ANNUAL FINANCIAL REPORT 2019

EL.EN. S.p.A.

ANNUAL FINANCIAL REPORT AS OF DECEMBER 31st 2019

El.En. S.p.A.
Headquarters in Calenzano (Florence) – Via Baldanzese n. 17
Capital stock: underwritten and paid € 2.540.581,55(*)
Company registered with the Registro delle Imprese di Firenze n. 03137680488

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

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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 2019

INTRODUCTION

To our shareholders,

The financial year 2019 closed with a consolidated sales volume of 400 million Euros and a net consolidated income for the Group of 26 million Euros net of income tax for 9,9 million and a net result for third parties of 2,8 million Euros.
This has been another year of strong growth for the company which consolidated and re-enforced their competitive position on a global level and greatly exceeded the expectations for an increase in the sales volume and EBIT formulated at the beginning of the year. 2019 has been a year of great expansion for the Group: the enlargement of the manufacturing and logistic structures for most of our factories has been completed thus making it possible to achieve a an increase in the production capacity in view of the increase in the sales volumes; the areas dedicated to the development of new products and their certification have been increased, above all in the medical sector so that they can be sold everywhere in the world. The re-enforcement of this sector has brought about concrete results in terms of new products that will be made available on important markets already in 2019. Moreover, at the end of the year we acquired a minority share in our joint ventures in China with an investment aimed at further accelerating our plans for expansion on the Chinese market for sheet metal cutting.
It has therefore been a year of great satisfaction and preparation for gathering the fruits of our efforts in the future.
It is a shame that the discontinuity created by the spread of the Corona virus and the restrictive measures taken by the authorities in China and in Italy have dampened the hopes and expectation of seeing in 2020 the results of the efforts made in 2019. The companies of the Group were organized so as to remain operative for as long as possible while, at the same time applying all measures necessary to protect the health of the workers and collaborators. Since we are well aware of our strength, our capacity and the solidity of our markets, we are confident that we will be able to return to our trend of flourishing growth as soon as the situation goes back to normal.

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 2019

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.

On April 1st 2019 a new company, PENTA Laser Technology (Shangdong) Co., Ltd. , was founded; it is owned 100% by the subsidiary Penta Laser Technology (Wenzhou) Co., Ltd.

On May 15th 2019 the Shareholders' meeting of El.En. S.p.A. approved the financial statement for 2018 and also took the following resolutions:

- 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.

The Shareholders' meeting also voted to approve the report on remuneration including incentives as per ex art. 123-ter T.U.F. as well as the appointment of the members of the Board of Auditors and of the President for the three-year period 2019-2021 and the setting of the relative salaries.

On June 19th 2019 the subsidiary Quanta System S.p.A. concluded the purchase of 70% of the capital stock of "Galli Giovanni & C. Srl" a company specialized in the manufacture of high-precision mechanical parts, for the amount of 350 thousand Euros.

In the month of July 2019 operations for the transfer of the activities of Cutlite Penta and Ot-las to the new headquarters in Prato were completed.

On September 14th 2019 the first opportunity occurred for acquiring the stock options assigned by the Board of Directors of El.En SpA in compliance with the resolution taken on September 13th 2016 in implementation of the Stock Option Plan for 2016-2025 limited to administrators, collaborators and employees of the company and its subsidiaries as had been approved by the shareholders' assembly on May 12th 2016 and described in the information report published in compliance with art. 84-bis, sub-section 1 and Scheme 7 of Attachment 3A of the CONSOB regulations, Regolamento Emittenti Consob n. 11971/1999 which remains, until the expiration of the plan, available to the public at the headquarters in Calenzano, at the Borsa Italiana S.p.A., and on the internet site of the company: *www.elengroup.com* in the section "*Investor Relations / Governance / Documenti Societari / Piano di Stock Option 2016-2025*" and on the authorized storage site *www.emarketstorage.com.*

In the months of September and October 2019 we inaugurated the new production sites of the subsidiaries Asclepion Laser Technologies at Jena in Germany and of Asa in Vicenza, intended, respectively, at Jena, for the manufacture of laser systems for medical and aesthetic applications and, at Vicenza, for the production of laser systems for physical therapy and rehabilitation.

After some of the beneficiaries of the above mentioned Stock Option Plan 2016-2025 acquired their stock, in 2019 the company issued 225.338 ordinary shares for the nominal amount of 29.293,94 Euros and received 2,8 million as a capital increase with additional paid. The acquisition of the share options in compliance with the plan continued in 2020 and, overall, up until the date of approval of this document, 245.463 ordinary shares have been issued for a nominal amount of 31.910,19 Euro and cashed in 3,1 million as a capital increase with additional paid.

On November 22nd 2019 the shareholders' meeting of Elesta srl voted to transform the company into a joint stock company, in order to initiate an IPO to collect risk capital for the purpose of pursuing the objectives for growth on the market for laser systems for surgical applications.

On November 27th 2019 an agreement was reached with the main minority shareholder of our Chinese activities for the acquisition of the equity in our joint ventures in Wenzhou and Wuhan. The operation was arranged in two phases: in the first phase, Penta Laser Wenzhou purchased 100% of the equity in Penta Chutian Wuhan from Ot-las Srl and the Chinese minority shareholders, in December 2019; in the second phase, Ot-las bought 29,7% of Penta Laser Wenzhou, in early 2020. On December 31st, 2019 the residual debt of Penta Laser Wenzhou toward third parties included in the net financial position was 1,7 million Euros.

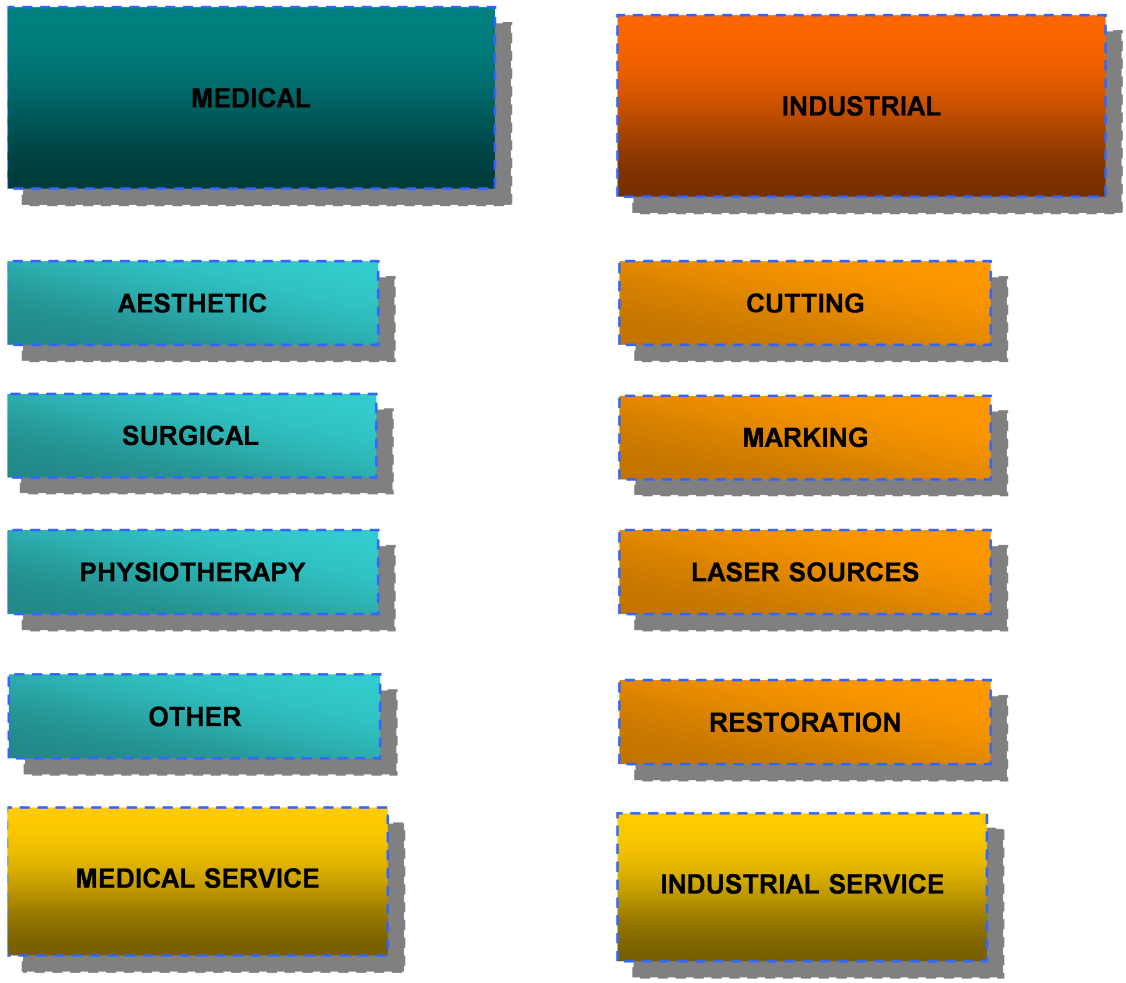
DESCRIPTION OF THE ACTIVITIES OF THE GROUP

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. 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.
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.

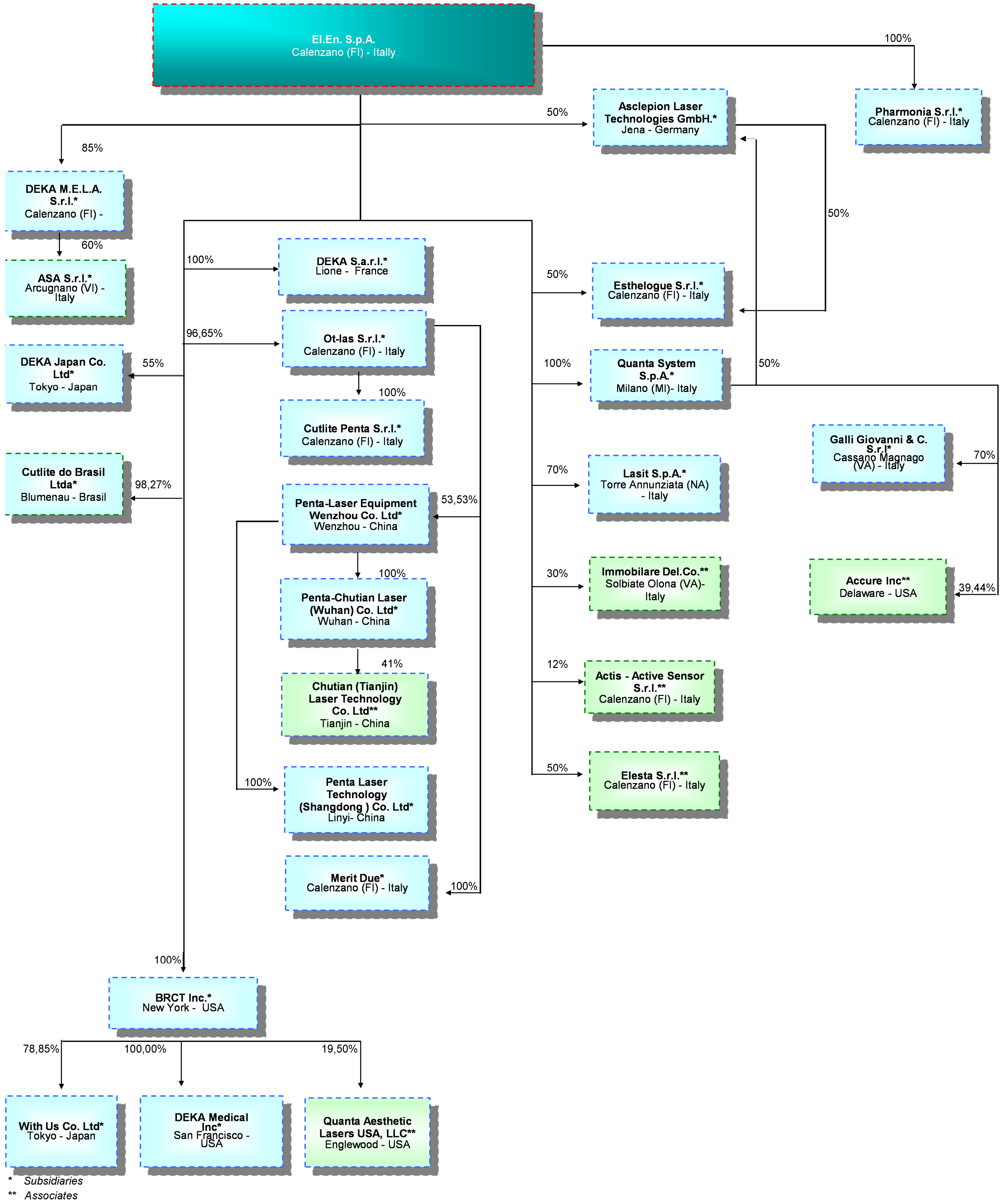
The outlook for mid-term growth is positive for both markets. In the medical sector, there is a constant increase in the demand for aesthetic and medical treatments by a population which, on the average, tends to age and wishes to limit as much as possible the effects of aging.
There is also an increased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

DESCRIPTION OF THE GROUP

As of December 31st 2019 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.

	31/12/19	31/12/18
Profitability Ratios (*):		
ROE	13,2%	9,1%
(Net Income / Own Shareholders' Equity)		
ROI	9,0%	8,3%
(EBIT / Total Asset)		
ROS	9,5%	8,7%
(EBIT / Sales)		
Capital structural ratios:		
Investments Flexibility ratio	0,74	0,76
(Current Asset / Total Asset)		
Leverage	1,16	1,09
((Net Equity+ Loans) / Net Equity)		
Current Ratio	2,06	2,31
(Current Asset / Current Lability)		
Current liability coverage	1,43	1,58
((Current receivables + Cash & cash equivalent + Investments) / Current liabilities)		
Quick ratio	0,65	0,70
((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 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.

GROUP FINANCIAL HIGHLIGHTS

During the financial year 2019 the El.En. Group registered a consolidated sales volume of 400 million Euros and an EBIT of 38,2 million Euros with a net result for the Group of 26 million Euros. These results all show a significant increase with respect to those for last year and greatly exceed those predicted at the beginning of the year, thus demonstrating the capacity of the Group to follow the trend of rapid development for which, in the last few years, major investments have been made for the enlargement of the logistic structures and the main operating functions.

These brilliant results are a source of great satisfaction for the management and for all the stakeholders. Our Group remains among the most important in the world in the sector of laser systems for medical applications and is consolidating their position in the sector of laser systems for industrial applications.

The macro-economic situation in which we operated in 2019 presented different aspects during the year and in relation to the various geographical areas. Conditions in the United States were good and allowed us to increase our sales volume in this area. Conditions in Europe and in Italy in particular were not so good but we were able to achieve significant growth rates despite them due to the special appeal of some of our systems. After a start of the financial year which was very promising, the Chinese market and, in particular our market for laser systems for manufacturing slowed down as a result of the so-called customs tariff wars and the overall decrease in economic growth in China.
Despite the slowdown of the Chinese economy in the second half of 2019, we still believed that the specific characteristics of our products, featuring productivity, flexibility and increased economy in the systems offered on the market, would make it possible to maintain the positive trend for which we had installed the operative structures necessary to guarantee the production volumes that had been planned and made company investments by increasing our controlling equity in the Chinese joint ventures.

The currency Exchange rates have been on the whole favorable, in particular the US dollar which stayed between 1,10 and 1,15 dollars per Euro, a rate that does not penalize us with respect to our competitors most of whom have costs expressed in dollars and who, in the past could take advantage of the weakness of the American currency. The Chinese Rmb, after a phase in the middle of the year in which it grew stronger, later weakened and by the end of the year returned to the level it was at the start of the year.

The considerable increase in sales volume registered in 2019 was made possible by the operative re-organization which we have been conducting for the last two years and by the strengthening of the logistic and production structures which allowed the Group to take advantage of the opportunities offered on its markets. Even though the activities of the Group are subject to the fluctuations of the economic cycles, we are ourselves the protagonists of the dynamics of our markets thanks to the innovation activity which continually renews the range of products and offer our clients an opportunity to invest which has a great potential for profitability which is sometimes even against the current.

It should be noted that the Group has made some sales to leasing companies which require repurchasing an therefore, in compliance with IFRS 15, which considers this type of sale a kind of multi-year rental despite the fact that it has been fully paid for, revenue for about 1,5 million Euros has been subtracted, with a negative impact on the EBIT of 0,6 million Euros with respect to the “traditional” accounting of revenue and cost of sale. The reduced revenue and margins for the year will be recovered over the multi-year period covered by the operative lease agreement.

Again in 2019 the growth in sales volume involved all sectors and all the main applicative segments in which the Group is active. The medical sector was the most brilliant but in the industrial sector also the Group was able to register a good increase in sales volume in the main segment of sheet metal cutting and excellent results in marking for identification.

In the medical sector remarkable results were shown in the sector of urology which was second in volume only to hair removal, the application which in the past has always been the most significant for the Group. In the production of holmium and thulium systems for the treatment of kidney stones and benign hypertrophy of the prostate, the Group now has a position of leadership at a world level, thanks also to the collaboration with giants in the field like Olympus and Cook Medical (with this latter, the extension of the collaboration has recently been formalized) who distribute the Quanta System product all over the world with OEM contracts.
The rapid growth in the number of installations in the urological sector also makes it possible to sell single or multiple use optical fibers for surgical applications: the sales of the optical fibers are registered as part of the sales volume for service and in 2019 represented for the urology clients about 35% with respect to sale of the systems.
The Onda system with *Coolwaves*™ has met with great success in accordance with our highest expectations and ambitions. Thanks to the original and innovative microwave technology the body contouring system has been very popular with clients who appreciate the triple action which is able to reduce adipose masses, firm up the skin, and treat the blemishes caused by cellulitis. Onda is one of the best selling systems of the Group and in its first full solar year on the market (it was first released in the Summer of 2018) it exceeded eleven million in sales volume. A further impulse

and development of sales of Onda is expected after the authorization for sale in some countries with great potential, particularly, the United States.

The issue of authorization for sales of medical devices and instruments in the various countries in recent years has become a decisive factor for expansion on the international market. In order to obtain these clearances, the most complicated procedure are those for the markets in the United States (FDA), China (CFDA) and Japan (MOH). All of our companies operating in the medical sector have intensified their regulatory activity and re-enforced this sector even by hiring highly qualified, competent personnel. The increased complexity in obtaining these authorizations represents a general tendency which has become very significant in the past few years and, on one hand represents an obstacle for the rapid marketing of the products on a worldwide level and, on the other, a barrier which excludes companies which are not equipped with structures that are adequate to deal with the approval process with the relative technical tests and clinical studies that are required. The European legislation is also heading towards a policy of more extensive clinical studies in order to obtain the EC medical brand which is necessary for selling in Europe.

In 2019 we continued the expansion of our operating structures which are aimed at equipping the Group with manufacturing capacity, research and development laboratories and structures for the activities of marketing and training for our clients and commercial partners. We have completed the work at Vicenza for Asa, at Jena for Asclepion, at Prato for Cutlite Penta and Ot-las and these companies are already working at full capacity in the new buildings. In the month of December they inaugurated the factory at Lin Yi, our third factory in China, in order to increase our presence in the highly industrialized region of Shandong so as to benefit from the significant support that we have from the local administration. We are in the process of completing the new buildings in Wenzhou which are dedicated to the manufacture of assemblies, light subassemblies, and have rooms for research and development and showrooms for receiving clients. The work for the installation of the production areas for Lasit at Torre Annunziata and for El.En. at Calenzano where we are re-organizing the spaces left empty by the transfer of the production activities of Ot-Las and Cutlite Penta to Prato, is now about at the same state of advancement.

The chart below shows the breakdown of the sales volume as of December 31st 2019 divided by the sectors of activity in which the Group operates in comparison with the same data for 2018.

	31/12/2019	**Inc %**	**31/12/2018**	**Inc %**	**Var. %**
Medical	242.184	60,43%	197.854	57,18%	22,41%
Industrial	158.577	39,57%	148.167	42,82%	7,03%
Total revenue	**400.761**	**100,00%**	**346.020**	**100,00%**	**15,82%**

The overall growth was close to 16% with the medical sector which now fully exceeds 20% and once again grows more rapidly than the industrial sector.

The chart below shows the geographical distribution of the sales volume.

	31/12/2019	**Inc %**	**31/12/2018**	**Inc %**	**Var. %**
Italy	74.272	18,53%	65.768	19,01%	12,93%
Europe	78.845	19,67%	68.464	19,79%	15,16%
ROW	247.643	61,79%	211.788	61,21%	16,93%
Total revenue	**400.761**	**100,00%**	**346.020**	**100,00%**	**15,82%**

Growth was rapid in all the areas in which we operate and registered the best results in the non-European countries, reflecting in part, but particularly in Italy, a less favorable phase in the economic cycle.

The chart below shows the sales volume of the Group within the sector of medical and aesthetic systems which represents about 60% of the sales volume of the Group.

	31/12/2019	Inc %	31/12/2018	Inc %	Var. %
Aesthetic	134.281	55,45%	110.397	55,80%	21,63%
Surgical	50.325	20,78%	42.107	21,28%	19,52%
Physiotherapy	10.573	4,37%	10.757	5,44%	-1,71%
Others	1.061	0,44%	728	0,37%	45,72%
Total medical systems	**196.240**	**81,03%**	**163.989**	**82,88%**	**19,67%**
Medical service	45.944	18,97%	33.864	17,12%	35,67%
Total medical revenue	**242.184**	**100,00%**	**197.854**	**100,00%**	**22,41%**

Within the most important segments, the best result was that for after-sales services, parts and consumables where the volume of business increased by about 36%, bringing this recurring component in the sales volume to represent 19% of the sales in the sector. There are many types of revenue summarized in this category: creams and accessories in the aesthetic sector, full risk contracts for technical assistance, ordinary service to the installations, sales of upgrades for IPL systems for hair removal, sale of mono- and multiple-use optical fibers for urological applications, sale of other consumables for laser systems (laser lights, optical filters and others).
The upgrades, for their very nature, represent a type of revenue that can be repeated over a period of years but not necessarily every year. They make it possible, in fact, to adapt a certain technology to a new, innovative version of the same technology, and the innovation cycles, even though they are frequent, do not occur every year. The sales volume for optical fibers for urology instead should be maintained and even increase since theoretically they are a direct function of the number of installations, but also of the actual amount of use of the installations and of our ability to maintain the sales with respect to our competitors.

