., Ltd	Wuhan (CHINA)		100,00%	100,00%	80,44%
Penta-Laser Equipment Wenzhou Co., Ltd	Wenzhou (CHINA)		83,23%	83,23%	80,44%
Cutlite do Brasil Ltda	Blumenau (BRASIL)	98,27%		98,27%	98,27%
Pharmonia S.r.l.	Calenzano (ITA)	100,00%		100,00%	100,00%
Deka Medical Inc.	San Francisco (USA)		100,00%	100,00%	100,00%
Merit Due S.r.l.	Calenzano (ITA)		100,00%	100,00%	96,65%
Galli Giovanni & C. S.r.l.	Cassano Magnago (ITA)		70,00%	70,00%	70,00%
Penta Laser Technology (Shangdong) Co., Ltd.	Linyi (CHINA)		100,00%	100,00%	80,44%

Associated companies

Company name	Headquarters	Percentage held			Consolidated percentage
		Direct	Indirect	Total	
Immobiliare Del.Co. S.r.l.	Solbiate Olona (ITA)	30,00%		30,00%	30,00%
Actis S.r.l.	Calenzano (ITA)	12,00%		12,00%	12,00%
Elesta S.p.A.	Calenzano (ITA)	50,00%		50,00%	50,00%
Chutian (Tiajin) Laser Technologies Co.,Ltd	Tianjin (CHINA)		41,00%	41,00%	32,98%
Quanta Aesthetic Lasers Usa, LLC	Englewood (USA)		19,50%	19,50%	19,50%
Accure Inc.	Delaware (USA)		39,44%	39,44%	39,44%

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

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

Calenzano, May 15th 2020

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