As mentioned in the introduction, the sector of urology was a determining factor in the development of the sales volume this year. In fact, considering that the sales of systems and optical fibers are included in the category of service because they are consumables, we find that in 2019 the overall volume was close to 50 million Euros, showing a growth of 46% over the same period in 2018. These are volumes which make the Group with Asclepion and above all, Quanta System, which develops the greatest part of this volume, one of the most significant players on the global market and leader in particular in the segment of laser systems for lithotripsy. The sales of systems to our OEM partners also contributed significantly to sales volume in 2019. The OEM partners are companies of primary international standing which market under their own brand name our systems for urology and equip them usually with our optical fibers for surgical applications. Good results were also obtained and are expected in the future for other surgery segments, like endovascular applications and ORL applications with CO_2. Lasers.

The sales volume for the therapy sector has remained substantially stable. Asa of Vicenza, our company, business unit and brand name for the sector, has grown gradually and progressively over the past few years. During the third quarter of 2019 the company completed the move of their production activities to a new site and they are now fully operative and able to deal with the growth that is expected in the years to come.

With an extraordinary result which is greater than that obtained by our main International competitors, in 2019 the growth rate in the aesthetics sector exceeded 20%. All of the main applicative segments contributed to this increase in the sales volume and showed increases in sales in 2019.
The applicative segments for hair removal and tattoo removal (the technology of which is used for anti-aging treatments in the Far East) confirmed their growth trends. The Onda *Coolwaves*™ system by Deka for body contouring, tissue firming and the treatment of imperfections caused by cellulitis have made Deka an important player in the segment of treatments for the body and constitutes the basis for future growth; along with this, there are other systems dedicated to the body, in particular the B-star, distributed in Italy by Esthelogue in the professional aesthetic sector. Overall, the sector related tobody treatments in 2019 became one of the most important and is second only to that for hair removal and at the same level as that for tattoo removal.

With Us , our company which distributes systems for aesthetic applications in Japan also had a good year and started again to grow and to generate revenue after a very bad year in 2018. This recovery was connected to an updating of the installations for hair removal and the contribution of the sales to selected clients, mainly important chains of aesthetic centers, of small aesthetic systems adapted for home use, and distributed by taking advantage of the network created over the years in Japan.

The jump in sales in the residual segment of “Others” is due to the recovery of the sales of systems for dentistry applications, particularly in the United States.

For the sector of industrial applications, the chart below shows the breakdown of the sales volume divided by the market segments in which the Group operates.

	31/12/2019	Inc %	31/12/2018	Inc %	Var. %
Cutting	119.671	75,47%	115.509	77,96%	3,60%
Marking	20.262	12,78%	17.855	12,05%	13,49%
Laser sources	4.438	2,80%	4.886	3,30%	-9,15%
Conservation	342	0,22%	306	0,21%	11,65%
Total industrial systems	**144.713**	**91,26%**	**138.555**	**93,51%**	**4,44%**
Industrial service	13.864	8,74%	9.611	6,49%	44,25%
Total industrial revenue	**158.577**	**100,00%**	**148.167**	**100,00%**	**7,03%**

In 2019 the general situation was less favorable than in the past for the sector of laser systems for manufacturing applications, however, the overall growth in the sector exceeded 7%, with a result that was particularly satisfactory in the segment of marking, which showed a double-digit growth, and in service which jumped more than 40%.

In the cutting sector the growth was 3,6%, which is not bad if one considers the general trend in the manufacturing sector and the performances of our main competitors most of whom showed a minus sign in the growth of revenue. In our most important market, the Chinese one, after a rapid departure in the early part of the year, the demand suffered a gradual decline, in particular in the Summer months when the volume of orders received and, consequently the sales volume, decreased with respect to 2018. The recovery in the number of orders registered after the Summer was followed by a new decline and then rose again to a satisfactory level at the end of the year. The trend in early 2020 is a different story on which we will comment in other sections. Production for the Chinese market is conducted in the factories in Wuhan, the first location of our activity, in Wenzhou which has recently been doubled by the addition of a new factory, and in Lin Yi which was just started up after the inauguration in December. On the Italian and other European markets, where Cutlite Penta Srl concentrates their selling activity, the reverse was happening, with a weak demand at the beginning of the year, a gradual improvement of the market situation and particularly of our competitive position and a particularly brilliant performance in the final quarter of the year.
The excellent performance in the marking sector was due mostly to the activity in the identification sector where Lasit of Torre Annunziata (Naples) operates. Lasit develops marking systems for bar codes, QR codes, serial numbers and small logos on a large variety of materials and a ast number of merchandise sectors, from auto motive to high fashion, from medical instruments to cutting utensils and many others. Their great operating flexibility in adapting the different requirements of the clientele will be able to further expand due to the enlargement of the areas dedicated to the activities of the company thanks to the new factory acquired in 2018, adjacent to the one that is currently occupied and which is now being equipped.

The results in the segment of laser sources which, more than any other felt the impact of the slowdown of the market, showed a decline despite a promising start at the beginning of the year and an outlook for mid-term growth which El.En. SpA is cultivating both with investments in the technological development as well as in the manufacturing structure of these refined technological instruments.

As far as the brilliant growth in the revenue for service is concerned, it is based on the revenue for technical assistance and sales of after-sales components and the sales of consumables for RF sources, which is now growing strongly due to the large quantities reached in the number of installations. Another important activity has been that of retrofitting and upgrading of CO_2 systems in China, that is, the replacement of the old CO_2 sources with new mid-power laser sources in fiber on systems belonging to clients who do not wish to sustain the investment in new systems.

Sales of systems for the conservation of works of art showed a positive trend. Our activity in the field has always been intense. For example, the El.En. Group contributes with its laser systems to the conservation of the Unesco World Heritage sites in Sudan, at Gebel Barkal, ancient Napata, where the Superior Institute for Conservation and Restoration in Rome, in collaboration with the local NCAM, National Corporation for Antiquities and Museums, conducts an important restoration project at the Temple of Mut, built by the pharaoh Taharqa in the XXV dynasty, before the middle of the 7th century B.C. (690 BC. – 664 BC.).
We have also continued using the Laser Blast system in Florence for the removal of graffiti in collaboration with the “Angeli del bello” association to which El.En. Spa donated the equipment.

CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 31st 2019

The chart below shows the consolidated income statement for the year ending December 31st 2019 compared with that for 2018.

Income Statement	31/12/2019	Inc %	31/12/2018	Inc %	Var. %
Revenues	400.761	100,0%	346.020	100,0%	15,82%
Change in inventory of finished goods and WIP	4.986	1,2%	11.878	3,4%	-58,02%
Other revenues and income	3.474	0,9%	5.613	1,6%	-38,11%
Value of production	**409.221**	**102,1%**	**363.511**	**105,1%**	**12,57%**
Purchase of raw materials	225.233	56,2%	207.387	59,9%	8,61%
Change in inventory of raw material	(7.187)	-1,8%	(8.170)	-2,4%	-12,02%
Other direct services	35.154	8,8%	26.816	7,7%	31,09%
Gross margin	**156.021**	**38,9%**	**137.478**	**39,7%**	**13,49%**
Other operating services and charges	43.624	10,9%	42.870	12,4%	1,76%
Added value	**112.396**	**28,0%**	**94.608**	**27,3%**	**18,80%**
Staff cost	66.085	16,5%	58.989	17,0%	12,03%
EBITDA	**46.312**	**11,6%**	**35.618**	**10,3%**	**30,02%**
Depreciation, amortization and other accruals	8.114	2,0%	5.631	1,6%	44,08%
EBIT	**38.198**	**9,5%**	**29.987**	**8,7%**	**27,38%**
Net financial income (charges)	468	0,1%	869	0,3%	-46,14%
Share of profit of associated companies	(23)	0,0%	(1.306)	-0,4%	-98,26%
Other non-operating income (charges)	0	0,0%	(6)	0,0%	
Income (loss) before taxes	**38.644**	**9,6%**	**29.545**	**8,5%**	**30,79%**
Income taxes	9.868	2,5%	7.707	2,2%	28,05%
Income (loss) for the financial period	**28.775**	**7,2%**	**21.839**	**6,3%**	**31,76%**
Net profit (loss) of minority interest	2.759	0,7%	5.045	1,5%	-45,32%
Net income (loss)	**26.017**	**6,5%**	**16.794**	**4,9%**	**54,92%**

The gross margin was 156.021 thousand Euros, an increase of 13,5% with respect to the 137.478 thousand Euros for 2018 thanks to the increase in the sales volume.

The margins on the sales volume decreased from 39,7% on December 31st 2018 to 38,9% on December 31st 2019. The variation is due to a slight reduction of the margins in both the medical and industrial sectors and to the reduction in the grants received this year.

The application of the rigid regulations of accounting standard IFRS 15 determined a subtraction of revenue for about 1,5 million Euros with a negative impact on the EBIT of 0,6 million Euros. The incidence on the sales volume of this negative impact amounted to 0,4% for the sales volume and to 0,2% for the EBIT. The activity that suffered the most from this subtraction was the sale of medical and aesthetic systems in Italy, where the instrument of operative leasing is particularly popular with the clients of Esthelogue and Renaissance.

The costs for operating services and charges were 43.624 thousand Euros showing an increase of 1,8% with respect to the 42.870 thousand Euros on December 31st 2018. Their incidence on the sales volume decreased from 12,4% in 2018 to 10,9% on December 31st 2019, also on account of the approx. 1,7 million in operative costs, equal to about 0,4% of the sales volume, which, in 2019, were classified among the depreciations, in compliance with accounting principle IFRS 16.

The costs for staff were 66.085 thousand Euros, and show an increase of 12% with respect to the 58.989 thousand Euros for the same period last year, with an incidence on the sales volume which decreased slightly from 17% to 16,5% on December 31st 2019.
On December 31st 2019 the number of employees in the Group was 1.498, an increase with respect to the 1.368 registered on December 31st 2018. The new employees were hired mainly by the Chinese companies, and especially by Penta Laser Technology (Shandong) Co. Ltd with Headquarters in Lin Yi, founded on April 1st 2019 and controlled 100% by Penta Laser Technology (Wenzhou) Co. Ltd..

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 2019 the overall cost was 571 thousand Euros with respect to the 693 thousand Euros for last year.

The EBITDA consequently amounted to 46.312 thousand Euros, with a sharp increase of 30% with respect to the 35.618 thousand Euros on December 31st 2018.

The costs for amortizations, depreciations and accruals increased and rose from 5.631 thousand Euros on December 31st 2018 to 8.114 thousand Euros on December 31st 2019, with an incidence on the sales volume which rose from 1,6% to 2%.
The increase is due to the increased accrual for the risks and charges fund and the greater depreciations due to the significant investments in fixed assets which we began already last year and also, as previously described, from the application of accounting standard IFRS 16, for which we registered greater depreciations for an amount of about 1,6 million Euros, equal to 0,4% of the sales volume, with the consequent decrease in the costs for rentals among the operating costs.

The EBIT therefore amounted to 38.198 thousand Euros, an increase with respect to the 29.987 thousand Euros shown on December 31st 2018, with a considerable improvement also in the incidence on the sales volume which rose from 8,7% to 9,5% in this year. For the fourth quarter the EBIT margin on the sales volume was 10%.

The financial income amounted to 468 thousand Euros with respect to the income of 869 thousand Euros registered for last year. With respect to last year, the charges for interest due have increased because of the application of IFRS 16 by 106 thousand Euros which represents the charges for financial debts which the standard extrapolates from the goods used for the rentals or leasing. There was also a reduction in the positive effect of the currency exchange.

The current and deferred income taxes this year were 9.868 thousand Euros: the overall tax rate was 25,5%,which is less than in the past also on account of the application of the so-called patent box whose benefits for the years 2015-2019 are entered into accounts in 2019 on the basis of agreements made with the tax authorities at the end of 2019. For details related to taxes and the tax rate, please consult the relative paragraph in the Notes.

Consolidated statement of financial position and net financial position as of December 31st 2019

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

Statement of financial position	31/12/2019	31/12/2018	Variation
Intangible assets	4.834	4.484	350
Tangible assets	81.813	61.020	20.793
Equity investments	2.403	2.459	-57
Deferred tax assets	6.641	6.334	307
Other non-current assets	15.276	12.582	2.694
Total non current assets	**110.966**	**86.879**	**24.087**
Inventories	97.037	85.892	11.145
Accounts receivable	92.026	80.246	11.780
Tax receivables	12.689	11.436	1.253
Other receivables	13.453	12.490	963
Financial instruments	2.127	1.951	176
Cash and cash equivalents	97.031	80.966	16.065
Total current assets	**314.362**	**272.982**	**41.380**
Total Assets	**425.328**	**359.861**	**65.468**
Share capital	2.538	2.509	29
Additional paid in capital	41.431	38.594	2.837
Other reserves	88.105	92.167	-4.062
Retained earnings / (accumulated deficit)	64.337	50.596	13.740
Net income / (loss)	26.017	16.794	9.223
Group shareholders' equity	**222.427**	**200.660**	**21.767**
Minority interest	18.206	18.576	-369
Total shareholders' equity	**240.633**	**219.236**	**21.398**
Severance indemnity	4.738	4.378	359
Deferred tax liabilities	2.032	1.678	354
Reserve for risks and charges	4.528	3.955	573
Financial debts and liabilities	21.116	12.493	8.623
Total non current liabilities	**32.413**	**22.504**	**9.909**
Financial liabilities	16.706	8.314	8.392
Accounts payable	78.391	63.891	14.500
Income tax payables	3.507	2.486	1.021
Other current payables	53.677	43.430	10.247
Total current liabilities	**152.282**	**118.121**	**34.161**
Total Liabilities and Shareholders' equity	**425.328**	**359.861**	**65.468**

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 2019 is the following:

Net financial position	31/12/2019	31/12/2018
Cash and bank	97.031	80.966
Financial instruments	2.127	1.951
Cash and cash equivalents	**99.158**	**82.917**
Current financial receivables	**84**	**74**
Bank short term loan	(11.794)	(6.720)
Part of financial long term liabilities due within 12 months	(4.913)	(1.318)
Financial short term liabilities	**(16.706)**	**(8.038)**
Net current financial position	**82.535**	**74.954**
Bank long term loan	(11.802)	(5.401)
Other long term financial liabilities - non current part	(9.314)	(7.092)
Financial long term liabilities	**(21.116)**	**(12.493)**
Net financial position	**61.419**	**62.461**

The net financial position of the Group decreased by about one million Euros with respect to the end of 2018. As far as the representation in the preceding chart is concerned, it should be noted that starting on January 1st 2019, because of the adoption of accounting standard IFRS 16, financial debts also include the amounts of residual debt related to leasing and rentals which are now entered into accounts following the procedure which was previously stated in IAS 17. The impact caused by this adoption amounts to about 4,8 million Euros, of which 1,7 million Euros have been entered among current debts and 3,1 million Euros among the non-current debts, which means that the net financial position as of December 31st amounts to 61,4 million Euros, which is less than the 66,2 million which would have been registered if the accounting standards had been the same, showing an increase with respect to the beginning of the year despite the important investments which will be described below.

In 2019 we completed most of the work for the expansion of the production capacity by means of the constructin of new buildings; the investments in new factories in 2019 amounted to about 14,2 million and starting in 2018 now total 36 million. The activities in 2019 involved the Chinese sites in Wenzhou and Lin Yi; this latter was an opportunity which arose in 2019 and therefore represents an addition to the original investment plan which we had described. We also complete the construction of the factory in Jena (inaugurated in September) for Asclepion, in Vicenza for Asa (inaugurated on October 4th) and in Prato where Cutlite Penta and Ot-Las were transferred starting in the month of June. We are continuing work on the new Lasit factory in Torre Annunziata and at El.En. in Calenzano, for the use of the space left free by the move of Cutlite Penta and Ot-Las which will allow us to re-organize the area to be used for certain activities in the medical and industrial sector. In particular, in the factory in Calenzano which was left empty by the move of Cutlite Penta we will place the production of CO_2 sources on slab technology excited by radio-frequency, by re-organizing the plant on the basis of the so-called “industry 4.0”.

The investment in technical fixed assets during the year amounted to over 22 million Euros, while about 2,4 million Euros were absorbed with the purchase of the quota of the minority shareholder of Penta Chutian Wuhan, with the first step of the operation which was then concluded in 2020 with the purchase of a further 30% of Penta Laser in Wenzhou which was already controlled by 53,5%. During 2019 dividends to third parties were also distributed by El.En. Spa, Deka M.E.L.A. and Asa for a total of 8,6 million.

2019 showed the capacity of the Group to grow with a good profitability and generation of cash through the operating activities; the NOPAT generated during the year amounted to 28,3 million Euros.

Receivables from associated companies are excluded from the net financial position for an amount of 128 thousand Euros.

It should also be recalled that 11,5 million Euros in cash was invested by the Parent Company in financial instruments of an insurance type which, because of their nature, are required to be entered among the non-current financial assets. During the year the subsidiary Quanta System invested part of their cash for an amount of 2,5 million Euros in the same type of financial instruments. Although these amounts are, in fact, a use of cash, they are not part of the net financial position. At the end of the year the fair value of these investments amounted to 14,9 million Euros.

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

	31/12/2019 Capital and reserves	**31/12/2019 Income statement**	**31/12/2018 Capital and reserves**	**31/12/2018 Income statement**
Balance per parent company statement	**136.619**	**5.833**	**134.966**	**2.814**
Elimination of investments in subsidiary companies:				
- share of profit (loss) of subsidiary companies		25.136		16.314
- share of profit (loss) of associated companies		7		352
- elimination of rectification of value of equities		480		156
- elimination of dividends		(3.815)		(2.843)
- other (charges) income		(1.687)		504
Total contribution of subsidiary companies	88.461	20.121	68.411	14.483
Elimination of intercompany profits on inventory	(2.375)	200	(2.577)	(563)
Elimination of intercompany profits from sales of fixed assets	(278)	(137)	(140)	60
Balance as per consolidated statement – Group quota	**222.427**	**26.017**	**200.660**	**16.794**
Balance as per consolidated statement – Third party quota	**18.206**	**2.759**	**18.576**	**5.045**
Balance as per consolidated statement	**240.633**	**28.775**	**219.236**	**21.839**

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.

	31/12/2019	Inc %	31/12/2018	Inc %	Var. %
Medical	55.426	81,83%	49.400	79,50%	12,20%
Industrial	12.311	18,17%	12.737	20,50%	-3,35%
Total revenue	**67.737**	**100,00%**	**62.137**	**100,00%**	**9,01%**

The company registered a sales volume of over 67 million Euros, an increase of 9% with respect to 2018.

In 2019 El.En. Spa registered a significant increase in the volume of business thanks to the excellent results in the medical sector. As will be described below, the recovery of the sales volume also determined arise in the operational profitability.
At the basis of the results of El.En. is the increase in the sales volume towards the subsidiary Deka MELA, the company which traditionally has taken care of the distribution of the El.En. systems in Italy and numerous foreign countries, along with the excellent results achieved in the sales to the new American distributors of our systems for aesthetics and for surgery, in particular, otolaryngology. The Onda system for *body contouring* and the Motus AX and Motus AY systems for hair removal and vascular systems are among our best sellers in the sector of systems for aesthetic applications, and Smartxide Quadro in the Trio version for surgical applications. In the industrial sector, a good job has been done with CO_2 sources excited by RF produced for internal clients of the Group, Cutlite Penta and Ot-Las and for a growing number of external clients specialized in applicative disciplines like the controlled fading of jeans, which do not overlap with the specialized ones of the companies of the Group.

Income statement as of December 31st 2019

Income Statement	31/12/2019	Inc %	31/12/2018	Inc %	Var. %
Revenues	67.737	100,0%	62.137	100,0%	9,01%
Change in inventory of finished goods and WIP	389	0,6%	2.594	4,2%	-85,01%
Other revenues and income	902	1,3%	955	1,5%	-5,48%
Value of production	**69.028**	**101,9%**	**65.686**	**105,7%**	**5,09%**
Purchase of raw materials	32.717	48,3%	36.737	59,1%	-10,94%
Change in inventory of raw material	(815)	-1,2%	(783)	-1,3%	4,20%
Other direct services	10.112	14,9%	5.032	8,1%	100,94%
Gross margin	**27.015**	**39,9%**	**24.699**	**39,7%**	**9,38%**
Other operating services and charges	7.538	11,1%	7.078	11,4%	6,51%
Added value	**19.476**	**28,8%**	**17.621**	**28,4%**	**10,53%**
Staff cost	16.247	24,0%	15.760	25,4%	3,09%
EBITDA	**3.229**	**4,8%**	**1.862**	**3,0%**	**73,47%**
Depreciation, amortization and other accruals	1.573	2,3%	1.379	2,2%	14,07%
EBIT	**1.657**	**2,4%**	**483**	**0,8%**	**243,05%**
Net financial income (charges)	4.241	6,3%	3.567	5,7%	18,90%
Other non-operating income (charges)	(651)	-1,0%	(799)	-1,3%	-18,53%
Income (loss) before taxes	**5.247**	**7,7%**	**3.251**	**5,2%**	**61,40%**
Income taxes	(587)	-0,9%	437	0,7%	
Net income (loss)	**5.833**	**8,6%**	**2.814**	**4,5%**	**107,29%**

The gross margin was 27.015 thousand Euros, an increase of 9,4% with respect to the 24.699 thousand Euros registered last year. The percentage of incidence of the margin on the sales volume improved slightly and rose from 39,7% in 2018 to 39,9% in 2019.

The other operating services and charges were 7.538 thousand Euros, a slight increase with respect to the 7.078 thousand Euros for last year and with an incidence on the sales volume which decreased from 11,4% on December 31st 2018 to 11,1% in 2019, substantially unchanged considering the 145 thousand Euros in operating costs, equal to 0,2% of the sales volume which in 2019 were reclassified among the depreciations in compliance with accounting standard IFRS 16.

The cost for personnel was 16.247 thousand Euros, an increase of 3,1% with respect to the 15.760 thousand Euros for last year and with an incidence on the sales volume which decreased from 25,4% in 2018 to 24% in 2019. On December 31st 2019 there were 249 employees in the company, an increase with respect to the 244 on December 31st 2018.

A part of the personnel expenses is directed towards Research and Development for which El.En. S.p.A. receives grants and reimbursements on the basis of specific contracts underwritten by the institutions created for this purpose. In 2019 the company did not receive any grants, while last year they received 140 thousand Euros. This confirms a phase in which it is increasingly difficult to obtain this type of support, since the industrial policies are more oriented to the attribution of tax credits in order to sustain research and development activities.

Consequently, the EBITDA amounted to 3.229 thousand Euros, an increase with respect to the 1.862 thousand Euros shown for last year, with an incidence on the sales volume which rose from 3% on December 31st 2018 to 4,8% for this year.

The costs for amortizations, depreciations and accruals were 1.573 thousand Euros, an increase with respect to the 1.379 thousand Euros on December 31st 2018. The increase is derived from the rise in the number of investments made during the year and the adoption of the accounting standard IFRS 16, according to which the depreciations increased for the amount of about 143 thousand Euros, equal to 0,2% of the sales volume, with the consequent decrease in operating costs, in particular the costs for rentals.

The EBIT therefore showed a significant increase, rising from 483 thousand Euros on December 31st 2018 to 1.657 thousand Euros for this year.

The net financial income amounted to 4.241 thousand Euros, with respect to the 3.567 thousand Euros for the year ending on December 31st 2018. The improvement is due to the dividends received which have increased since last year, 3,3 million as opposed to 2,3 million in 2018. This increase exceeds the reduction from foreign exchange gain which fell from 584 thousand Euros to 260 thousand Euros in 2019.

The other non operating charges refers 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 5.247 thousand Euros, with respect to the 3.251 thousand Euros for last year. The net income amounted to 5.833 thousand Euros. In relation to this, of significant importance was the agreement reached with the tax authorities for the facilitation of the *patent box* for the years 2015-2019, which allowed us to enter into accounts for 2019 a reduction in taxes for the 5 years which were the subject of the ruling, for a total amount of 1,3 million Euros.

Statement of financial position and net financial position as of December 31st 2019

Statement of financial position	31/12/2019	31/12/2018	Variation
Intangible assets	428	267	161
Tangible assets	17.496	15.852	1.644
Equity investments	17.873	17.668	205
Deferred tax assets	2.290	2.226	64
Other non-current assets	21.952	12.260	9.692
Total non current assets	**60.039**	**48.274**	**11.765**
Inventories	25.378	24.510	868
Accounts receivable	33.752	40.716	-6.963
Tax receivables	3.903	4.140	-237
Other receivables	7.868	7.613	254
Financial instruments	2.127	1.951	176
Cash and cash equivalents	29.450	26.195	3.255
Total current assets	**102.477**	**105.125**	**-2.647**
Total Assets	**162.516**	**153.398**	**9.118**
Share capital	2.538	2.509	29
Additional paid in capital	41.431	38.594	2.837
Other reserves	87.802	92.034	-4.232
Retained earnings / (accumulated deficit)	-984	-984	0
Net income / (loss)	5.833	2.814	3.019
Total shareholders' equity	**136.619**	**134.966**	**1.653**
Severance indemnity	854	852	2
Deferred tax liabilities	329	410	-81
Reserve for risks and charges	1.403	1.224	179
Financial debts and liabilities	573	488	85
Total non current liabilities	**3.159**	**2.975**	**184**
Financial liabilities	4.318	281	4.037
Accounts payable	12.715	10.553	2.163
Income tax payables	25	0	25
Other current payables	5.681	4.624	1.056
Total current liabilities	**22.738**	**15.458**	**7.280**
Total Liabilities and Shareholders' equity	**162.516**	**153.398**	**9.118**

Net financial position	31/12/2019	31/12/2018
Cash and bank	29.450	26.195
Financial instruments	2.127	1.951
Cash and cash equivalents	**31.577**	**28.146**
Current financial receivables	**71**	**63**
Bank short term loan	(4.001)	(4)
Part of financial long term liabilities due within 12 months	(317)	0
Financial short term liabilities	**(4.318)**	**(4)**
Net current financial position	**27.330**	**28.205**
Other long term financial liabilities - non current part	(573)	(488)
Financial long term liabilities	**(573)**	**(488)**
Net financial position	**26.757**	**27.716**

For the analysis of the financial position, please consult the Notes in the separate statement of El.En. S.p.A. In any case, it should be noted that these calculations exclude the financial receivables from subsidiaries and associated companies for an amount of 16.150 thousand Euros, since these amounts are related to our policy of financial support for the companies of the Group in continuation of what we have done in the past and for this reason we believed it opportune to not include this financing in the chart shown above.

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 2019.

	Revenues 31/12/2019	Revenues 31/12/2018	Variation	EBIT 31/12/2019	EBIT 31/12/2018	Income (loss) for the financial period 31/12/2019	Income (loss) for the financial period 31/12/2018
Ot-Las S.r.l.	4.616	4.731	-2,43%	(19)	242	1.417	213
Deka Mela S.r.l.	48.077	45.254	6,24%	2.494	2.244	2.313	2.042
Esthelogue S.r.l.	11.882	12.085	-1,68%	(618)	(823)	(408)	(538)
Deka Sarl	3.897	3.253	19,80%	(539)	(353)	(542)	(354)
Lasit S.p.A.	16.594	14.576	13,84%	3.095	2.533	2.121	1.736
Quanta System S.p.A.	83.579	63.324	31,99%	19.132	10.470	13.892	7.848
Asclepion GmbH	51.228	44.661	14,70%	5.796	4.430	3.845	2.892
ASA S.r.l.	11.301	11.408	-0,94%	1.914	2.748	1.441	2.158
BRCT Inc.	-	-	0,00%	(12)	(9)	(25)	(1.677)
With Us Co., Ltd	28.218	14.847	90,06%	1.085	(1.398)	596	(1.034)
Penta-Chutian Laser (Wuhan) Co., Ltd	29.956	23.757	26,09%	1.433	513	1.134	450
Cutlite do Brasil Ltda	4.771	1.433	232,94%	(33)	(640)	(68)	(722)
Pharmonia S.r.l.	-	-	0,00%	(5)	(5)	(4)	(4)
Deka Medical Inc.	-	-	0,00%	(4)	(4)	(16)	(15)
Deka Japan Co., Ltd	1.973	1.790	10,22%	364	339	146	181
Penta-Laser Equipment Wenzhou Co., Ltd	88.175	87.806	0,42%	466	7.078	686	6.208
JenaSurgical GmbH	-	2.312	-100,00%	-	20	-	18
Accure Quanta, Inc.	-	-	0,00%	-	-	-	2
Merit Due S.r.l.	42	59	-28,81%	(3)	31	(3)	21
Cutlite Penta S.r.l	42.126	33.469	25,87%	2.071	2.695	1.417	1.952
Penta Laser Europe S.r.l.	-	-	0,00%	(4)	(4)	(4)	(4)
Galli Giovanni & C. S.r.l.	332	-	0,00%	(10)	-	(9)	-
Penta Laser Technology (Shangdong) Co., Ltd.	4.937	-	0,00%	(213)	-	(171)	-

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 have recently re-enforced their leadership on the Italian market and renovated their own brand by including under the new Renaissance brand name the management of sales in Italy of the products of another company of the Group, Quanta system. In 2020, the range of products produced by the German company Asclepion will also be available for the clients of Renaissance in Italy. Thanks to the expansion of the range created by the new partnership within the Group, the sales volume in Italy has risen constantly and rapidly.

Deka operates in the sector of dermatology, aesthetics and surgery and uses a consolidated network of agents for the direct distribution and for international export they have a network of highly qualified agents who have been selected over time.
In 2019 the sales volume of Deka showed an increase of about 6%, thanks to the positive trend in sales both in Italy and abroad. Among the most successful products, Onda *Coolwaves* is the one that has achieved the best results, exceeded only by the combined sales volume of the hair removal systems (MOTUS AX, MOTUS AY and Re:play with the Deka brand and Thunder MT with Quanta System's brand).
The organization of Deka, both in Italy and in the international network, is now a visible and recognizable presence, a synonym for innovative products, professionalism and excellent performance of the laser systems they offer; this has been the main goal of the company in recent years, but also the foundation on which the Group is building its further growth, thanks to their capacity to move new products through a consolidated and recognized distribution network.

Ot-Las S.r.l. e Cutlite Penta S.r.l.
After the transfer of the branch of company, which became operative in January of 2018 and made with the intent of rationalizing the industrial sector, the activities in the cutting sector which is now growing rapidly, were assigned to the "new" Cutlite Penta S.r.l., to which we gave the name of the brand which has always identified the systems developed and produced for that segment. The marking activities remained with the "old" Cutlite Penta which was called Ot-las S.r.l., in order to reflect in the name the brand that had characterized the activities of the segment.
Cutlite Penta therefore now conducts activities related to the design, manufacture and sale 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, on the other hand, 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. In 2019 they continued experimentation of applications with CO_2 RF sources of 1,2 kW for new sectors.
Cutlite Penta, in the past has operated and been the leader in the field of systems for laser cutting of dies and plexiglass. In the last few years they have benefitted from the transformation of the market of laser cutting for sheet metal. This transformation which, with the arrival of the laser sources in optical fiber which are more powerful, economical and reliable than other technologies, and thanks to the greater accessibility of the systems, has greatly expanded the potential market. In order to sustain the rapid growth the companies decided to transfer their manufacturing operations to a larger structure and, in 2018, purchased a pair of factories suitable to house their production facilities. In the first few months of 2019, the factories were installed on the basis of the specific requirements and in the early Summer all of the activities were transferred. Thanks to the new factory, the production is already developing more efficiently and the sales volume reached in the fourth quarter, in which Cutlite Penta reached 16,7 million, demonstrate it.

Besides operating in 2019 in a location which is different from that of the Parent Company, Cutlite Penta S.r.l. is now equipped with autonomous facilities and staff that is increasingly evolved and, by identifying alternative partners, able to deal with the technological shift represented by the change from CO_2 laser sources (prime product of the industrial division of El.En. SpA) to laser sources in fiber in the applications of laser cutting for metal which require high-powered sources.
For the mid-powered applications, for the cutting systems of Cutlite Penta and for the marking systems of Ot-Las, on the other hand, the contribution of the CO_2 RF sources of El.En. remain fundamental. Moreover, the financial support of the Parent Company is indispensable, in the short term for the necessary expansion of working capital and in the mid- to long term for the strategic initiatives like the expansion on the Chinese market through the subsidiaries **Penta Chutian Laser (Wuhan)** and **Penta Laser Equipment (Wenzhou).** At the end of 2019 Ot-las acquired the most important of the minority shareholder's quotas of the Chinese subsidiaries, with an operation which has important strategic implications which are better described in other sections of this document.

Penta Chutian Laser (Wuhan) and **Penta Laser Equipment (Wenzhou) Penta Laser Technology (Shandong) Co., Ltd.**

These three companies represent the solid production presence of the Group in China with four factories which, with the greatest efficiency, supply the local market for laser cutting of sheet metal, with almost 600 employees working in the dense commercial network and the effective support of after sales technical service for our clients. The Group has been present in China for more than ten years and this presence in the most dynamic market in the world for manufacturing activities, has been very significant for them. The growth in recent years has made Penta one of the most important companies on the Chinese market for sheet metal cutting because they have been able to differentiate their products from the ferocious local competition thanks to the quality of their key components which are designed and, to some extent, built in Europe, but without losing the competitive edge necessary for the local market. These characteristics have allowed the company to obtain a quota of the market which has made it among the prime players on the cutting market in China.

After the first factory in Wuhan in 2007 with Penta Chutian of Wuhan, in 2016 we added a new factory in Wenzhou, which was buit in part thanks to the support guaranteed by the municipality of Wenzhou to the new high-tech production facility. With this increased production capacity, the company was able to deal with the extraordinary growth of the market and allow for the rapid development of our sales volume. We expect further growth and for this reason in 2019 we completed construction of a third factory in the city of Lin Yi, in the heart of the region of Shandong, an important manufacturing district for the Chinese metal working industry. This new factory, which was built in record time and inaugurated in December of 2019, will benefit from significant grants from the local municipality.
The trend for 2019 showed growth only in the first half of the year and decreased in the second half of the year. The solid outlook for the future of the activities convinced the Group, at the end of 2019, to acquire the largest of the minority shareholder quotas in the subsidiary joint ventures, with an operation amounting to about 20 million Euros, which was concluded in early 2020.
In fact, at the same time, in early 2020 the Covid 19 epidemic had started to spread in the city of Wuhan, which caused the total quarantine of the city and the limitation of circulation in all of China and this situation continued during the entire month of March when there seemed to be some steps in the direction of a return to normality, but which, in the meantime has had an impact on the current results which have been felt very heavily. The potential for mid-term growth remain the same.

Quanta System S.p.A.
Quanta System became part of the area of consolidation of the Group in 2004. The company produces sophisticated laser systems both for aesthetic medicine and for surgery, in particular in the urologic sector, in which it has acquired a significant portion of the market at an international level.
Quanta has confirmed and improved the results of the previous years and in 2019 registered an extraordinary growth and, thanks to the effect of operating leverage, also the result, making the company the most profitable of the Group, with a net annual result of 13,9 million and a sales volume of 83,6 million Euros.
The source of these brilliant results is the mid-term scheduling of the research and development activities aimed at re leasing on the market various systems with state of the art technical characteristics, able to generate a strong demand for numerous applications: in aesthetics, hair removal and tattoo removal and the treatment of vascular lesions and anti aging; in surgery, high-powered lithotripsy and benign hyperplasy of the prostate(BPH) and endovascular treatments.
The results for 2019 demonstrate that the quality of the range of products together with a very high level of management in the most delicate company functions make Quanta a company with a solid and winning position on the market.
Ss far as this year is concerned, after a start in rapid growth, Quanta found itself having to deal with the effects of Covid-19 in a particularly brutal manner considering that the factory is located in Lombardy. They had to suspend production and it is not yet possible to evaluate the mid-term effects of the spread of the epidemic, in Italy and later in the other countries which represent most of its markets.

Lasit S.p.A.
The company is specialized in the manufacture of marking systems for small surfaces and conducts its production and development activities in its headquarters in Torre Annunziata (Naples). Lasit operates in the market for identification of products, parts and subassemblies which is now going through a phase of growth because of the increase in requirements for identification which characterize the manufacturing industry in general because of the stringent requirements for traceability of products that are required by the markets and by the product management systems which are conducted according to the most modern quality control standards.
Lasit is unique on its market because it offers its clientele a product of excellent quality along with customized services which it is able to provide due to the great flexibility of its manufacturing structure.
The internalization of a large part of the production stages allows the company to be, at the same time, flexible and effective in limiting costs. Thanks to these characteristics in the past few years the company has shown excellent results both in terms of growth and profitability. The year 2019 confirmed these tendencies with a growth of 13,8% in the sales volume and a net result of over two million, showing a growth of 22 % over 2018.
The mechanical workshop is equipped with state-of-the-art numerical controls and metal cutting systems so that the company can act as an internal supplier for the other companies in the Group.
In order to sustain its rapid growth which was creating difficulties from a logistic point of view and for the manufacturing spaces, in 2018 Lasit purchased a spacious piece of real estate which is adjacent to the current factory and will be able to adequately house the manufacturing processes and the other accessory activities. During 2019 they began the transfer of their activities to the new headquarters which will be complete during 2020.

Asclepion Laser Technologies GmbH
This company was founded as Asclepion-Meditec and then became the aesthetic division of Carl Zeiss Meditec, which was purchased from Zeiss in 2003. At the time the company had about forty employees who worked inside the Zeiss factory. It grew rapidly and acquired a significant position on the market of laser systems for medical and aesthetic applications, for which it constitutes one of the three business units of the Group. As of this date, Asclepion has almost

180 employees and their own factory which was recently doubled in size to prepare it for the further growth which the market trends and the investments scheduled have forecast.
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.
Asclepion is considered an authoritative point of reference on the market for the two laser technologies in which it excels: that for semi-conductor hair removal and that for erbium systems for dermatology. For the Mediostar system, the first design had already been developed before we acquired the company and later developments radically modified its structure and improved its performance, making it an international point of reference. The latest version of Mediostar, has been improved both in its aesthetics and ergonomics for use and maintenance and is equipped with Monolith applicators which are true jewels of German technology; they were launched on the market at the end of 2018 and were one of the touchstones of the expansion in 2019. The erbium technology for ablation applications in dermatology has thousands of installations, especially in Germany. The potential for applications of the system have been amplified over time thanks to accessories specifically designed for photo-rejuvenation applications and, more recently, and with an excellent response from the market, for gynecology.
In this latter sector, the Juliet system was a best seller in 2017 and 2018 while in 2019 it suffered from the drop in attention to this type of product that has been shown in the United States.
More recently, Asclepion has been involved in the surgical sector, with technologies for applications in otolaryngology and, above all, urology. For this latter segment Asclepion has developed system with holmium and thulium technology and has achieved excellent results also in terms of the technical performance of the equipment. The laser systems are marketed under the brand name of Jenasurgical, which used to be the name of a company that merged with Asclepion in order to simplify the corporate structure.
2019 was a record year, with a sales volume of 51 million Euros and the net result was close to 4 million. As with the other companies in the Group, 2020 started off well and seemed very promising for excellent results, but the crisis caused by the Covid 19 virus has undermined all expectations for growth with its brutal impact directly on the conducting of activities and indirectly on the receptivity of the market.

With Us Co Ltd

With Us Co. with headquarters in Tokyo is the distributor of El.En./Deka products for the aesthetic sector in Japan, where it has been able to acquire an important position in particular in the applicative sector of hair removal. Besides the Deka/ El.En. systems, With Us distributes creams and accessories and small equipment for the aesthetics business to its clients in large volumes considering the high number of selling points that they serve. The all-inclusive maintenance services offered to the vast number of installations also contributes significantly to the sales volume and profitability.
After a disappointing year in 2018 which closed with a loss, in 2019 the company made a full recovery, thanks to several different factors. First of all, the upgrading campaign on the large number of installations in the hair removal sector which started: in this highly competitive market we were able to offer our clients the opportunity to equip their systems with performances that were available on the latest versions, and in this way generate a good volume of business while maintaining an excellent level of client loyalty from those that adhered to the upgrade. The sales of small equipment for aesthetic treatments and for domestic use, which was also moved through the clients which manage the pre-existing installations, was very significant.
The result for 2019, thanks to the sales volume which came close to doubling that for last year, was very positive and recovered most of the losses of 2018. Expectations for 2020 are very cautious especially since we are expecting a drop in the volume of sales of upgrades and systems for home use.

ASA S.r.l.

This company, located in Vicenza, is controlled 60% by 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. Thanks to the broad range of products they offer and their ability to supply customers with training which makes it possible for them to benefit fully from their elective applications, ASA has grown rapidly and constantly over the years and always maintained a good level of profitability.
ASA is equipped with its own Research and Development office which is dedicated to the creation of diode lasers and the company has taken advantage of the Nd.YAG technology systems manufactured by the Parent Company El.En S,p,A, which distributes them all over the world, beside contributing concretely to the definition of specific products and of new applicative protocols.
In 2019 the company consolidated the results of the last few years which, however, they were unable to improve on mainly due to the trend in sales which was below expectations in the United States. This was an important year for ASA as they celebrated the construction of their new factory which is eco-sustainable and functional for the growth that the market trends delineate for the next few years.

Other companies, medical sector

Deka Sarl distributes Deka brand medical systems in France. Its presence represents an important outpost which is valuable for maintaining the position of the brand on the French market and those of the French speaking countries of North Africa. The company represents an important marketing point but the high cost of distribution has made it impossible to achieve the break even in the last few years. In 2019 they showed a significant loss and we are counting on a restructuring in order to achieve a better result in 2020. The start of the year was good but the impact of the Corona virus risks to frustrate their efforts.

Deka Japan, operates by distributing Deka brand medical systems in Japan; in 2018 they began the operational phase in collaboration with DKSH, which became the exclusive distributor and concentrated their activity on obtaining the authorization for the sale of new products and on supplying logistic support for DKSH. The results for 2019 show a slight profit, caused by a volume of business which is still below expectations for this applicative segment in Japan.

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

Esthelogue S.r.l. distributes in Italy the technologies of the Group in the professional aesthetics sector. This is a very lively and articulated market in which Esthelogue is a recognized brand that has achieved a leading role for laser technologies for hair removal and for non-invasive body contouring. For hair removal, the Mediostar systems produced by Asclepion Gmbh represent the most characteristic product offered by Esthelogue, and it is able to satisfy every requirement of the clientele with a range that goes from the most economical light systems to the powerful Monolith handpieces of the latest generation. In the applications of non-invasive body contouring, along with the Icoone systems, hundreds of which have been sold in the past few years, in 2019 they added the B-Star which uses innovative technologies and methods.
The success of this system was the driver in the re-launching of the results of the company which took place in 2019. The systems that are offered are characterized by a level of quality and safety that is unequaled in the aesthetic sector since they come from European companies that operate in the medical sector. This position on the highest level of product quality was completed by another decisive factor in their success, the training programs, and customer assistance services which transfer value and knowledge to the users of our technologies. The results for 2019 show the growth in sales volume and recovery of profitability. The adaptation of the results to the accounting standards of the Parent Company, with the application of IFRS 15 to the revenue frustrate only in the appearance of the representation, the excellent result obtained and postpone to future years the registration of the part of the margins earned on the sales and cashed in this year.

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.

Galli Giovanni & C. Srl became part of the Group in June with the purchase by Quanta of the majority control of 70%. The company is a mechanical workshop specialized in high precision mechanical working and was formerly a qualified supplier to Quanta System. Thanks to the characteristics of the CNC machinery and the high professional level and specialization of the personnel, the company will contribute to maintaining the high level of quality and flexibility in the production of the mechanical parts which constitute a category of purchases that is very important also from the point of view of production costs. The workshop will be located in the factory at Samarate in order to optimize collaboration with the production, planning and engineering departments of Quanta System.

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 with abut twenty employees they produce laser systems for industrial applications and distribute the laser systems manufactured by the group companies in Italy. In 2019 Cutlite took advantage of the opportunity which also in Brazil has been offered by the technology of laser cutting of sheet metal with laser sources in fiber. The sales volume tripled with respect to last year and the profitability improved considerably. The net results was still negative because of a decline in the margins on sales which was due to the fact that most of the sales were made as a distributor and not as a manufacturer. This circumstance re-launched the role of the company in the Group as a client and important distributor for Cutlite Penta Srl.

Penta Laser Europe Srl was founded by Penta Laser Wenzhou which owns it 100%, for the purpose of acting as a holding company for investments to be made in Europe; in 2019 it was liquidated and in the month of December it was cancelled from the Register of Companies.

Research and Development activities

During the 2019 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 in order to identify and understand real problems in some sectors of medicine and, on the basis of the experience and know-how that we have acquired, we look for solutions concerning the interaction of the electro-magnetic waves, mainly of the laser light, with biological materials, by conducting experiments and preliminary tests in the laboratories that have been specifically created for this purpose at El.En. For industrial applications and for the conservation of works of art we also study the interaction between the electro-magnetic 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 highly innovative subjects which represent major entrepreneurial risks, which are, however typical of our international dimension 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.

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

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 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 the surgical field of 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 urogynecoloy with the Mona Lisa 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. Moreover, we are now obtaining exceptional results in the treatment of chronic lesions and ulcers at several different medical centers where they are using CO_2 lasers.

In this sector we have introduced the possibility of using a laser light for conducting the debridement, that is, the removal of the necrotic tissue and other tissues that are preventing the healing of the lesions by destroying the bacteria even by attacking the biofilm which otherwise would be very difficult to remove. The treatment of chronic ulcers using lasers is based on the characteristics which we have designed, which are essential in the cleaning phase of the sores in order to reduce the presence of bacteria in the ulcer and greatly reduce the pain suffered by the patient, but also for the bio-stimulation capacity which is activated by the laser light, and which we consider our “cultural heritage” since it is the result of the lengthy research and numerous experiments which we have conducted over the years.

We have continued the successful introduction on the market of the line of equipment for hair removal called Motus, with the most recent model AY which, after the CE Medicale, obtained clearance by the FDA for sale in the USA. The Motus equipment is based on an original concept which lets the operator use the handpiece in movement with the density of the energy which causes no pain. This method has obtained great success thanks to the accumulation of the damage to the hair follicle which is caused by the repeated passages of the handpiece emitting energy. New, more functional applicators have been created for the Motus range and released on the market in 2019.

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

We have concluded the development of the Luxea platform, that obtained FDA clearance and we have continued gathering data from the clinical trials; this is a high performance device which permits a wide range of applications in aesthetic medicine; it contains the main laser sources for the various applications. The level of integration and management have been particularly appreciated by the first experimenters and the first clients that purchased it. CE certification and certification for some non-European countries have been obtained.

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 continue in 2019 with considerable success. We have deposited the request for a European patent.

In 2019 we concluded the research project FOMEMI (Sensors and instruments with photonic technology for minimally invasive medicine) for which we had obtained co-financing from the Region of Tuscany with European funds as part of the BANDI RSI- POR FESR 2014-2020. El.En. was the project leader along with highly qualified partners consisting of companies like B.B. S.p.A., Fabrica Machinale S.r.l., and research institutions like ENDOCAS of the University of Pisa and the Scuola Superiore Sant’Anna. During this project we studied and developed laser technologies and devices for several different clinical applications, for example: the treatment of chronic pathologies like diabetic feet, removal of neoformations of the breast and the brain, treatment of benign hypertrophy of the prostate. We developed a high resolution vision system with multi-spectral illumination including three-dimensional; with this instrument we will be able to gather data during the evolution of the lesion after the treatments, on the size of the area of the lesion and the segmentation, even in interactive form with the operator, in order to determine the limits of the area occupied by the various components that are present and typical of the pathology and document their evolution over time during the various therapeutic sessions.
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 skin ulcers in order to reduce fatigue in both the doctor and the patient during the therapeutic session.

We have continued gathering objective data for the clinical evaluation of the results in order to increase the amount of specific scientific literature related to our innovative system for body shaping, Onda Coolwaves. The Onda technology permits the reduction of the layer of sub-cutaneous fat in various parts of the body and, starting even in the first session, a significant reduction of the orange-peel effect on the skin which is caused by cellulitis the equipment is based on the use of a form of electro-magnetic microwave energy which is able to reduce the adipocites. The device is equipped with innovative applicators which make it intrinsically safe by preventing the emission of energy when they are not in contact with the skin. The method used for the emission of the energy, for which we have received recognition of PTC patentability, makes it so that most of the energy is absorbed by the sub-cutaneous fat according to the design; in this way an additional protective element is obtained because the muscle layers beneath the fat are not subjected to heat that is produced. We have obtained EC certification and, for a version of the product with reduced power and number of uses with respect to the original version, we have obtained FDA clearance for sales in the United States. 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.

We have concluded work on the development of systems with wave guide coupling for CO_2 lasers and we have obtained CE certification for surgical applications with single use guides; we are now in the process of obtaining EC certification for guides that can be re-sterilized and we have already obtained the 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, including the experiments on the prototype, of a RF feeder for exciting the sealed CO2 laser source for medical applications (surgical and dermatological), which was redesigned for the purpose of making it possible to integrate it directly on to the laser source and thus reduce the volume and the cost of the complete system while respecting the requirements for electro-magnetic compatibility..

We completed the development of the “RED TOUCH” laser device for dermatology and we have applied for an international patent for the device and the method (for the USA).
In collaboration with Quanta System SpA we have completed the development of 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.

We have applied for new patents at the Italian and some foreign patent offices.

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; as part of this project they have continued the experiments with a prototype of a new single-use morcellator for applications in urology which will be released on the market as soon as the necessary certifications are acquired.

Now that the CE Medical brand and FDA clearance are obtained, the 100W holmium laser for BPH applications and for enucleation of the prostate will complete the 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 before proceeding to the clinical trials..
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 ad new design.
They have developed an automatic recognition system for blood vessels for vascular treatments using a camera, and started experimentation.
In the month of November, with great success, they released on them market the Picostar system, Asclepion’s pico-second laser for the removal of tattoos which has outstanding characteristics which distinguish it on the market for the high energy level of its ultra-short impulses.

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.
They have perfected the FIRMW systems for dynamic scanning performance in order to obtain increased precision.
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.

At **Cutlite Penta** they have continued experimentation on a new line of machines that were made in 2018 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 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 CO_2 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 CO_2 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.

At **Ot-las** they have 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 CO_2 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 costs of Research and Development for this period:

Thousands of Euros	**31/12/2019**	**31/12/2018**
Staff costs and general expenses	11.145	9.995
Equipment	310	197
Costs for testing and prototypes	2.783	5.404
Consultancy fees	575	522
Other services	201	99
Total	**15.014**	**16.218**

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

The amount of expenses sustained corresponds to about 4% 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 financial statements of the Group.

With US Co. Ltd., in the preceding years, stipulated a derivative 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	€ 200.000	-€ 3.535
Total	**€ 200.000**	**-€ 3.535**

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 6% of the total accounts receivable from third parties. For an analysis of the overdue receivables 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 which was not renewed.

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 new Chinese subsidiary, Penta Laser Technology (Shangdong) obtained financing for the construction and equipping of their new factory by taking out a mortgage for the overall amount of about 6,8 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 in 2018 Asa underwrote a bank guarantee issued by CREDEM to the supplier ENI Spa for the amount of 8.000 Euros with expiration date on December 31st 2021, as a guarantee for the issuing of thirteen MULTICARD ENI cards after they underwrote a contract for the purchase of fuel.
During 2019 ASA also underwrote a bank guarantee policy issued by ELBA Assicurazioni SpA in favor of their client ASST DI MONZA for 600 Euro with due date on November 12th 2020, as a guarantee for the correct fulfillment of all the contract obligations inherent to the sale of a therapeutic laser device.

The German subsidiary Asclepion in 2018 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 million Euros which is added to the residual mortgage taken out for the construction of the old building for the amount of about 427 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. SpA. 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 resolutions described above.

On September 14th 2019 the period in which it is possible to pick up the first set of options began. As of December 31st 2019, 225.338 options had been picked up out of the 400.000 available on September 14th 2019 and therefore that number of shares was issued and underwritten.
Consequently, on December 31st 2019 the capital stock that had been underwritten and paid out amounted to 2.537.965,30 Euros and is divided into 19.522.810 ordinary shares with a value of 0,13 Euros each.

TREASURY STOCK

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.

With reference to this resolution, at the date of the present statement no operations have been initiated and consequently at this time the Parent Company does not possess any treasury stock.

STAFF

As already mentioned, the number of employees in the Group rose from 1.368 on December 31st 2018 to 1.498 on December 31st 2019. The chart below shows the number of employees in each company:

Company	2019 average	31-dec-19	31-dec-18	Var.	Var.%
El.En. S.p.A.	246,50	249	244	5	2,05%
Ot-las Srl	12,50	13	12	1	8,33%
Cutlite Penta Srl	65,50	72	59	13	22,03%
Deka M.E.L.A. Srl	24,00	26	22	4	18,18%
Esthelogue Srl	20,00	19	21	-2	-9,52%
Deka Sarl	13,00	14	12	2	16,67%
Lasit SpA	61,50	67	56	11	19,64%
Quanta System SpA	167,00	172	162	10	6,17%
Galli Giovanni & C. Srl	3,50	7	0	7	0,00%
Asclepion Laser T. GmbH	147,00	151	143	8	5,59%
Asa Srl	53,50	55	52	3	5,77%
BRCT Inc.	0,00	0	0	0	0,00%
With Us Co Ltd	44,50	42	47	-5	-10,64%
Penta-Chutian Laser (Wuhan) Co., Ltd	108,00	109	107	2	1,87%
Cutlite do Brasil Ltda	21,50	21	22	-1	-4,55%
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	415,00	421	409	12	2,93%
Penta Laser Technology (Shangdong) Co., Ltd.	30,00	60	0	60	0,00%
Merit Due S.r.l.	0,00	0	0	0	0,00%
Total	**1.433,00**	**1.498**	**1.368**	**130**	**9,50%**

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 hasb 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 2019 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 30th 2016.
The consolidated Non-financial Statement for 2019 can also be consulted on the site www.elengroup.com - "Investor relations/financial documents/reports and 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 Regulations were updated and modified by the Board of Directors during the meeting held on March 14th 2019. The updating consisted in the repetition in the Regulations of some of the rules contained in the Consob Regulations on Related Parties instead of simple references to them in order to facilitate the reading and the reconstruction of the operating structure as well as in the detailed disciplining of the so-called "equivalent safeguards" included in the Consob Regulations on Related Parties. The modification consisted in the refinement of the provision of article 6 in relation to the resolutions regarding operations in which there is a relation derived from the interest of an administrator or an auditor. In this regard, they replaced the requirement to leave/abstain from the vote with the power of the independent administrators to request the postponement of the meeting in order to acquire further information.
During this year, in relation to the previously described operation for the purchase by the subsidiary Ot-las s.r.l. of the minority shareholders' quota of the Chinese companies Penta-Laser Equipment Wenzhou Co., Ltd and Penta-Chutian Laser Wuhan Co., Ltd, we voluntarily published an information document in compliance with art. 5 of the *Regolamento Consob Parti Correlate 17221/2010* and art. 1.2. of the regulations disciplining relations with related parties adopted by the Company. The document is available on the site of the Company www.elengroup.com sez. Investor Relations.
The other operations conducted with related parties including the inter-Group operations cannot be defined as atypical or unusual. These operations are regulated at ordinary market conditions.
Concerning the relations with related parties, please consult the relative Notes in the consolidated financial statement of the El.En. Group and the separate financial 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 Markets Regulations

(adopted after 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 2019 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 for the subsidiary Esthelogue S.r.l., for the three year period 2012-2014 and for the subsidiary Ot-las srl, for the three year period 2019-2021 for the subsidiary DEKA M.E.L.A 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 1st 2018. The relations between the parties, as far as this law is concerned, are regulated by the special “Consolidation Agreement”.

SUBSEQUENT EVENTS

On January 3rd 2020 to the Chamber of Commerce of Wenzhou a new business license for Penta Laser Wenzhou was registered for the acquisition by Ot-las of a further quota of 29,7%. The amount was about 20 million Euros and it was paid within the following 15 days once the authorization had been obtained from the Chinese authorities for the importation of currency. An earn out of 40 million Renminbi (about 5 million Euros at the current Exchange rate) will be paid if certain events occur, in particular, in the case of an IPO of Penta Wenzhou within 5 years of the agreement.
The percentage of ownership of 83,23% obtained in this way in Penta Wenzhou is therefore related to the entire group of Chinese activities that are now controller 100% by Penta Wenzhou itself, that is, Penta Chutian of Wuhan and Penta Shandong of Lin Yi. With the decline in the power of the minority group we are confident that we will be able to increasingly take advantage of the opportunities for development and growth of the operating structure in terms of the production and marketing capacity that has been organized an re-enforced in China in the last few years, and we are confident that the setback caused by Covid 19 can be overcome and that we can recover the positive trend that has been shown in the past few years.

COVID-19 EMERGENCY

By mid-January it was becoming clear that the spread of the epidemic with its epicenter in the city of Wuhan and the restrictions adopted by the Chinese government were drastic, with house quarantines imposed in all of the province of the city of Wuhan, Hubei and other provinces. There is still even now a limitation on the circulation of people and the city of Wuhan is blocked, while in the other provinces life is gradually returning to normal thanks to the substantially stable number of new victims.

The effects on the activities of the Group were significant and the three factories in China were forced to extend their holiday closure and interrupt production. At Lin Yi and at Wenzhou activities started up again at the beginning of March at a very slow pace because of the difficulties in moving from one province to another, while at Wuhan, where most of our employees live, the city remains under quarantine. Although the block in the production capacity will soon be overcome, it will take more time for the demand to return to the levels which were expected for 2020.

Also in Italy, the emergency measure taken by the government effectively blocked sales in Italy, while, despite the difficult conditions, where possible and permitted, and with the maximum consideration for the health and safety of the workers, production continued in order to satisfy the many orders that were coming from abroad. The restrictions that were imposed caused the cancellation of the fairs and symposiums that are a point of reference for the Group and prevented them from travelling and conducting the usual promotional and marketing activities even in other countries.

CURRENT OUTLOOK

The forecast which we made at the end of last year envisioned the concrete potential for rapid growth both in the medical and industrial sectors thanks to sheet metal cutting in Europe and, above all, China, and the rapid expansion of sales of laser systems for aesthetic and medical applications in the United States, while for the other applicative we expected a consolidation of the competitive positions and a slight growth in the volume of business. The brilliant start of the year seemed to confirm these forecasts.
The explosion of the Covid 19 virus and its consequences on the economic activity first in China and then in Italy, and the rest of the world, make it very complicated to formulate any forecasts related to the financial results of the Group and for this reason we prefer to postpone any forecasts to a time when the entity and the duration of the pandemic have become more evident and the impact of the effects of Covid 19 on our activities.
We must expect a period in which the entire world scenario is uncertain and, for this reason, the next few months may turn out to be particularly difficult from an economic point of view: we must be prepared for other scenarios and recurrences and, in any case be ready to adopt adequate and opportune measures although we know that the capitalization level of the Company and of the Group and the net financial position are such that, on a short term basis, the financial and economic equilibrium will not be compromised, even if there is a significant reduction in sales volume with the same overhead for which, considering the extraordinary measures of an economic and financial nature that many governments are taking in order to sustain the companies in these unusual circumstances, the Group is, in any case, able to diminish the incidence.

DESTINATION OF NET INCOME

To our Shareholders,
While submitting the separate financial statement of El.En. S.p.A. as of December 31st 2019 to your approval, we propose:
- to assign all of the net income for 2019 to an extraordinary reserve;
- to distribute the shares in circulation on the date that Coupon 4 came due on May 25th 2020 in compliance with art. 2357-*ter*, second sub-section of the Civil Code, a dividend for the amount of 0,40, Euros (zero point forty) gross for every share in circulation;
- to use, for the distribution of the dividend the retained earnings before December 31st 2107 accrued in the extraordinary reserve for an amount which is currently 7.817.174,00, Euros while recognizing the fact that this amount may be increased by other sums which were necessary for the distribution of the divided of the shares in circulation on the due date for picking up the stock options in the period between today's date and the record date (May 26th 2020);
- to accrue, where possible, in a special reserve of retained earnings, the residual dividend destined for treasury stock which may be held by the company on the date that the coupon comes 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 13th 2020

Financial year 2019

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 2019 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 was later included in the FTSE Italia small Cap index, FTSE Italia Star segment and the, at the end of 2019 it was again included in the FTSE Italia mid Cap Index.
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 and due to the effects of Consob resolution 20621 of October 10th 2018, El.En. Spa for the purposes of verification of the qualification as PMI as per art. 1, sub-section 1, lett. w-*quater*, 1) TUF and art. 2-*ter Regolamento Emittenti Consob*, and on December 18th 2018 they transmitted the amount of capitalization for the years 2014-2017 and the sales volume related to those years.

On the date of publication of this Report Consob had published on its site the list of PMI as per art. 2-*ter*, sub-section 2, *Regolamento Emittenti Consob* as of September 30th 2019.

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 are revised periodically 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 15th 2019 and will remain in office until the approval of the financial statements for 2021.
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.

Independent Auditors
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.
During this year, on September 12th, the Ethics Code was modified and the black-out period as per Reg.EU, art. 19 was extended to the 30 days preceding the approval of the quarterly reports.

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2.0 INFORMATION ON OWNERSHIP (ex art. 123-bis, sub-section 1, TUF) as of December 31st 2019

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.
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*.

On September 14th 2019 the period for picking up the first set of stock options for the Stock Option Plan 2016-2025 began. On the 31st of December 2019 225.338 options out of the 400.000 available on September 14th 2019 had been picked up and consequently underwritten and the same number of shares was issued. Therefore, on December 31st 2019 the capital stock that had been underwritten and paid out amounted to 2.537.965,30 Euros and is divided into 19.522.810 ordinary shares having a value of 0,13 Euros each.

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 2019 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.

The company by-laws do not contain in particular regulations related to modifications in the by-laws.

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 who still occupies this position.

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 on the board of El.En.and she id sole administrator and president of the boards of some of the companies in 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 president or board member 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 14th, 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.

(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	• None.	0
Fabia Romagnoli	• Managing director of Mariplast Spa • Sole director of Goldplast s.r.l. • Administrator of Interporto della Toscana centrale s.p.a.	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.
The Company will modify where necessary, the Composition and Diversity Policy in due time for the renewal of the Company positions on the expiration dates for the purpose of taking into consideration the modifications made to art. 147- ter T.U.F. of rt. 58-sexies, sub-section 1 of Legislative Decree 124 of October 26th 2019, converted with of L. n. 157 of December 19th 2019 and then by art.1, sub-section 302 of Law 160 of December 27th 2019 in the text republished in the G.U. no. 13 on January 17th 2020, which states that “ the criteria of a division of two fifths stated in sub-sections 302 and 303 must be applied starting first with the renewal of the administrative and controlling bodies of the companies quoted on the regulated stock market after the date that this law has come into force, while the division of at least one-fifth stated in art, 2 of law 120 on July 12th 2011, for the first renewal after the date of the start of the negotiations.

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 2019 none of the current board members or auditors has exceeded the maximum number of positions.

Induction Program

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.
In particular, this year the induction program focused on the modifications made to the set of regulations of EU directive 2017/828, the so-called Shareholders' Rights.II which modified the EU directive 2007/36 EC and the related Italian laws for implementation (D.Lgs.49 of May 10th 2019, L. October 4th 2019, n. 117) which effect the corporate governance.
Generally speaking, 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 2019 the Board of Directors met five (5) times on the following dates:

1. March 14th
2. May 15th
3. July 19th
4. September 12th
5. November 14th

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 this year was 2,8 hours (1.C.1, letter I, n 2)

During the financial year 2020, the Board of Directors has met on the following dates:

1. March 13th

and, on November 14th 2019 established the following calendar of meetings in compliance with the company regulations (1.C.1.letter i):

2. May 14th - Quarterly report as of March 31st 2020;
3. September 12th – Half-yearly report
4. November 14th – Quarterly report as of September 30th 2020.

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). During this year we proceeded with the implementation of a system which would make all of the necessary documents available using a digital platform with reserved access protected by authentication of credentials.
At this time the availability of the documents is not determined abstractly but evaluated by the President in relation to the subject for which the documents to be transmitted are instrumental and relevant.

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.

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 principal legal counsel of El.En, also secretary of the Board, 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 14th 2019 (related to the activities of the second half of 2018: 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; the analysis of the area of human resources with reference to the methods for the rotation of the job consultant and implementation of a single integrated instrument for the management of the human resources; the activities conducted as part of the L. 262/05;), of September 12th 2019 (referred to the first half of 2019; updating of the matrices of the areas subject to control and the control activities that have been conducted and/or scheduled; analysis of the methods for managing the area of supplies and scheduling of purchase: 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 2019 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 company Cutlite Penta S.r.l.
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).
During this year with reference to the acquisition by the subsidiary Ot-las E.r.l. of the minority equity in the Chinese subsidiary Penta Laser Wenzhou, Ltd. which had a significant financial effect on the Group and consequently on the Company, there was a resolution taken by the Board of Directors similar to that taken by the subsidiary which the concretely concluded the operation.

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.
Article 6 of the *Regolamento Parti Correlate* was subjected to revision and, in the meeting held on March 14th, 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, 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 the year this evaluation was conducted on March 14th. Every year it is conducted on the basis of the evaluation, first by the Nominations Committee and later by the Board on the basis of several different factors like the results of an interview in the form of an anonymous questionnaire which is filled out by the non-executive independent board members and by on the functioning of the Board; the comparison of the composition of the Board with the contents of the regulatory and self-disciplining rules and the Composition and Diversity Policy adopted by the Company; the observations on the trends of the Company and of the Group even in the interim period, the results in terms of company objectives.

Bearing in mind the proposal formulated on this subject by the Nominations Committee which met on March 12th, the assessment had a positive outcome, with the positive outcome of the examination conducted by the Board for the appointments held during the meeting in Mat 15th 2018 and the unchanged composition of the Board on that date.

In particular the Board established that the current Board is in conformity with company by-laws and regulations which reflect the requirements of the Composition and Diversity Policy adopted by the Company and supplied to 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 correct functioning of the latter will avoid an exclusive concentration of positions and powers in the management of the company directed by the President; that the appointment of the internal commissions into which it is divided are in conformity in terms of the requirements of the members 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 division of the operative management powers.

For this reason the Board, after hearing the opinion of the Nominations Committee, during the annual self-evaluation on March 14th, 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 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, and at least, 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 with a frequency that was even less than quarterly considering the reduced frequency which was less than quarterly for the board meetings which were effectively held besides those that were scheduled 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 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.

During the approval of the financial statement for 2018, the Board, during the meeting of March 14th, 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 January 10th and November 13th. They discussed the analysis of the internal procedures of the Company related to internal dealing and those related to operations with related parties as well as issues related to sustainability understood as a holistic concept of the Company and driver of the management of the latter.

At the moment of the presentation of their candidacy in the lists for appointment to the current 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 they 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 controlled circulation of the confidential information and the treatmet and diffusion, 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 treatment and diffusion.
The FGIP must report when needed and, in any case, at least once a year, to the Board of Directors concerning the activities they have conducted in reference to the treatment of confidential information.
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 and 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. When needed, 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, is 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, starting in 2003, the Company had already adopted an internal ethics code concerning *internal dealing.*
In 2006, 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 intervention of the lawmakers.
Since 2006 and then after several resolutions of the Board, El.En, following the recommendations of Borsa Italiana, had inserted into the new ethics code which was 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*") 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 (which at the time was for 15 days) upon the occasion of the approval by the board of the financial statement for the year and the relative intermediate reports.
Later, after Reg. EU 596/2014 came into force, the Code 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, among other things, introduced to a primary level the law which prohibits people who work in an accounting, control or management function from conducting operations for themselves or for third parties directly or indirectly related to financial instruments of the Company in the 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) the Company during this year also extended this prohibition to the approval of the quarterly reports.
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.

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 this year the committee met once (on March 12th).
All of the members were present.
The meeting held on March 12th lasted 80 minutes.
The work that was conducted during the meeting was coordinated by the president.
The Board of Auditors was present with two members.

During 2020 the Nominations Committee had planned to meet during the first semester.

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 Nominations 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 2018 financials.

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 12th , May 14th and September 12th.
All of the members were present.
The average duration of the meetings was sixty minutes.
The work conducted during the meetings was 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 2020 the committee has met once, on March 13th.
The Committee will proceed with the meetings necessary for conducting their activities in relation to the remuneration system of the Company and the new legislation and regulations which may appear *medio tempore.*

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 the degree to which the goals that had been set for the incentive salary plan for 2018 have been reached 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 2019. 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.
c) Contributed to the introduction, among the objectives related to the variable components of the remuneration of executive administrators, of those, even on a multi-year basis, concerning sustainability and the determination of the parameters for measuring the Company’s performance to which one can refer for the evaluation of the extent to which the goals have been achieved.
d) On the occasion of the expiration date for picking up the options that are part of the Stock Option Plan 2016-2025, verification of the conditions established by the relative regulations for picking up the options by the executive administrators and the general director.

At the meeting held during the year, the Board of Auditors was either represented by at least 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/2020 /ASSEMBLEA ORDINARIA JUNE 4th – JUNE18th 2020*.

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 2019 for the inspection and decision of the shareholders' meeting during the meeting for the approval of the financials for 2018. 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 and those related to sustainability 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 Stock Option Plan 2016-2025 already described in section 2,0, letter a) of this report, as implemented by the Board with the resolution taken on September 13th 2016 establishes in reference to the administrators of El.En., in compliance with Applicative Criteria 6.C.2.

a) For all beneficiaries, a vesting of three years: for the options assigned on September 13th 2006, a first set can be picked up 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 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, managing directors) is related to specific performance objectives both of an economic nature and goals reached by the Company, which are indicated in advance and set by the Board upon the recommendation of the Remuneration Committee, consistently with the incentive policy formulated by the Board and approved by the shareholders' meeting on May 15th 2019, 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 14th 2019 and since it was later definitively confirmed by the Shareholders' meeting without any modifications, the guidelines for the remuneration policy for 2019-2020 proposed by the Board, were approved during the meeting held on May 15th 2019.

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 Internal 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 has met four times: on March 14th , July 19th , September 12th , and November 14th and has participated through its president in the work conducted by the Board of Auditors for the selection of the Independent Auditors for 2021-2029.

The average duration of the meetings was 100 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 2020 the Committee for Controls and Risks has already met once, on March 13th.
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 propositive 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 evaluation of the activities conducted by the executive manager as per law L. 262/2005.
b) Examination and assessment of the audit plan for 2020 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 area of human resources with reference to the methods of rotation of the labor consultant and the implementation of the creation of a single integrated instrument for the management of the human resources, analysis of the methods for managing the sector of purchasing and scheduling of purchases.
c) Examination and assessment of the recommendations contained in the Letter of the President for Corporate Governance of the Italian Stock Market (*Borsa Italiana*) and support of the Board in the identification of a quick and rapid method for supplying information before the board meetings.
d) Examination and assessment of the operations with related parties which gave rise to the issuing of an opinion in relation to art. 5 of the Regulations for Related Parties on November 14th.
e) On the initiative and with the help of the FGIP, a revision of the *Ethics Code on internal dealing for operations conducted on financial instruments of El.En. Spa* with an aim to continually improving it and the extension of the blackout period, as per art. 19 of the Reg EU 596/2014 (MAR), to 30 days preceding the approval of the quarterly financials.

f) in relation to the procedure for appointment to the position for conducting the legal revision services for the Company and the companies of the Group for the nine-year period 2021-2029, in compliance with Reg, EU 537/2014 and Legislative Decree 39/2010, they gave support activity to the Board of Directors, the Board of Auditors through the participation of their president in the work of the Committee examining of proposals that had been presented by the auditing companies and sent by the Board of Directors to the proceedings.

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 for 2020 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 14th, 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., letters 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., letter 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, letter 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, letter 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 human resources with reference to methods to be used for the rotation of the labor consultant and the implementation of a single integrated instrument for the management of human resources, analysis of the method for managing the area of purchasing and scheduling purchases and the activities conducted in compliance with law 262/05.

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The function of internal auditing with reference to the area of drawing up the financial statement which is an activity of the ex-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.
In relation to this the Company began the procedure necessary for the appointment of a new firm to conduct the auditing services for El.En. Spa and the companies of the El.En. Group for the nine-year period 2021-2029.

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 Attachment 3 of the Regulations on Related Parties CONSOB, 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.

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 Statutory Auditors was 4,5%, in conformity with art.25 of the company by-laws, art. 144-sexies of the Reg. Emittenti and CONSOB resolution no. 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)

The Board of Statutory Auditors is the body that, in compliance with the regulations and company by-laws has the task of supervising the observance of the laws and of the by-laws following the standards of correct administration, the adequacy of the organizational structure of the Company in relation to competence, system of internal controls, administrative and accounting systems used by the Company and their concrete functioning. Moreover, the Board of Statutory Auditors must supervise the subjects indicated in art. 19 of D.Lgs of January 27th 2010 no. 39 as well as the methods for implementing the rules of corporate governance stated in the Code, the conformity to the Consob regulations and the effective implementation of the company procedures in relation to related parties.
This board must also supervise the adequacy of the instructions given to the subsidiary companies so that these latter supply all of the information necessary to comply with the obligations for communication in compliance with the law.

According to the Company by-laws, when requested by the Board of Directors the Board of Statutory Auditors also conducts supervising activity in compliance with art. 6 of D. Lgs of June 8th 2001, no. 231.

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, since no other lists were presented at the time of the elections held on May 15th 2019.
The election took place, with a vote in favour of 13.903.212 shares which is equal to 68,423% of the capital stock.
The mandate of the present Board lasts for three years and will terminate with the approval of the financial statement for 2021.

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 Gino Manfriani in the following section: www.elengroup.com/investor www elengroup.com (section "*Investor relations"/governance/documenti assembleari /2019/assemblea ordinaria e straordinaria 30 aprile 2019-15 maggio 2019*").

As of December 31st 2019 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, Via Francesco Corteccia 28/2	Firenze, December 6th 1956
Daniela Moroni	Supplementary auditor	Firenze, Borgo Pinti, 80	Monteverdi Marittimo (Pisa) September 16th 1952
Gino Manfriani	Supplementary auditor	Firenze, Via A. La Marmora, 29	Borgo San Lorenzo (FI), April 26th 1963

The average duration of the meetings of the Board of Auditors was 115,71 minutes.
14 (fourteen) meetings were held during the year.
There are 5 (five) meetings planned for this year (2020) of which three have already been held: January 31st, February 21st and February 27th.
The President participated in 86% of the meetings, acting auditor Paolo Caselli in 100% and acting auditor Rita Pelagotti in 77%.

The Company always places at the disposal of the Board of Statutory Auditors the staff and resources that the Board feels necessary in order t conduct the functions in compliance with art. 25 of the by-laws.
The Board has always participated actively in the meetings and the activities of the Committee for Internal Controls and Risks with the manager for internal auditing.
The acting member Mr. Paolo Caselli, moreover, on the basis of a resolution taken by the Board of Directors on March 31st 2008 which was then confirmed at every renewal of the Board of Statutory Auditors and ultimately on May 15th

2019, is president of the supervisory body *ex* D. Lgs. 231/2001.
The reporting activities of the internal auditor and the executive officer responsible for the preparation of financial statements are conducted in relation to a commission for internl controls in the broader sense, including the Committee for Controls and Risks and the Internal Controls Committee *ex* D. Lgs. 39 cit.

As of December 31st 2019 the following acting 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. - Acting auditor of Quanta System s.p.a.

<u>Diversity policies</u>

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.

In fact, the company by-laws state a limit in the number of positions in compliance with art. 148-bis TUF, and consider a cause for ineligibility and dismessa of the candidate or the elected,a uditors who are also acting auditors in more than five companies that are quoted on the stock market as well as for those who are in situations of incompatibility or who have exceeded the limit imposed by the Company Regulations (art. 144-*duodecies* and following)

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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<u>The Board of Statutory Auditors:</u>

- 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*; the Board of Directors took note of the declaration of possession of the conditions when they accepted the candidacy.

- 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, they applied the criteria stated in the Code with reference to the independence of the directors (Applicative criteria 8.C.1.). In particular with reference to the duration of the position in the Board of Statutory Auditors they decided that the circumstance that two of them held their respective positions at El.En. SpA for more than nine years did not in itself constitute a relation of the type that would affect their independence, in the absence of other significant relations among those listed in art. 148, sub-section 3, D. Lgs 58/98 cited and criteria 3.C.1 of the Code.

All of the verifications, therefore, 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 14th first and then after the renewal, during the assembly.

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 15th 2012.

During the year, moreover, the Board of Statutory Auditors, as part of the process of selection started by the Company in order to choose an Independent Auditors for the period from 2021 to 2029, conducted functions of CCIRC, the body responsible for the entire procedure in compliance with art.16, paragraph 3, sub-section 2, of the EU Regulations 537/2014 and art. 19, sub-section 1, letter f) of D. Lgs 39/2010.

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.

***

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, during the meeting held for the approval of the 2018 financials reported in relation to the activities conducted and scheduled. Moreover during both of the meetings held during the year, they 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.

With reference to the shareholder' meeting which will be held for the approval of the financial statement for 2019, the Company will make sure that it is conducted using all the measures dictated by the Government, in particular, in compliance with D.L. 18 of March 17th 2020, for the protection of the health of the participants.

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 21st 2018 FROM THE PRESIDENT OF THE CORPORATE GOVERNANCE COMMITTEE

The recommendations contained in the letter received from the President of the Corporate Governance Committee 2018 (“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 12th 2019 (Nominations Committee), May 14th 2019 (Remuneration Committee), and on September 12th 2019, (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 May 15th 2019 and September 12th 2019 of the various aspects indicated by the non-executive board members and by the independent ones could be improved in the methods of supplying information before the board meetings concerning non-economic objectives and of a mid- to long-term period related to the variable part of the remuneration of the executive administrators.
For this period we implemented a segregated but easy to use digital system for the transmission to all of the board members and auditors for the consultation of the documentation used during the board meetings.
From the point of view of the objectives of remuneration of the executive administrators, they developed objectives on a multi-year basis related to sustainability issues which are described and analyzed in the remuneration report which will be presented to the shareholders during the assembly which is called to approve the financial statement for December 31st 2019.

With reference to the Letter of December 19th 2019, 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 2020.

For the Board of Directors
The President – Gabriele Clementi

TABLES

TABLE 1 – INFORMATION ON OWNERSHIP

On the basis of information supplied by El.En. on December 31st 2019.

STRUCTURE OF CAPITAL STOCK				
	Number of shares	% of the capital stock	Quoted	Rights and obligations
Ordinary shares	19.522.810	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 as of December 31st 2019			
Person declaring	Direct shareholder	Quota % of the ordinary capital	Quota % of the voting capital
ANDREA CANGIOLI	ANDREA CANGIOLI	15,047	15,047
ALBERTO PECCI	S.M.I.L. S.R.L.	10,305	10,305
GABRIELE CLEMENTI	GABRIELE CLEMENTI	9,656	9,656
IMMOBILIARE DEL CILIEGIO	IMMOBILIARE IL CILIEGIO s.r.l.	7,425	7,425
BARBARA BAZZOCCHI	BARBARA BAZZOCCHI	5,063	5,063
KEMPEN CAPITAL MANAGEMENT N.V.	KEMPEN CAPITAL MANAGEMENT N.V.	6,659	6,659
ALBERTO PECCI	ALBERTO PECCI	0,341	0,341

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors as of December 31st 2019											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				100%	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			100%	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 2019				Board of Directors: 5 (five)		Control and risks committee 4 (four)				Remuneration committee: 3 (three)				Nomination committee: 1 (one)		
Quorum required for the presentation of lists during the last appointment				2,5%												

Table 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Position	Member	since	until	List (M/m)	Independence from Code	Percentage of attendance at the board meetings	Number of other positions in companies quoted on the Italian stock market
President	Vincenzo Pilla	May 15th 2019	Approval annual report 2021	**M**	**X**	**86%**	0
Acting auditor	Paolo Caselli	May 15th 2019	Approval annual report 2021	**M**	**X**	**100%**	0
Acting auditor	Rita Pelagotti	May 15th 2019	Approval annual report 2021	**M**	**X**	**77%**	0
Supplementary auditor	Daniela Moroni	May 15th 2019	Approval annual report 2021	**M**	**X**	==	0
Supplementary auditor	Gino Manfriani	May 15th 2019	Approval annual report 2021	**M**	**X**	==	0
Number of meetings held in 2019:							
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, Environmental policy, Human Rights, Anti-corruption.

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: *2015 and ISO 13485:2016 MDSAP*.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EL.EN. GROUP
CONSOLIDATED FINANCIAL STATEMENT
AS OF DECEMBER 31st 2019

FINANCIAL CHARTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

Consolidated statement of financial position

Assets	Note		31/12/2019		31/12/2018
Intangible assets	1		4.833.808		4.483.948
Tangible assets	2		81.812.628		61.019.946
Equity investments	3				
- in associated companies		1.367.332		1.423.909	
- other		1.035.420		1.035.420	
Total Equity investments			2.402.752		2.459.329
Deferred tax assets	4		6.641.048		6.333.580
Other non-current assets	4		15.275.980		12.582.025
Total non current assets			**110.966.216**		**86.878.828**
Inventories	5		97.037.190		85.892.337
Accounts receivable	6				
- third parties		91.210.947		79.537.108	
- associated companies		815.140		709.240	
Total Accounts receivable			92.026.087		80.246.348
Tax receivables	7		12.688.545		11.435.801
Other receivables	7				
- third parties		13.324.317		12.362.979	
- associated companies		128.326		127.067	
Total Other receivables			13.452.643		12.490.046
Securities and other current financial assets	8		2.126.791		1.951.235
Cash and cash equivalents	9		97.030.962		80.966.102
Total current assets			**314.362.218**		**272.981.869**
Total Assets			**425.328.434**		**359.860.697**

Liabilities	Note		31/12/2019		31/12/2018
Share capital	10		2.537.965		2.508.671
Additional paid in capital	11		41.430.624		38.593.618
Other reserves	12		88.105.328		92.167.296
Treasury stock	13		-		-
Retained earnings / (accumulated deficit)	14		64.336.515		50.596.457
Net income / (loss)			26.016.748		16.794.077
Group shareholders' equity			**222.427.180**		**200.660.119**
Minority interest			18.206.282		18.575.570
Total shareholders' equity			**240.633.462**		**219.235.689**
Severance indemnity	15		4.737.530		4.378.486
Deferred tax liabilities	16		2.031.588		1.677.502
Other accruals	17		4.528.232		3.955.131
Financial debts and liabilities	18				
- third parties		21.115.757		12.492.839	
Total Financial debts and liabilities			21.115.757		12.492.839
Total non current liabilities			**32.413.107**		**22.503.958**
Financial liabilities	19				
- third parties		16.706.435		8.037.568	
- associated companies		-		276.608	
Total Financial liabilities			16.706.435		8.314.176
Accounts payable	20				
- third parties		78.372.780		63.891.040	
- associated companies		18.000		-	
Total Accounts payable			78.390.780		63.891.040
Income tax payables	21		3.507.179		2.485.761
Other current payables	21				
- third parties		53.606.690		43.430.073	
- associated companies		70.781		-	
Total Other current payables			53.677.471		43.430.073
Total current liabilities			**152.281.865**		**118.121.050**
Total Liabilities and Shareholders' equity			**425.328.434**		**359.860.697**

Consolidated Income Statement

Income Statement	**Note**		**31/12/2019**		**31/12/2018**
Revenues	22				
- third parties		399.442.772		343.416.119	
- associated companies		1.317.917		2.603.952	
Total Revenues			400.760.689		346.020.071
Other revenues and income	23				
- third parties		3.309.141		5.596.519	
- associated companies		164.495		16.251	
Total Other revenues and income			3.473.636		5.612.770
Revenues and income from operating activity			**404.234.325**		**351.632.841**
Purchase of raw materials	24				
- third parties		225.233.225		207.323.517	
- associated companies		269		63.531	
Total Purchase of raw materials			225.233.494		207.387.048
Changes in inventory of finished goods			(4.986.388)		(11.878.240)
Change in inventory of raw material			(7.187.200)		(8.169.518)
Direct services	25				
- third parties		35.153.507		26.815.540	
Total Direct services			35.153.507		26.815.540
Other operating services and charges	25				
- third parties		43.606.459		42.865.034	
- associated companies		18.000		5.213	
Total Other operating services and charges			43.624.459		42.870.247
Staff cost	26		66.084.687		58.989.326
Depreciation, amortization and other accruals	27		8.113.578		5.631.196
EBIT			**38.198.188**		**29.987.242**
Financial charges	28				
- third parties		(757.660)		(586.864)	
Total Financial charges			(757.660)		(586.864)
Financial income	28				
- third parties		956.082		902.263	
- associated companies		4.376		14.715	
Total Financial income			960.458		916.978
Exchange gain (loss)	28		265.473		539.316
Share of profit of associated companies			(22.752)		(1.305.679)
Other non operating charges	29		-		(5.700)
Other non operating income	29		-		-
Income (loss) before taxes			**38.643.707**		**29.545.293**
Income taxes	30		9.868.415		7.706.626
Income (loss) for the financial period			**28.775.292**		**21.838.667**
Net profit (loss) of minority interest			2.758.544		5.044.590
Net income (loss)			**26.016.748**		**16.794.077**

Basic net income/(loss) per share	31	1,35	0,87
Diluted net income/(loss) per share	31	1,29	0,84

Consolidated statement of comprehensive income

	Note	31/12/2019	31/12/2018
Reported net (loss) income (A)		28.775.292	21.838.667
Other income/(loss) that will not be entered in income statement net of fiscal effects:			
Measurement of defined-benefit plans		(305.487)	38.460
Other income/(loss) that will be entered in income statement net of fiscal effects:			
Cumulative conversion adjustments		251.919	572.769
Unrealized gain (loss) on investment AFS	33	0	0
Total other income/(loss), net of fiscal effectes (B)		(53.568)	611.229
Total comprehensive (loss) income (A)+(B)		28.721.725	22.449.896
Referable to:			
Parent Shareholders		25.947.354	17.379.375
Minority Shareholders		2.774.371	5.070.521

Consolidated cash flow statement

Cash flow statement	Note	31/12/19	related parties	31/12/18	related parties
Operating activity					
Income (loss) for the financial period		**28.775.292**		**21.838.667**	
Amortizations and depreciations	27	6.886.064		4.424.863	
Gain/Loss on financial investments and equity investments	29	0		0	
Share of profit of associated companies		22.752	22.752	1.305.679	1.305.679
Write-downs for impairment losses	27-29	27.007		5.700	
Stock Option		711.198		862.662	
Severance indemnity	15	(42.912)		212.555	
Provisions for risks and charges	17	573.100		158.481	
Bad debt reserve	6	(734.986)		(546.577)	
Deferred income tax assets	4	(210.999)		(76.632)	
Deferred income tax liabilities	16	354.086		194.412	
Inventories	5	(11.144.853)		(19.325.036)	
Accounts receivable	6	(11.044.754)	(105.899)	745.335	176.641
Tax receivables	7	(1.252.744)		(2.493.828)	
Other receivables	7	(961.177)		941.645	
Accounts payable	20	14.499.742	18.000	633.979	
Income tax payables	21	1.021.418		831.513	
Other payables	21	10.247.400	70.781	2.224.860	
Cash flow generated by operating activity		**37.725.634**		**11.938.278**	
Investment activity					
Tangible assets	2	(20.558.682)		(25.856.830)	
Intangible assets	1	(1.021.428)		(635.375)	
Equity investments, securities and other financial assets	3-4-8	(2.826.598)	56.577	(219.140)	1.113.447
Financial receivables	4-7	(10.507)	(1.259)	417.431	346.608
Cash flow generated by investment activity		**(24.417.215)**		**(26.293.914)**	
Financing activity					
Non current financial liabilities	18	4.993.188		6.617.663	
Current financial liabilities	19	5.546.483	(276.608)	(847.131)	276.608
Capital increase	10	2.866.299		0	
Dividends paid	32	(8.611.453)		(8.433.957)	
Cash flow generated by financing activity		**4.794.517**		**(2.663.424)**	
Change in cumulative translation adjustment reserve and other no monetary changes		**(2.038.076)**		**633.684**	
Increase/(decrease) in cash and cash equivalents		**16.064.860**		**(16.385.376)**	
Cash and cash equivalents at the beginning of the financial period		**80.966.102**		**97.351.478**	
Cash and cash equivalents at the end of the financial period		**97.030.962**		**80.966.102**	

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 781 thousand Euros.
Income taxes for this financial year amounted to 9,9 million Euros.

Changes in the consolidated shareholders' equity

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

Total shareholders' equity	31/12/2018	Net income allocation	Dividends distributed	Other movements	Comprehensive income (loss)	31/12/2019
Share capital	2.508.671			29.294		2.537.965
Additional paid in capital	38.593.618			2.837.006		41.430.624
Legal reserve	537.302					537.302
Treasury stock						
Other reserves:						
Extraordinary reserve	87.382.028		-4.904.950	1		82.477.079
Special reserve for grants received	426.657					426.657
Cumulative translation adjustment	133.550				170.177	303.727
Other reserves	3.687.759			711.198	-38.394	4.360.563
Retained earnings / (accumulated deficit)	50.596.457	16.794.077	-2.814.039	-38.803	-201.177	64.336.515
Net income / (loss)	16.794.077	-16.794.077			26.016.748	26.016.748
Total Group shareholders' equity	200.660.119		-7.718.989	3.538.696	25.947.354	222.427.180
Capital and reserve of minority interest	13.530.980	5.044.590	-892.464	-2.251.195	15.827	15.447.738
Result of minority interest	5.044.590	-5.044.590			2.758.544	2.758.544
Total Minority interest	18.575.570		-892.464	-2.251.195	2.774.371	18.206.282
Total shareholders' equity	219.235.689		-8.611.453	1.287.501	28.721.725	240.633.462

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.

With reference to the total minority interest, the main decrease refers to the approx. 2,3 million Euros shown in the column of other movements which is related to the liquidation of the minority shareholder of Penta Chutian Wuhan by Penta Laser Wenzhou.

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 13th 2020.
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 2019 and 2018. The financial information, however, is supplied with reference to December 31st 2019 and December 31st 2018.

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 2019.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

This consolidated financial statement for the financial year ending December 31st 2019 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 2019

Accounting principles, amendments and interpretations applied since January 1st 2019:

- On January 13th 2016 the IASB published standard **IFRS 16 – *Leases*** which is supposed to replace IAS 17– *Leases*, as well as 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*.

This standard supplies a new definition of a *lease* and introduces a criteria based on the *right of use* of an asset to distinguish leasing contracts from contracts for the supplying of services and identifies as discriminating factors of a lease: 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 object referred to in the contract.

The standard sets a single model for the recognition and evaluation of leasing contracts for the lessee which includes the entering of the asset which is named in the contract, including operative ones, among the assets with the corresponding sum in the financial debts. On the contrary, the standard does not include any significant modifications for the lessor.

The standard has been applied since January 1st 2019.

The Group decided to apply the standard retrospectively, however, entering the cumulative effect derived from the application of the standard in the shareholders equity on January 1st 2019 (not modifying the comparative data for 2018) in compliance with paragraphs IFRS 16 C7-C13.
In particular, the Company entered into accounts the following items related to leasing contracts which had been previously classified as operative:

-a financial liability which was equal to the current value of the future residual payments on the date of the transaction, actualized using for each contract the incremental borrowing rate applicable on the date of the transaction;

- a right of use equal to the value of the financial liability on the date of the transaction, net of any deferred income and prepaid expenses referred to the lease and registered in the statement of financial position on the date of the closing of the financials for this year.

The application of IFRS 16 on the date of the transaction, January 1st 2019, brought about the entry of rights of use for 4,9 million Euros and a financial liability of the same amount.

When applying IFRS 16, the Group made use of the exemption granted by paragraph IFRS 16:5(a) in relation to *short-term lease* for contracts with a duration of less than a year.
At the same time, the Group made use of the exemption granted by IFRS 16:5(b) concerning leasing contracts for which the underlying asset is considered a low value asset. The contracts for which the exemption was applied fall mainly into the following categories:
Computers, telephones, printers, small equipment and electronic devices.
For these contracts the introduction of IFRS 16 did not comport the recording of the financial liability of the leasing and the right of use, but the leasing fees were entered in the income statement on a linear basis for the duration of the contracts.

For the purpose of supplying assistance in the understanding of the impact caused by the first application of the standard, the chart below shows the reconciliation between the future commitments related to leasing contracts, information for which was given in the same paragraph of the consolidated financial statement for 2018 and the impact derived from the adoption of IFRS 16 on January 1st 2019 (data expressed in millions of Euros).

Assets right of use	**1 gennaio 2019**
Building	3,6
Electronic office equipment	0,0
Industrial and commercial equipment	0,1
Motor vehicles	1,1
Plants & machinery	0,1
Total	**4,9**
Financial liabilities:	
< 1 year	1,3
> 1 year	3,6
Total	**4,9**

Commitments for operative leasing as of December 31st 2018	**6,6**
Of which:	
Short term or low value leasing	0,6
Service components included in the rents	0,9
Actualization effect	0,2
Other variations	-
Value of right of use on January 1st 2019	**4,9**

- On June 7th 2017 the IASB published an interpretation called ***"Uncertainty over Income Tax Treatments** (IFRIC Interpretation 23)"*. The interpretation deals with the issue of the uncertainties which exist concerning the income tax treatments to be applied. In particular, the interpretation requires an entity to analyze the *uncertain tax treatments* (individually or all together, depending on their characteristics) always assuming that the tax authorities examining the fiscal position involved are fully aware of all the relevant information. In the case in which the entity feels that it is unlikely that the tax authorities accept the treatment that has been used, the entity must reflect on the effect of the uncertainty in the measurement of their taxes on the current and deferred income. Moreover, the document does not contain any new obligations for the information, but stresses that the entity must determine if it will be necessary to supply information on the considerations made by the management and related to the uncertainties inherent in the recording of the taxes, in compliance with IAS 1. This new interpretation has been applied since January 1st 2019.
The adoption of this amendment has not had any effect on the consolidated financial statement of the Group.

- On October 12th 2017 the IASB published a document called ***"Long-term Interests in Associates and Joint Ventures** (Amendments to IAS 28)"*. This document clarifies the necessity of applying IFRS 9, including the requirements related to impairment, and to other long-term interests in associated companies and joint ventures to which the shareholders' equity method is not applied.
The adoption of this amendment has not had any effect on the consolidated financial statement of the Group.

- On October 12th 2017 the IASB published an amendment to IFRS 9 "***Prepayment Features with Negative Compensation.*** This document specifies that the instruments that include a reimbursement in advance could respect the *Solely Payments of Principal and Interest* ("SPPI") test even in the case that there is "*reasonable additional compensation"* to be paid in the case that the prepaid reimbursement is a "*negative compensation*" for the financer.
The adoption of this amendment has not had any effect on the consolidated financial statement of the Group.

- On December 12th 2017 the IASB published a document called "***Annual Improvements to IFRSs 2015-2017 Cycle***" which contains the modifications to some of the standards as part of the annual improvement process. The main modifications were:
  - IFRS 3 *Business Combinations e IFRS 11 Joint Arrangements*: the amendment clarifies that as soon as an entity obtains the control of a business which represents a joint operation, it must remeasure the interests previously held in that business. This process, however, is not required when they obtain joint control.
  - IAS 12 *Income Taxes*: the amendment clarifies that all the fiscal effects related to dividends (including payments on financial instruments that are classified in the net assets) must be recorded in a way which is consistent with the transaction which generated that profit (income statement, OCI, net assets).
  - IAS 23 *Borrowing costs*: the modification clarifies that in the case of financing that remains outstanding even after the *qualifying asset* to which it refers is already ready for use or for sale, this financing becomes part of the set of financings used to calculate the costs of the financing.

  The adoption of this amendment has not had any effect on the consolidated financial statement of the Group.

- On February 7th 2018 the IASB published a document called "***Plant Amendment, Curtailment or Settlement** (Amendments to IAS 19).* The document clarifies that an entity must record a modification (i.e. a *curtailment* or a *settlement*) of a defined benefit plan. The modifications require the entity to update their hypotheses and remeasure the net liabilities or assets create by the plan. The amendments clarify that after such an event has occurred, the entity must use the updated hypothesis to measure the *current service cost* and the interest for the rest of the period after the event.

The adoption of this amendment has not had any effect on the consolidated financial statement of the Group.

Other standards or modifications, approved or not by the European Union, which are not yet mandatorily applicable and which had not been adopted by the Group as of December 31st 2019 are summarized in the following chart.

Description	**Approved by the date of this report**	**Date when the standard becomes mandatory**
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 1 and IAS 8: Definition of Material (issued in October 2018)	SI	Jan. 1st 2020
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
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued in September 2019)	NO	Jan. 1st 2020
Conceptual Framework for Financial Reporting (issued in March, 2018)	SI	Jan. 1st 2020

The Group has not adopted in advance any of the new standards, interpretations or modifications which have been issued not 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	2.537.965				
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	20.483.763		100,00%	100,00%	51,74%
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%
Merit Due S.r.l.	9	Calenzano (ITA)	EUR	13.000		100,00%	100,00%	96,65%
Galli Giovanni & C. S.r.l.	10	Cassano Magnago (ITA)	EUR	31.200		70,00%	70,00%	70,00%
Penta Laser Technology (Shangdong) Co., Ltd.	11	Linyi (CHINA)	CNY	8.000.000		100,00%	100,00%	51,74%

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

(6) held by Penta-Laser Equipment Wenzhou Co., Ltd (100%)
(7) held by Ot-las Srl (53,53%)
(8) held by BRCT (100%)
(9) held by Ot-las Srl (100%)
(10) held by Quanta System SpA (70%)
(11) held by Penta-Laser Equipment Wenzhou Co., Ltd (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 2019" 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	200		19,50%	19,50%	19,50%
Accure LLC	3	Delaware (USA)	USD	-		39,44%	39,44%	39,44%

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

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

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

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 2019" in the Management Report.

TREASURY STOCK

On January 17th 2019, the shareholders meeting authorized the sale of treasury stock within 18 months of the date of the resolution, as further specified in the special section on the Management Report related to significant events which occurred this year.
At the date of this report, El.En. S.p.A. does not own any treasury stock.

STANDARDS OF CONSOLIDATION

The statements used for the consolidation of the annual reports are those of the individual companies. These statements are opportunely reclassified and rectified in such a way as to make them uniform with the accounting standards and IFRS evaluation criteria used by the Parent Company. The economic results of the subsidiary companies that are bought or sold during the year are included in the consolidated Income Statement from the actual date of purchase to the actual date of sale.

In drawing up the consolidated financial statement the assets and liabilities, the income and charges of the companies included in the area of consolidation have all been included. We have not included the payables and receivables, income and charges, profits and losses which have been generated by transactions made between the consolidated companies.

The book value of the equity in each of the subsidiaries is eliminated in the place of the corresponding portion of the shareholders' equity of each of the subsidiaries including the final adaptation at fair value on the date of purchase; the difference which emerges, if it is in the black (positive), is treated as goodwill, and as such is entered into accounts, in accordance with IFRS 3, as illustrated below. If it is in the red (negative) it is entered directly into the Income Statement.

The 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 "result of minority interest".

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:

Currencies	Exchange Rate 31/12/2018	Average exchange rate 31/12/2019	Exchange Rate 31/12/2019
USD	1,15	1,12	1,12
Yen	125,85	122,01	121,94
Yuan	7,88	7,74	7,82
Real	4,44	4,41	4,52

USE OF ESTIMATES

In applying the IFRS, the drawing up of the Consolidated 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. Goodwill is subjected to impairment test to determine any loss in value.

The estimates that were made did not consider the uncertainties generated by the spread of the Corona virus which we have described in the paragraph titled "Significant events which occurred after December 31st 2019" contained in the Management Report because these factors of instability have been considered events which do not comport corrections in the amounts shown in the statements in compliance with IAS 10 § 21. At the present day, the administrators do not have enough information to estimate the effects of this phenomenon on the amounts shown in the financial reports.

The amounts which, for their very nature, require a greater use of estimates by the administrators and for which a change in the conditions underlying the assumptions used may have an impact on the consolidated financial statement are:

• Bad debt reserve; this fund represents the best estimation of the management on the potential loss in the portfolio of receivables from clients. The estimate is based on expected losses on similar receivables in the past, on the trend of past due receivables, on the evaluation of the quality of the receivable and the outlook for the economic and market conditions; the estimate made by the administrators, although it is based on past data and market conditions, may be subject to change in the competitive or market environment in which the Group operates.
• Inventory obsolescence fund; the inventory of raw materials and finished products with slow rotation are periodically analyzed on the basis of the related data in the past and the possibility of selling them at a lower price than would be normal for market transactions. If, from this analysis, it appears necessary to reduce the value of the inventory, a special devaluation fund is created; as with the bad debt reserve, the determining of the Inventory obsolescence fund is calculated on the basis of past data and market information, and any changes which may have occurred in the market scenario and the trends may significantly modify the criteria used for determining the underlying estimates.
• Leases: the determination of right of use which emerges from leasing contracts, and the relative financial liabilities, represents a significant estimate on the part of the management. In particular, a high level of judgment is used to set the lease term and for the calculation of the incremental borrowing rate. The determination of the lease term bears in consideration the expiration of the contract which has been underwritten as well as any renewal clauses which the Group believes are reasonably certain to be applied. The incremental borrowing rate is created considering the typology of the asset which is the subject of the leasing contract, the jurisdiction in which this object is acquired and the currency that is used in the contract. Any changes in the market scenario and trends may require a review of the elements described.
• Goodwill: The procedure for determining the recoverable value of goodwill implicates, in the estimate of the value of use, hypotheses related to the prediction of the expected cash flow from each *cash generating unit* (CGU) identified by referring to the plans for the next three-year period, the determination of an appropriate actualization rate (WACC), and the growth over a long period of time (g-rate). Any changes in the scenario which has been referred to and in the trends of the market may require a review of the components described.

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. 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 into accounts initially at *fair value* which corresponds to the nominal value and, later, they are evaluated at the amortized cost and reduced in the case of loss of value. Moreover, they are adjusted to their presumed cashing-in value by entering them in a special rectified fund.
The receivables that are in a currency that in different from that used for the financial statement are entered at the exchange rate that is valid on the day of the operation and, later, converted to the rate of the end of the year. The gain or loss derived from the conversion is entered in the income statement.

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) LEASES

Leasing contracts are entered into accounts according to IFRS 16 which identifies the standards for recording them, the measuring, the presentation and the information on leasing contracts and requires the lessor to enter all the leasing contracts in the statement on the basis of a single accounting model similar to that used for the financial leases which were regulated by IAS 17. The Company has made use of two of the exemptions provided by the standard related to the “low value assets” and short-term leasing contracts (for example, those having a duration of 12 months or less).

For the contracts in which the Company is the lessee, on the date of the beginning of the leasing contract a liability is recognized for the payment of the rent established in the leasing contract and an asset which represents the right of use of the underlying asset for the duration of the contract (the right of use). The Company records separately the costs for the interests on the leasing liability and the depreciation of the right of use of the asset. The Company also proceeds with the remeasurement of the leasing liability when certain events occur (for example, a change in the conditions of the leasing contract, a change in the future payments of the lease caused by a variation in a rate or tax used for determining those payments). In these cases, the amount of the remeasurement of the liability for leasing is usually recognized as a rectification of the right of use of the asset.

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**
		01/01/2019	01/01/2019 - 31/12/2019	01/01/2019 - 31/12/2019	01/01/2019 - 31/12/2019	01/01/2019 - 31/12/2019	31/12/2019	31/12/2019	
Plan 2016-2025	31-dic-25	800.000			225.338		574.662	174.662	€ 12,72

This plan has two different sets 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 2019 the average price recorded for El.En. stock was about 20,4 Euros.

For the characteristics of the stock option plan as well as the increase in capital for its implementation, please consult Note (10) in 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:

	31/12/2018	Increase	Decrease	Revaluation / Devaluation	Other movements	Depreciation	Translation adjustment	31/12/2019
Goodwill	3.038.065							3.038.065
Development costs	173.626	266.439			618.194	-311.006		747.253
Patents and rights to use patents of others	21.853	48.531			-15.928	-20.588		33.868
Concessions, licenses, trade marks and similar rights	373.741	429.161	-999		61.419	-316.900	2.511	548.933
Other intangible assets	18.570	16.733			1.733	-23.075		13.961
Intangible assets under construction and advance payments	858.093	198.921			-605.286			451.728
Total	**4.483.948**	**959.785**	**-999**		**60.132**	**-671.569**	**2.511**	**4.833.808**

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 31/12/2019	Goodwill 31/12/2018
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	407.982
Ot-las S.r.l.	7.483	7.483
Asclepion Laser Technologies GmbH	72.758	72.758
Deka MELA S.r.l.	31.500	31.500
Total	3.038.065	3.038.065

As of December 31st 2019, 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 2020-2022. 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 2019 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 7,82%; 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 8,82%.

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 2020-2022. 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 2019 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 7.82%; 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 8,82%.

ASA S.r.l.*:* the recoverable amount was determined using the *Discounted Cash Flow* (DCF) method actualizing the cash flows contained in the economic-financial plan approved by the Board of Directors of ASA S.r.l., which considered a time span from 2020 to 2022. For the purposes of determining the value of use of the CGU, they considered the actualized cash flows of the three years for which there was an explicit prediction added to a terminal value, assumed to be equal to the perpetual income calculated by applying to the sales volume for the last year with a n explicit prediction, a growth rate “g” of 1,5% and considering the margins equal to the average of that of the three-year period with 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 2019 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 7.82%; 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 8,82%.

The verification that the procedure for the impairment tests correspond to those contained in the International accounting standards was the subject of an autonomous approval conducted by the Board of Directors of the Parent Company.

In any case, it should be noted that the business plan and the cash flow used in the impairment test do not reflect the possibility of changes related to the current national and international scenario characterized by the spread of the Corona virus and the consequent restrictive measures which may be imposed by the authorities in various countries. This circumstance, which emerged in the first few months of 2020, is extraordinary both in its nature and its extent, and has had both direct and indirect repercussions on the economic activities; it has created a general climate of uncertainty, the evolution and related effects of which cannot be predicted and the potential effects of this phenomenon cannot be determined at this time and will be closely monitored during the year.

Other intangible fixed assets

The increase in “Development costs” are related to the costs sustained for the development of new prototypes both by the Parent Company El.En. S.p.A. and, in particular in the column of other movements under this heading, the reclassified costs of assets under construction for the conclusion of a prototype by one of the subsidiaries.

The “Patent and rights to use the patents of others” were related to the capitalization of the costs sustained for the capitalization of the costs sustained for the purchase of patents by Quanta System and by El.En. Spa.

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, Asa, Lasit, Quanta, Asclepion,, and Penta-Laser Equipment Wenzhou for the purchase of new software.

The residual heading of “Other 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 M.E.L.A for the creation of software.

The column of “Other Movements” under the heading of “intangible assets under construction” contains besides the reclassification mentioned above, the arrival on June 30th 2019 of the new subsidiary Galli Giovanni & C. srl, and related to a new prototype now being produced.

Tangible fixed assets (note 2)

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

Cost	**31/12/2018**	**Increase**	**(Disposals)**	**Revaluation / Devaluation**	**Other movements**	**Translation adjustment**	**31/12/2019**
Lands and buildings	49.693.069	4.903.425			-4.873.315	72.611	49.795.790
Plants & machinery	7.553.010	2.071.717	-325.205		1.295.384	-290	10.594.616
Industrial and commercial equipment	14.328.104	2.718.346	-764.971		-794.040	28.916	15.516.355
Other assets	11.064.407	1.923.367	-583.943	-27.007	-199.103	45.289	12.223.010
Tangible assets under construction and advance payments	7.213.592	9.075.009			-6.157.083	13.607	10.145.125
Total	89.852.182	20.691.864	-1.674.119	-27.007	-10.728.157	160.133	98.274.896
Lands and buildings right of use		632.088	-59.332		13.546.770		14.119.526
Plants & machinery right of use					29.947		29.947
Industrial and commercial equipment right of use		273.666	-33.853		766.141		1.005.954
Other assets right of use		913.747			1.747.310		2.661.057
Total		1.819.501	-93.185		16.090.168		17.816.484
Total	**89.852.182**	**22.511.365**	**-1.767.304**	**-27.007**	**5.362.011**	**160.133**	**116.091.380**

Accumulated depreciation	**31/12/2018**	**Depreciations**	**(Disposals)**	**Revaluation / Devaluation**	**Other movements**	**Translation adjustment**	**31/12/2019**
Lands and buildings	6.708.688	1.025.488			-388.195	1.444	7.347.425
Plants & machinery	4.589.188	621.442	-190.039		588.705	-407	5.608.889
Industrial and commercial equipment	10.976.230	1.244.672	-437.289		-748.405	15.252	11.050.460
Other assets	6.558.130	1.342.173	-484.059		-252.412	18.570	7.182.402
Tangible assets under construction and advance payments							
Total	28.832.236	4.233.775	-1.111.387		-800.307	34.859	31.189.176
Lands and buildings right of use		1.151.891	-5.235		392.533	-5.826	1.533.363
Plants & machinery right of use		13.310					13.310
Industrial and commercial equipment right of use		94.982	-25.006		493.338	11	563.325
Other assets right of use		720.538			259.001	39	979.578
Total		1.980.721	-30.241		1.144.872	-5.776	3.089.576
Total	**28.832.236**	**6.214.496**	**-1.141.628**		**344.565**	**29.083**	**34.278.752**

Net value	**31/12/2018**	**Increase**	**(Disposals)**	**Revaluation / Devaluation / Depreciations**	**Other movements**	**Translation adjustment**	**31/12/2019**
Lands and buildings	42.984.381	4.903.425		-1.025.488	-4.485.120	71.167	42.448.365
Plants & machinery	2.963.822	2.071.717	-135.166	-621.442	706.679	117	4.985.727
Industrial and commercial equipment	3.351.874	2.718.346	-327.682	-1.244.672	-45.635	13.664	4.465.895
Other assets	4.506.277	1.923.367	-99.884	-1.369.180	53.309	26.719	5.040.608
Tangible assets under construction and advance payments	7.213.592	9.075.009			-6.157.083	13.607	10.145.125
Total	61.019.946	20.691.864	-562.732	-4.260.782	-9.927.850	125.274	67.085.720
Lands and buildings right of use		632.088	-54.097	-1.151.891	13.154.237	5.826	12.586.163
Plants & machinery right of use				-13.310	29.947		16.637
Industrial and commercial equipment right of use		273.666	-8.847	-94.982	272.803	-11	442.629
Other assets right of use		913.747		-720.538	1.488.309	-39	1.681.479
Total		1.819.501	-62.944	-1.980.721	14.945.296	5.776	14.726.908
Total	**61.019.946**	**22.511.365**	**-625.676**	**-6.241.503**	**5.017.446**	**131.050**	**81.812.628**

The heading of “Lands and buildings” and related right of use includes the building complex in Via Baldanzese a Calenzano (Florence), where the Parent Company operates along with some of the subsidiaries, the building purchased at the end of 2018 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 in 2018 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 along with the new building inaugurated by this subsidiary in September of 2019, 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 2018 which is adjacent to it, the recently built construction in Arcugnano which houses the activities of the subsidiary ASA Srl, as well as the new factory complex 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, Cutite Penta Srl, by the Parent Company, El.En. S.p.A. and by the newly acquired Galli Giovanni & C. Srl. In reference to this latter we proceeded to make a *Purchase Price Allocation* of the amount paid, about 400 thousand Euros in the category of “Plants and Machinery”. This amount is included in the column of “Increases”.

The heading of “Industrial and commercial equipment” refers in particular to purchases made by El.En. and the subsidiaries Asclepion GmbH, Quanta System SpA, Lasit SpA, Esthelogue, Deka M.E.L.A and Penta-Laser Equipment (Wenzhou). This heading also includes te capitalization of the costs of some machinery sold to clients using operative leasing; these sales, in fact, are considered as revenue from multi-year rentals in conformity 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 category of “Tangible assets under construction” refers mainly to the costs sustained by the Parent Company El. En. for the improvements they are making on pre-existing buildings, by the subsidiaries Lasit, Quanta, Penta-Laser Equipment (Wenzhou) and Penta Laser Technology (Shangdong) for the new buildings now under construction or being equipped and furnished.

In the column of “Other movements” of the various categories we have entered mainly the assets acquired with the purchase of Galli Giovanni & C. Srl, the reclassification made to the respective categories of “right of use” in compliance with IAS 17 and those that had been entered in the category of “right of use” as a consequence of the first application of IFRS 16 on January 1st 2019. The effect of this application amounted to about 4,9 million Euros.

Equity investments (note 3)

The analysis of the equity investments is:

	31/12/2019	31/12/2018	Variation	Var. %
Equity investment in associated companies	1.367.332	1.423.909	-56.577	-3,97%
Other equity investments	1.035.420	1.035.420		0,00%
Total	**2.402.752**	**2.459.329**	**-56.577**	**-2,30%**

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, and Accure Inc. 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.:	251	thousand Euros
Actis S.r.l.:	1	thousand Euros
Elesta S.r.l.:	1.171	thousand Euros
Chutian (Tianjin) Lasertechnology Co: Ltd:	70	thousand Euros
Accure Inc.:	(126)	thousand Euros

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

Società	**Total Assets**	**Total liabilities**	**Net income (Loss)**	**Revenues and other income**	**Charges and expenses**
Actis Active Sensors Srl (*)	470.587	115.375	-31.486	22.041	53.527
Elesta SpA	4.296.999	1.955.656	551	3.057.608	3.057.057
Immobiliare Del.Co. Srl	791.019	749.300	28.820	188.496	159.676
Quanta Aesthetic Lasers USA, LLC	74.626	8.937	-63.624	0	63.624
Chutian (Tianjin) Lasertechnology Co. Ltd	1.090.886	918.729	-77.253	472.068	549.321
Accure Inc	927.363	7.165.865	-2.767.963	0	2.767.963

(*) Data as of December 31st 2018

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	**31/12/2019**	**31/12/2018**	**Variation**	**Var. %**
Financial receivables - third parties	322.723	322.898	-175	-0,05%
Deferred tax assets	6.641.048	6.333.580	307.468	4,85%
Other non-current assets	14.953.257	12.259.127	2.694.130	21,98%
Total	**21.917.028**	**18.915.605**	**3.001.423**	**15,87%**

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, and by the subsidiary Quanta System SpA which, during the year invested in similar financial instruments for an amount of 2,5 million Euros. Since this is a mid-term investment the companies 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 6.641 thousand Euros and refer mainly 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 exceeding the amount that is tax deductable.

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory:

	31/12/2019	31/12/2018	Variation	Var. %
Raw materials, consumables and supplies	47.242.769	39.987.777	7.254.992	18,14%
Work in progress and semi finished products	24.809.867	24.349.832	460.035	1,89%
Finished products and goods	24.984.554	21.554.728	3.429.826	15,91%
Total	**97.037.190**	**85.892.337**	**11.144.853**	**12,98%**

The final inventory was about 97.037 thousand Euros showing an increase of 13% with respect to the 85.892 thousand Euros shown on December 31st 2018 and reflects the increase in the volume of business during the period.

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

	31/12/2019	31/12/2018	Variation	Var. %
Gross amount of Inventory	110.008.469	97.104.090	12.904.379	13,29%
Devaluation provision	-12.971.279	-11.211.753	-1.759.526	15,69%
Total	**97.037.190**	**85.892.337**	**11.144.853**	**12,98%**

The fund is calculated so as to align the stock value with the presumed selling price and recognizing, where necessary the obsolescence and slow rotation. The amount of the fund increased by about 1.760 thousand Euros with respect to December 31st 2018 and its incidence on the gross value of the inventory remained practically the same, increasing from 11,6% on December 31st 2018 to 11,8% on December 31st 2019.

Accounts receivable (note 6)

Receivables are composed as follows:

	31/12/2019	31/12/2018	Variation	Var. %
Accounts receivable from third parties	91.210.947	79.537.108	11.673.839	14,68%
Accounts receivable from associated	815.140	709.240	105.900	14,93%
Total	**92.026.087**	**80.246.348**	**11.779.739**	**14,68%**

Accounts receivable from third parties	31/12/2019	31/12/2018	Variation	Var. %
Italy	39.588.758	32.952.971	6.635.787	20,14%
EEC	9.797.506	9.244.690	552.816	5,98%
ROW	47.247.184	43.496.933	3.750.251	8,62%
minus: bad debt reserve	-5.422.501	-6.157.486	734.985	-11,94%
Total	**91.210.947**	**79.537.108**	**11.673.839**	**14,68%**

The chart shows an overall increase in the amount of accounts receivable.

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

	2019
At the beginning of the period	6.157.486
Provision	548.575
Amounts utilized and unused amounts reversed	-1.195.553
Other movements	-94.158
Translation adjustment	6.151
At the end of the period	**5.422.501**

Breakdown of accounts receivable from third parties is shown below:

Accounts receivable from third parties	31/12/2019	31/12/2018
To expire	59.827.441	56.014.135
Overdue:		
0-30 days	18.734.002	10.212.790
31-60 days	4.156.028	4.061.684
61-90 days	1.991.971	1.863.319
91-180 days	3.667.690	4.090.036
Over 180 days	2.833.815	3.295.144
Total	**91.210.947**	**79.537.108**

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

Accounts receivable in:	31/12/2019	31/12/2018
Euros	63.586.666	51.248.951
USD	8.346.905	6.556.327
Other currencies	19.277.376	21.731.830
Total	**91.210.947**	**79.537.108**

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 2019 and December 31st 2018.

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:

	31/12/2019	31/12/2018	Variation	Var. %
Tax receivables				
VAT receivables	8.625.609	8.079.923	545.686	6,75%
Income tax receivables	4.062.936	3.355.878	707.058	21,07%
Total	**12.688.545**	**11.435.801**	**1.252.744**	**10,95%**
Current financial receivables				
Financial receivables - third parties	83.749	74.326	9.423	12,68%
Financial receivables - associated	128.326	127.067	1.259	0,99%
Total	**212.075**	**201.393**	**10.682**	**5,30%**
Other current receivables				
Security deposits	406.423	264.627	141.796	53,58%
Advance payments to suppliers	5.749.408	4.816.076	933.332	19,38%
Other receivables	7.084.737	7.197.016	-112.279	-1,56%
Total	**13.240.568**	**12.277.719**	**962.849**	**7,84%**
Total Current financial receivables e Other current receivables	**13.452.643**	**12.479.112**	**973.531**	**7,80%**

	31/12/2019	31/12/2018	Variation	Var. %
Current derivative financial instruments (asset)		10.934	-10.934	-100,00%
Total		**10.934**	**-10.934**	**-100,00%**

The financial year closed with a VAT credit of over 8,6 million Euros which was mostly a result of the intense export activity of the Group.

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. Moreover, on account of the effect of the agreement made by the Parent Company El.En. with the tax authorities of Florence in the month of December 2019 for the “patent box” facilitation related to the years 2015-2019, this entry includes the credit for IRES and IRAP for 1,2 million Euros related to the lower amount of taxes due for the first four years involved in the ruling. This entry also includes 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.

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)” included as of December 31st 2018 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 which expired in April 2020; on December 31st 2019, this contract showed a negative fair value and for this reason it had been commented on in the following Note (19).

Securities and other current financial assets (note 8)

	31/12/2019	31/12/2018	Variation	Var. %
Securities and other current financial assets				
Other current financial assets	2.126.791	1.951.235	175.556	9,00%
Total	**2.126.791**	**1.951.235**	**175.556**	**9,00%**

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 2019 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:

	31/12/2019	31/12/2018	Variation	Var. %
Bank and postal current accounts	96.990.628	80.911.097	16.079.531	19,87%
Cash on hand	40.334	55.005	-14.671	-26,67%
Total	**97.030.962**	**80.966.102**	**16.064.860**	**19,84%**

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

Net financial position as of December 31st 2019

The net financial position of the Group as of December 31st 2019 is the following (data shown in thousands of Euros):

Net financial position	**31/12/2019**	**31/12/2018**
Cash and bank	97.031	80.966
Financial instruments	2.127	1.951
Cash and cash equivalents	**99.158**	**82.917**
Current financial receivables	**84**	**74**
Bank short term loan	(11.794)	(6.720)
Part of financial long term liabilities due within 12 months	(4.913)	(1.318)
Financial short term liabilities	**(16.706)**	**(8.038)**
Net current financial position	**82.535**	**74.954**
Bank long term loan	(11.802)	(5.401)
Other long term financial liabilities - non current part	(9.314)	(7.092)
Financial long term liabilities	**(21.116)**	**(12.493)**
Net financial position	**61.419**	**62.461**

The net financial position of the Group decreased by about 1 million Euros with respect to the end of 2018. As far as the amounts shown in the chart are concerned, it should be noted that starting on January 1st 2019, due to the adoption of accounting standard IFRS 16, the financial liabilities also include the residual debt related operative leases and rentals which are now registered following the treatment that was formerly indicated by IAS 17. The impact caused by this adoption amounts to about 4,8 million Euros, of which 1,7 million Euros entered among the current liabilities and 3,1 million Euros among the non-current liabilities, so that the amount of the net financial position on December 31st was 61,4 million Euros, less than of the 66,2 million if they had been registered using the same accounting standards, and an increase with respect to the beginning of the year despite the important investments that were made, as described below.

In 2019 we completed most of the work for the expansion of the production capacity by means of the construction of new buildings; the investments in new factories in 2019 amounted to about 14,2 million and starting in 2018 now total 36 million. The activities in 2019 involved the Chinese sites in Wenzhou and Lin Yi; this latter was an opportunity which arose in 2019 and therefore represents an addition to the original investment plan which we had described. We also complete the construction of the factory in Jena (inaugurated in September) for Asclepion, in Vicenza for Asa (inaugurated on October 4^{th}) and in Prato where Cutlite Penta and Ot-Las were transferred starting in the month of June. We are continuing work on the new Lasit factory in Torre Annunziata and at El.En. in Calenzano, for the use of the space left free by the move of Cutlite Penta and Ot-Las which will allow us to re-organize the area to be used for certain activities in the medical and industrial sector. In particular, in the factory in Calenzano which was left empty by the move of Cutlite Penta we will place the production of CO_2 sources on slab technology excited by radio-frequency, by re-organizing the plant on the basis of the so-called “industry 4.0”.

The investment in technical fixed assets during the year amounted to over 22 million Euros, while about 2,4 million Euros were absorbed with the purchase of the quota of the minority shareholder of Penta Chutian Wuhan, with the first step of the operation which was then concluded in 2020 with the purchase of a further 30% of Penta Laser inWenzhou which was already controlled by 53,5%. During 2019 dividends to third parties were also distributed by El.En. Spa, Deka M.E.L.A. and Asa for a total of 8,6 million.

2019 showed the capacity of the Group to grow with a good profitability and generation of cash through the operating activities; the NOPAT generated during the year amounted to 28,3 million Euros.

Receivables from associated companies are excluded from the net financial position for an amount of 128 thousand Euros.

It should also be recalled that 11,5 million Euros in cash was invested by the Parent Company in financial instruments of an insurance type which, because of their nature, are required to be entered among the non-current financial assets. During the year the subsidiary Quanta System invested part of their cash for an amount of 2,5 million Euros in the same type of financial instruments. Although these amounts are, in fact, a use of cash, they are not part of the net financial position. At the end of the year the fair value of these investments amounted to 14,9 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 2019, 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	2.537.965

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

Category	**31/12/2018**	**Increase**	**Decrease**	**31/12/2019**
No. of Ordinary Shares	19.297.472	225.338	0	19.522.810
Total	**19.297.472**	**225.338**	**0**	**19.522.810**

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.

After the exercise by some of the beneficiaries of the Stock Option Plan 2016-2025, since September 14th 2019, 225.338 ordinary shares for a nominal amount of 29.293,94 Euros were issued and 2,8 million Euros were cashed in as an increase in capital with share premium.

It should be noted, moreover, that despite the storm provoked on the stock market by the spread of the Covid-19 virus which caused a sudden and generalized drop in stock, the value of capitalization of the Company is currently greater than the values implicit in the consolidated shareholders' equity shown on December 31st 2019.

Additional paid in capital (note 11)

On December 31st 2019 the share premium reserve, coinciding with that of the Parent Company, amounted to 41.431 thousand Euros, an increase with respect to the 38.594 on December 31st 2018 because of the stock options that were picked up this year, as discussed in the previous Note.

Other reserves (note 12)

	31/12/2019	31/12/2018	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	82.477.079	87.382.028	-4.904.949	-5,61%
Cumulative translation adjustment	303.727	133.550	170.177	127,43%
Stock option/ stock based compensation reserve	4.505.417	3.794.219	711.198	18,74%
Special reserve for grants received	426.657	426.657		0,00%
Other reserves	-144.854	-106.460	-38.394	36,06%
Total	**88.105.328**	**92.167.296**	**-4.061.968**	**-4,41%**

On December 31st 2019 the "extraordinary reserve" amounted to 82.477 thousand Euros; the decrease with respect to December 31st 2018 is due to the use for payment of dividends, in compliance with the resolution of the shareholders' meeting of the Parent Company on May 15th 2019.

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).*

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 2019 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 2018.

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

Treasury Stock (note 13)

The shareholders' meeting held on January 17th 2019 authorized the Board of Directors to purchase treasury stock within 18 months of the resolution, as is described in detail in the section devoted to this subject in the Management Report concerning significant events which occurred in 2019.
As of the date of this report, El.En. S.p.A. does not own any treasury stock.

Retained earnings (note 14)

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

Non-current liabilities

Severance indemnity (note 15)

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

31/12/2018	Provision	(Utilization)	Payment to complementary pension forms, to INPS fund and other movements	31/12/2019
4.378.486	1.742.213	-646.387	-736.782	4.737.530

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 2019 amounts to 4.719 thousand Euros.

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

Financial hypotheses	Year 2018	Year 2019
Annual implementation rate	1,57%	0,77%
Annual inflation rate	1,60%	1,0%-1,2%-1,4% (*)
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%

(*) 1,0% for the first five years, 1,2% from the sixth to the tenth year, 1,4% from the eleventh year.

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 0,77% 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:

	31/12/2018	**Provision**	**(Utilization)**	**Other movements**	**Translation adjustment**	**31/12/2019**
Deferred tax assets on inventory devaluation	2.071.269	271.717	(119.153)	5	2.968	2.226.806
Deferred tax assets on warranty reserve	403.095	51.085	(27.794)	-	2.200	428.586
Deferred tax assets on bad debt reserve	761.262	20.410	(171.103)	-	1.669	612.238
Deferred tax assets on losses carryforwards	506.910	1.256	(472.030)	-	14.862	50.998
Deferred tax assets on intercompany profits and consolidation adjust.	1.051.227	-	(24.181)	-	(458)	1.026.588
Other deferred tax assets and on IAS adjust.	1.539.817	679.913	(150.002)	208.960	17.144	2.295.832
Total	**6.333.580**	**1.024.381**	**(964.263)**	**208.965**	**38.385**	**6.641.048**
Deferred tax liability on advance depreciations	124.469	-	-	-	-	124.469
Deferred tax liability on grants on capital account	158.962	-	(58.870)	(1)	-	100.091
Other deferred tax liabilities and on IAS adjust.	1.394.071	304.177	(23.912)	114.249	18.443	1.807.028
Total	**1.677.502**	**304.177**	**(82.782)**	**114.248**	**18.443**	**2.031.588**
Net	4.656.078	720.204	(881.481)	94.717	19.942	4.609.460

Deferred tax assets amounted to about 6.641 thousand Euros. The deferred tax assets calculated on inventory devaluations of the various companies increased, as did the deferred tax assets calculated on warranty reserve and those on other amounts which for their particular nature determine a taxation which is paid in advance of their recognition in the statement.
The deferred tax assets calculated on the inter-Group profits decreased, as did the losses which are tax deductable in the following years, and those on the bad debts fund that are not tax deductable. In the column of other movements we have entered the deferred taxes on the adaptation of the values made on the severance fund and registered directly in the *Other Comprehensive Income* (“OCI”).

Deferred tax liabilities amounted to 2.032 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 and which, for tax purposes, were deferred in compliance with the laws now in force.

Other accruals (note 17)

The chart below shows the operations made with other accruals:

	31/12/2018	Provision	(Utilization)	Other movements	Translation adjustment	31/12/2019
Reserve for pension costs and similar	1.063.992	312.204	-68.482	202.214		1.509.928
Warranty reserve on the products	2.406.490	739.430	-639.030		1.764	2.508.655
Reserve for risks and charges	459.649	50.000				509.649
Other minor reserves	25.000		-25.000			
Total	**3.955.131**	**1.101.634**	**-732.512**	**202.214**	**1.764**	**4.528.232**

The clients' agents' indemnity fund which is included under the heading of "Reserve for pension funds and similar" on December 31st 2019, amounted to 1.267 thousand Euros as opposed to the 1029 thousand Euros on December 31st 2018. 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 2018	Year 2019
Annual implementation rate	1,57%	0,77%
Annual inflation rate	1,60%	1,0%-1,2%-1,4% (*)

(*) 1,0% for the first five years, 1,2% from the sixth to the tenth year, 1,4% from the eleventh year.

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 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 still in a preliminary phase during which they are gathering information using written questionnaires about the conducting of the contractual obligations and the contents of the obligations taken on with the sale of the laser systems. Currently there are not enough elements to evaluate the entity of economic risk for the two companies. In fact, no proof has been presented nor has any quantification of the damage been requested. 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.

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	31/12/2019	31/12/2018	Variation	Var. %
Amounts owed to banks	11.801.558	5.400.717	6.400.841	118,52%
Amounts owed to leasing companies	8.435.630	6.083.228	2.352.402	38,67%
Amounts owed to other financiers	878.569	1.008.894	-130.325	-12,92%
Total	**21.115.757**	**12.492.839**	**8.622.918**	**69,02%**

The mid- to long-term debts owed to banks as of December 31st 2019 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 has already been entirely paid in several tranches to be repaid half-yearly for ten years starting on November 30th 2019, at the rate of eurirs 12 months +0,5%; last installment on May 31st 2029;

c) bank financing granted to With Us as shown below:

- 25.000 thousand Yen falling due on February 28th, 2022 at the annual rate of 0,60%;

d) bank financing issued to Penta-Laser Equipment Wenzhou Co. Ltd as follows:

- 7.488 thousand Rmb falling due September 20th 2021 at the annual rate of 4,842%;
- 1.441 thousand Rmb falling due September 20th 2021 at the annual rate of 5%.
- 3.136 thousand Rmb falling due September 20th 2021 at the annual rate of 5,19%.
- 1.875 thousand Rmb falling due September 20th 2021 at the annual rate of 5,1%.
- 1.760 thousand Rmb falling due on June 20th 2022 at the annual rate of 4,72%.
- 1.488 thousand Rmb falling due on June 20th 2022 at the annual rate of 4,84%.
- 3.520 thousand Rmb falling due on June 20th 2022 at the annual rate of 5,05%.
- 3.000 thousand Rmb falling due on June 20th 2022 at the annual rate of 5,1%.

e) bank financing granted to Cutlite Penta Srl for 1,5 million Euros by Unicredit, to be reimbursed in quarterly installments at the fixed rate of 0,55%, last installment on April 30th 2022;

f) bank financing granted to Cutlite Penta Srl for 1,5 million Euros by Intesa San Paolo, to be reimbursed in quarterly installments at the fixed rate of 0,53%, last installment on April 18th 2022.

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 buildings for conducting their company activities and consequently treated for accounting according to standard IFRS 16 which replaced 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 2019 amounted to about 740 thousand Euros. The contract stipulated by Cutlite Penta Srl has a duration of twelve years and expires in the month of October 2030; the residual debt as of December 31st 2019 amounted to about 5 million Euros.
The increase that is shown under the heading of “amounts owed to leasing companies” is due to the application of IFRS 16 which has already been described in detail.

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

a) 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;

b) 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;

c) Financing issued by BPER to the subsidiary Lasit for the purchase of new equipment for a total residual on December 31st 2019 of 297 thousand Euros to be paid back in installments, last installment on July 31st 2022;

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;

e) a residual debt of 280 thousand Euros, which the subsidiary Quanta System SpA still owes for the purchase of the new subsidiary Galli Giovanni & Co. Srl., to be reimbursed in 4 annual installments, last installment on June 30th 2023.

Current liabilities

Financial debts (note 19)

Below, a breakdown of the short-term financial debts is given:

Financial short term debts	31/12/2019	31/12/2018	Variation	Var. %
Amounts owed to banks	11.793.503	6.719.724	5.073.779	75,51%
Amounts owed to associated companies		276.608	-276.608	-100,00%
Amounts owed to leasing companies	2.643.406	974.369	1.669.037	171,29%
Amounts owed to other financiers	2.265.991	337.330	1.928.661	571,74%
Total	**16.702.900**	**8.308.031**	**8.394.869**	**101,05%**

	31/12/2019	31/12/2018	Variation	Var. %
Current liabilities for derivative financial instruments	3.535	6.145	-2.610	-42,47%
Total	**3.535**	**6.145**	**-2.610**	**-42,47%**

The heading of "Amounts owed to banks" is mainly composed of:
- Short-term quota on financing contracted by Asclepion GmbH and Cutlite Penta Srl (see note 18);
- Short term financing contracted by With Us besides the short-term quota on financing regarding the latter (see note 18);
- Financing obtained by the Parent Company El.En. SpA for 4 million Euros at the annual rate of 0,1% falling due in one year;
- short-term financing contracted by Penta-Laser Equipment Wenzhou Co for an overall amount of 4,4 million Euros (corresponding to 34,6 million Yuan) falling due for 6,8 million Yuan in the month of February 2020 at the annual rate of 4,57% , for 16,5 million Yuan falling due in the month of August 2020 at the annual PBC (Central Bank of China) rate increased by 1%, for 2,8 million Yuan falling due in the month of January 2020, at the annual rate of 2,06% and for 4,6 million Yuan falling due in the month of February 2020 at the annual rate of 2%, and 3,9 million Yuan coming due in the month of March 2020 at the annual rate of 1,97%;
- bank financing granted to Penta Chutian Laser (Wuhan) Co. Ltd for about 128 thousand Euros, equal to 1 million Yuan, falling due in the month of January 2020 at the annual PBC (Central Bank of China) rate increased on December 31st 2019 by 1,31%.

The heading of "Amounts owed to associated companies" on December 31st 2018 included 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 paid in 2019.

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

"Amounts owed to other financers" includes:
- the short-term financing described in the previous Note;
- Facilitated financing for applied research (FEMTO project) issued by the MIUR to the subsidiary Quanta System S.p.A. for a total of 806.300 Euros, at an annual rate of 0,50%, to be reimbursed in 17 half-yearly installments, last installment on July 1st, 2020;
- the residual debt of 1,7 million Euros of the subsidiary Penta-Laser Equipment Wenzhou Co towards the minority shareholders for the purchase of the equity in Penta Chutian Laser (Wuhan) Co. Ltd.

The heading of "Current liabilities for derivative financial instruments" includes the evaluation at fair value according to IFRS 9 of the currency rate swap derivative contract covering the risk on the Euro/Yen exchange rate which was stipulated by the subsidiary With Us. The contract expires in April 2020, notional value on December 31st 2019 was 200.000 Euros, the fair value was –3.535 Euros.

Accounts payable (note 20)

	31/12/2019	31/12/2018	Variation	Var. %
Accounts payable	78.372.780	63.891.040	14.481.740	22,67%
Amounts owed to associated companies	18.000		18.000	
Total	**78.390.780**	**63.891.040**	**14.499.740**	**22,69%**

The increase in accounts payable is due to the increase in the volume of business this year.
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 2019 divided according to the currency.

Accounts payable in:	**31/12/2019**	**31/12/2018**
Euros	47.606.098	40.890.115
USD	2.963.882	2.237.198
Other currencies	27.802.800	20.763.727
Total	**78.372.780**	**63.891.040**

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 2019 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 2019 amounted to 3.507 thousand Euros and are entered net of the down payments and deductions.

The subdivision of the other debts is as follows:

	31/12/2019	31/12/2018	Variation	Var. %
Social security debts				
Debts to INPS	3.413.111	2.892.179	520.932	18,01%
Debts to INAIL	235.541	218.744	16.797	7,68%
Debts to other Social Security Institutions	575.331	517.188	58.143	11,24%
Total	**4.223.983**	**3.628.111**	**595.872**	**16,42%**
Other debts				
Debts to the tax authorities for VAT	770.164	254.986	515.178	202,04%
Debts to the tax authorities for withholding	2.702.440	2.034.035	668.405	32,86%
Other tax liabilities	493.918	259.723	234.195	90,17%
Debts to staff for wages and salaries	12.997.162	12.036.362	960.800	7,98%
Down payments	17.478.384	14.033.952	3.444.432	24,54%
Other debts to associated companies	70.781		70.781	
Other debts	14.940.639	11.182.904	3.757.735	33,60%
Total	**49.453.488**	**39.801.962**	**9.651.526**	**24,25%**
Total Social security debts e Other debts	**53.677.471**	**43.430.073**	**10.247.398**	**23,60%**

The amounts owed to staff include, among other things, the debts for deferred salaries of personnel employed as of December 31st 2019.

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, the Japanese subsidiary With Us. Co., Ltd. And the Italian subsidiary Cutlite Penta Srl.

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

	31/12/2019			31/12/2018		
	<= 1 year	**>1 year <= 5 years**	**> 5 years**	**<= 1 year**	**>1 year <= 5 years**	**> 5 years**
Amounts owed to banks	11.793.503	8.891.480	2.910.078	6.719.724	4.030.717	1.370.000
Amounts owed to leasing companies	2.643.406	3.777.610	4.658.020	974.369	1.038.210	5.045.019
Current liabilities for derivative financial instruments	3.535	-	-	6.145	-	-
Amounts owed to other financiers	2.265.991	844.173	34.396	337.330	940.217	68.677
Accounts payable	78.372.780			63.891.040		
Amounts owed to associated companies	88.781	-	-	276.608	-	-
Income tax payables	3.507.179			2.485.761		
Social security debts	4.223.983			3.628.111		
Other debts	49.382.707			39.801.962		
Total	**152.281.865**	**13.513.263**	**7.602.494**	**118.121.050**	**6.009.144**	**6.483.696**

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.

31/12/2019		**Total**	**Medical**	**Industrial**	**Other**
Revenues		402.450	242.184	158.827	1.440
Intersectorial revenues		(1.690)		(250)	(1.440)
Net Revenues		400.761	242.184	158.577	
Other revenues and income		3.474	2.003	1.374	97
Gross Margin		156.021	110.019	45.905	97
	Inc.%	*39%*	*45%*	*29%*	*100%*
Margin		53.212	40.907	12.209	97
	Inc.%	*13%*	*17%*	*8%*	*100%*
Not assigned charges		15.014			
EBIT		38.198			
Net financial income (charges)		468			
Share of profit of associated companies		(23)	0	(32)	9
Other Income (expense) net		0			
Income (loss) before taxes		38.644			
Income taxes		9.868			
Income (loss) before minority interest		28.775			
Minority interest		2.759			
Net income (loss)		26.017			

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			

31/12/2019	Total	Medical	Industrial	Other
Assets assigned	344.555	172.080	172.475	
Equity investments	2.150	1.933	217	
Assets not assigned	78.623			
Total assets	425.328	174.013	172.693	0
Liabilities assigned	141.703	45.676	96.027	
Liabilities not assigned	42.992			
Total liabilities	184.695	45.676	96.027	0

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

31/12/2019	Total	Medical	Industrial	Other
Changes in fixed assets:				
- assigned	17.410	6.183	11.227	
- not assigned	3.733	0	0	
Total	21.143	6.183	11.227	0

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

Information according to the geographical area

31/12/2019	Total	Italy	Europe	Row
Revenues	400.761	74.272	78.845	247.643

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

31/12/2019	Total	Italy	Europe	Row
Assets assigned	422.926	280.797	37.295	104.833
Equity investments	2.403	2.332	0	71
Total assets	425.328	283.130	37.295	104.904
Liabilities assigned	184.695	97.510	18.634	68.551
Total liabilities	184.695	97.510	18.634	68.551

31/12/2018	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

31/12/2019	Total	Italy	Europe	Row
Changes in fixed assets:				
- assigned	21.143	7.001	4.313	9.828
Total	21.143	7.001	4.313	9.828

31/12/2018	Totale	Italia	Europa	Row
Changes in fixed assets:				
- assigned	22.067	17.214	2.584	2.270
Total	22.067	17.214	2.584	2.270

Information on the consolidated Income Statement

Revenue (note 22)

The chart below shows the sub-division of the sales volume for 2019 among the activity sectors of the Group compared with the same data for last year. The overall growth came close to 16% with the medical sector exceeding 20% and once again growing faster than the industrial sector.

	31/12/2019	31/12/2018	Variation	Var. %
Medical	242.183.714	197.853.568	44.330.146	22,41%
Industrial	158.576.975	148.166.503	10.410.472	7,03%
Total revenue	**400.760.689**	**346.020.071**	**54.740.618**	**15,82%**

Breakdown of the revenue by geographical areas

	31/12/2019	31/12/2018	Variation	Var. %
Italy	74.272.009	65.767.675	8.504.334	12,93%
Europe	78.845.425	68.464.144	10.381.281	15,16%
ROW	247.643.255	211.788.252	35.855.003	16,93%
Total revenue	**400.760.689**	**346.020.071**	**54.740.618**	**15,82%**

The rapid growth that was registered involved all of the geographical areas and showed the best results in the non-European countries which in part reflects, in particular in Italy, a less favorable phase in the economic cycle.

Other income (note 23)

The analysis of the other income is as follows:

	31/12/2019	31/12/2018	Variation	Var. %
Other income due to Insurance refunds	18.168	92.416	-74.248	-80,34%
Recovery of expenses	1.317.489	1.155.625	161.864	14,01%
Capital gains on disposal of fixed assets	212.429	252.288	-39.859	-15,80%
Other income	1.925.550	4.112.441	-2.186.891	-53,18%
Total	**3.473.636**	**5.612.770**	**-2.139.134**	**-38,11%**

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 97 thousand Euros and federal grants related both to the new production center and to the research projects for an amount of about 1.095 thousand Euros entered by the Chinese subsidiary Penta Laser Equipment Wenzhou Co. Ltd. and the new company, Penta Laser Technology (Shangdong) Co., Ltd.

Costs for the purchase of goods (note 24)

The analysis is shown on the following chart:

	31/12/2019	31/12/2018	Variation	Var. %
Purchases of raw materials and finished products	219.690.870	202.934.677	16.756.193	8,26%
Packaging	1.723.901	1.480.937	242.964	16,41%
Shipping charges on purchases	1.357.345	1.276.024	81.321	6,37%
Other purchase expenses	1.257.358	681.570	575.788	84,48%
Other purchases	1.204.020	1.013.840	190.180	18,76%
Total	**225.233.494**	**207.387.048**	**17.846.446**	**8,61%**

Costs for purchases of goods as of December 31st 2019 were 225.233 thousand Euros opposed to the 207.387 thousand Euros for last year, showing an increase of 8,61%.
Net of the variations in the inventory, the incidence on the revenue was 53,2% as opposed to 54,1% for last year.

Direct services/ Operating services and charges (note 25)

Breakdown of this category is shown on the chart below:

	31/12/2019	31/12/2018	Variation	Var. %
Direct services				
Outsourced processing	13.360.997	7.426.690	5.934.307	79,91%
Technical services on products	1.686.807	1.279.259	407.548	31,86%
Shipment charges on sales	3.988.512	2.739.301	1.249.211	45,60%
Sale commissions	13.141.231	12.887.070	254.161	1,97%
Royalties	216.000	1.680	214.320	12757,14%
Travel expenses for technical assistance	1.322.816	1.083.808	239.008	22,05%
Other direct services	1.437.144	1.397.732	39.412	2,82%
Total	**35.153.507**	**26.815.540**	**8.337.967**	**31,09%**
Other operating services and charges				
Maintenance and technical assistance on equipment	986.871	635.991	350.880	55,17%
Commercial services and consulting	2.549.648	2.137.286	412.362	19,29%
Legal and administrative services and consulting	1.314.601	1.490.796	-176.195	-11,82%
Audit fees	397.323	423.496	-26.173	-6,18%
Insurances (no staff cost)	813.600	723.426	90.174	12,46%
Travel and accommodation expenses	4.450.011	4.392.801	57.210	1,30%
Trade shows	3.911.134	3.889.414	21.720	0,56%
Promotional and advertising fees	6.553.643	6.703.966	-150.323	-2,24%
Expenses related to real estate	2.779.038	2.401.728	377.310	15,71%
Other taxes	802.689	653.615	149.074	22,81%
Vehicles maintenance expenses	1.705.421	1.650.852	54.569	3,31%
Office supplies	661.760	491.060	170.700	34,76%
Hardware and Software assistance	807.536	766.103	41.433	5,41%
Bank charges	346.300	351.155	-4.855	-1,38%
Leases and rentals	1.641.631	2.874.512	-1.232.881	-42,89%
Salaries and indemnity to the Board of Directors and Board of Auditors	2.463.172	2.277.739	185.433	8,14%
Temporary employment	1.091.942	546.336	545.606	99,87%
Other services and charges	10.348.139	10.459.971	-111.832	-1,07%
Total	**43.624.459**	**42.870.247**	**754.212**	**1,76%**

The most significant changes in the category of “Direct services” are related to “Outsourced processing” because we have made greater use of outsourcing, for “Technical services”, and “Shipping charges on sales” due to the increase in the level of activity and sales.

The most significant amounts in the category of “Operating services and charges” are related to consultancy fees and publicity expenses to support the selling activities, travel and accommodation expenses, trade shows and fairs; in the category of “Other services and charges” the most significant amounts refer to technical and scientific consultancy fees for an amount of 2.123 thousand Euros and studies and research for an amount of about 2.484 thousand Euros.

For the research and development activities and costs, please consult the relative paragraphs in the Management Report.

The decrease in the charges for “leases and rentals” is related to the application of IFRS 16, as previously described.

Staff costs (note 26)

The chart below shows the costs for staff:

	31/12/2019	31/12/2018	Variation	Var. %
Wages and salaries	51.235.505	45.518.357	5.717.148	12,56%
Social security contributions	12.149.764	10.794.659	1.355.105	12,55%
Severance indemnity	1.676.017	1.600.811	75.206	4,70%
Staff costs for stock options/stock based compensation	571.181	692.825	-121.644	-17,56%
Other costs	452.220	382.674	69.546	18,17%
Total	**66.084.687**	**58.989.326**	**7.095.361**	**12,03%**

The costs for personnel was 66.085 thousand Euros and showed an increase of 12,03% with respect to the 58.989 thousand Euros for last year. The increase was due to the rise in the number of employees both in the Parent Company, the Italian and foreign subsidiaries, which increase from 1.368 on December 31st 2018 to 1.498 on December 31st 2019.
The entry of "Staff costs for stock options/stock based compensation" includes the figurative costs for the stock options assigned by the Parent Company to some of the employees of the Group (see note 10).

Depreciation, amortization and other accruals (note 27)

The table below shows the breakdown for this category:

	31/12/2019	31/12/2018	Variation	Var. %
Amortization of intangible assets	671.569	410.458	261.111	63,61%
Depreciation of tangible assets	4.233.775	4.014.407	219.368	5,46%
Depreciation of tangible assets right of use	1.980.721		1.980.721	
Devaluation (Rival.) of fixed assets	27.007		27.007	
Accrual for bad debts	411.076	664.171	-253.095	-38,11%
Accrual for risks and charges	789.430	542.160	247.270	45,61%
Total	**8.113.578**	**5.631.196**	**2.482.382**	**44,08%**

The increase in costs for amortizations and depreciations is mainly due to the application of IFRS 16, as described above.
The accrual for bad debts includes some devaluations made for cautionary purposes on some amounts owed which have been delayed in their payment.
The accrual for risks and charges is mainly due to the amounts accrued in the product warranty fund by the various companies in the Group.

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

The breakdown of the category is as follows:

	31/12/2019	31/12/2018	Variation	Var. %
Financial income				
Interests income on bank and postal deposits	354.276	493.163	-138.887	-28,16%
Financial income from associated companies	4.376	14.715	-10.339	-70,26%
Interests income from current securities and financial assets	194.984	201.381	-6.397	-3,18%
Capital gain and other income from current securities and financial assets	179.237		179.237	
Other financial income	227.585	207.719	19.866	9,56%
Total	**960.458**	**916.978**	**43.480**	**4,74%**
Financial charges				
Interests on bank debts and on short term loans	275.442	156.273	119.169	76,26%
Interests on bank debts and on other m/l term loans	25.105	5.713	19.392	339,44%
Capital losses and other charges on current securities and financial assets		85.198	-85.198	-100,00%
Other financial charges	457.113	339.680	117.433	34,57%
Total	**757.660**	**586.864**	**170.796**	**29,10%**
Exchange gain (loss)				
Exchange gains	1.433.330	1.818.897	-385.567	-21,20%
Exchange losses	-1.159.385	-1.189.586	30.201	-2,54%
Financial charges fair value on exchange rate derivatives	-8.472	-89.995	81.523	-90,59%
Total	**265.473**	**539.316**	**-273.843**	**-50,78%**

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 66 thousand Euros for the interests charges deriving from the application of the IAS 19 accounting standard to the severance indemnity and 111 thousand Euros for the entry of interest for leases derived from the application of the new IFRS 16.
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.

Other non-operating income and charges (note 29)

	31/12/2019	31/12/2018	Variation	Var. %
Other non operating charges				
Devaluation of equity investment		5.700	-5.700	-100,00%
Total		**5.700**	**-5.700**	**-100,00%**

Income taxes (note 30)

	31/12/2019	31/12/2018	Variation	Var. %
IRES and other foreign income taxes	9.968.783	7.112.497	2.856.286	40,16%
Income taxes - IRAP	1.438.371	1.062.908	375.463	35,32%
Deferred income taxes - IRES and for foreign companies	159.665	76.662	83.003	108,27%
Deferred income taxes - IRAP	1.612	50.998	-49.386	-96,84%
Income tax receivable	-500.612	-518.271	17.659	-3,41%
Other income tax	-7.987		-7.987	
Previous years tax	-1.191.417	-78.168	-1.113.249	1424,17%
Total	**9.868.415**	**7.706.626**	**2.161.789**	**28,05%**

The costs for current and deferred taxes this year amounted to 9.868.415 Euros.

On account of the effects of the agreement stipulated between the Parent Company El.En and the tax authorities in Florence in the month of December 2019 for the “patent box” facilitation related to the years 2015-2019, an income of 1,2 million Euros was entered into accounts related to the decrease in the IRES and IRAP taxes due for the first 4 years of the ruling.

The chart below shows the reconciliation between the theoretical fiscal aliquot and the actual aliquot limited to the Income tax for companies (IRES) and similar ones.

	2019	2018
Profit/loss before taxes	38.643.707	29.545.293
Theoretical IRES Aliquot	24,00%	24,00%
Theoretical IRES	9.274.490	7.090.870
Higher (lower) fiscal incidence of the foreign companies with respect to the theoretical aliquot	393.443	(18.192)
One time income tax charges	32.661	(78.168)
Tax credits	(500.612)	(518.271)
Patent box	(1.155.866)	
Higher (lower) fiscal incidence of Italian companies with respect to the theoretical aliquot	(802.079)	(327.783)
Higher (lower) fiscal incidence due to the effects of consolidation	1.186.395	444.263
Actual IRES	8.428.432	6.592.720
Actual IRES aliquot	21,81%	22,31%

Earnings per share (note 31)

The average weighted number of shares in circulation this year amounted to 19.341.170 ordinary shares, after the pick up of the stock option. The profits per share on December 31st 2019 therefore amounted to 1,35 Euros. The diluted profit per share, which takes into consideration also the stock option assigned last year, was 1.29 Euros.

Dividends distributed (note 32)

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.

The shareholders' meeting of El.En S.p.A held on May 15th 2019 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 2019 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 52.554 Euros. Moreover, as president of the Board of Directors of Deka MELA S.r.l. he received a salary of 21.000 Euros, as president of the Board of Directors of Elesta SpA, he received a salary of 6.410 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 El.En. assigned a specific professional task for the entire year, received a salary of 16 thousand Euros; moreover, for a similar task performed for the subsidiary Deka M.E.L.A. Srl he received 8 thousand Euros.

<u>Subsidiary companies</u>
Normally the operations and reciprocal payments among he companies of the Group included in the area of consolidation are eliminated during the formulation of the consolidated statement and for this reason they are not described here.

<u>Associated companies</u>
All of the relations of receivables and payables, all of the costs and revenue, financing and guarantees granted to associated companies during 2019 are shown clearly and in detail.
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 group.

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.

Associated companies:	Financial Receivables < 1 year	Financial Receivables > 1 year	Accounts receivable < 1 year	Accounts receivable > 1 year
Actis Srl	30.000		1.703	
Immobiliare Del.Co. Srl	31.565			
Elesta SpA			747.670	
Chutian (Tianjin) Laser Technology Co. Ltd			36.443	
Quanta Aesthetic Lasers USA, LLC			2.769	
Accure Inc.	66.762		26.555	
Total	**128.326**	**-**	**815.140**	**-**

Associated companies:	Financial Payables < 1 year	Financial Payables > 1 year	Other payables < 1 year	Other payables > 1 year	Accounts Payable < 1 year	Accounts Payable > 1 year
Actis Srl					18.000	
Accure Inc.			70.781			
Total	-	-	70.781	-	18.000	-

Associated companies:	Sales	Service	Total
Elesta SpA	1.102.247	105.297	1.207.545
Quanta Aesthetic Lasers USA, LLC	- 10.381		-10.381
Accure Inc	120.753		120.753
Total	**1.212.620**	**105.297**	**1.317.917**

Associated companies:	Other revenues
Elesta SpA	18.829
Actis Srl	1.363
Accure Inc.	144.303
Total	**164.495**

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl		18.000		18.000
Accure Inc.	269			269
Total	**269**	**18.000**	**-**	**18.269**

The amounts shown on the charts above refer to transactions which are inherent to the ordinary operations of the company.

The chart below shows the incidence which the operations 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	2.402.752	1.367.332	56,91%
Receivables LT	322.723	-	0,00%
Accounts receivable	92.026.087	815.140	0,89%
Other current receivables	13.452.643	128.326	0,95%
Non current financial liabilities	21.115.757	-	0,00%
Current financial liabilities	16.706.435	-	0,00%
Accounts payable	78.390.780	18.000	0,02%
Other current payables	53.677.471	70.781	0,13%
Impact of related parties transactions on the income statement			
Revenues	400.760.689	1.317.917	0,33%
Other revenues and income	3.473.636	164.495	4,74%
Purchase of raw materials	225.233.494	269	0,00%
Direct services	35.153.507	-	0,00%
Other operating services and charges	43.624.459	18.000	0,04%
Financial charges	757.660	-	0,00%
Financial income	960.458	4.376	0,46%
Income taxes	9.868.415		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 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 financial statements of the Group.

With US Co. Ltd., in the preceding years, stipulated a derivative 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	€ 200.000	-€ 3.535
Total	**€ 200.000**	**-€ 3.535**

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 6% of the total accounts receivable from third parties. For an analysis of the overdue receivables 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 which was not renewed.

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 new Chinese subsidiary, Penta Laser Technology (Shangdong) obtained financing for the construction and equipping of their new factory by taking out a mortgage for the overall amount of about 6,8 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 in 2018 Asa underwrote a bank guarantee issued by CREDEM to the supplier ENI Spa for the amount of 8.000 Euros with expiration date on December 31st 2021, as a guarantee for the issuing of thirteen MULTICARD ENI cards after they underwrote a contract for the purchase of fuel. During 2019 ASA also underwrote a bank guarantee policy issued by ELBA Assicurazioni SpA in favor of their client ASST DI MONZA for 600 Euro with due date on November 12th 2020, as a guarantee for the correct fulfillment of all the contract obligations inherent to the sale of a therapeutic laser device.

The German subsidiary Asclepion in 2018 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 million Euros which is added to the residual mortgage taken out for the construction of the old building for the amount of about 427 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**.**

Financial Instruments (note 37)

Fair value

The table below shows a comparison by category between book value and fair value of all the financial instruments of the Group.

	Book value 31/12/2019	**Book value 31/12/2018**	**Fair value 31/12/2019**	**Fair value 31/12/2018**
Financial assets				
Equities in other companies	1.035.420	1.035.420	1.035.420	1.035.420
Non current financial receivables	322.723	322.898	322.723	322.898
Current financial receivables	212.075	201.393	212.075	201.393
Securities and other non-current financial assets	14.952.687	12.256.886	14.952.687	12.256.886
Securities and other current financial assets	2.126.791	1.951.235	2.126.791	1.951.235
Cash and cash equivalents	97.030.962	80.966.102	97.030.962	80.966.102
Financial debts and liabilities				
Non current financial liabilities	21.115.757	12.492.839	21.115.757	12.492.839
Current financial liabilities	16.706.435	8.314.176	16.706.435	8.314.176

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 2019, the Group holds the following securities evaluated at fair value:

	Level 1	Level 2	Level 3	Total
Investment contracts		14.952.687		14.952.687
Mutual funds	2.126.791			2.126.791
Currency swap		-3.535		-3.535
Total	**2.126.791**	**14.949.152**		**17.075.943**

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 and the subsequent modifications in art. 35 D.L. 34/2019 with modifications by L. 58/2019 introduced 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 and in the consolidated Notes if there is one, information regarding any subsidies, grants, benefits, contributions in money or in kind, which do not have a general character and are not paid for or reimbursed as those effectively issued by the public administration and by the subjects specifically indicated in the above mentioned law.

Therefore, the amounts for the sales of goods or services inherent in the operations conducted as part of their activity are excluded, in the presence of reciprocal relations managed according to the rules of the market, the general measures that can be used by all of the companies belonging to the general structure of the system defined by the state (for example, ACE), the selective economic advantages received in application of a regime of assistance accessible to all companies which satisfy certain conditions, on the basis of predetermined general criteria (tax facilitations and grants, also related to the hiring of the disabled), the grants for training received from inter-professional funds like, for example, Fondimpresa, since they are institutions financed by the contributions from the companies themselves.

It should also be recalled that, in reference to the help from the state and the "de minimis" help, the transparency of the latter is monitored by the publication in the National Register of State Assistance active since August of 2017, by the institutions which grant this help and to which the reader is referred.

The chart below illustrates the content of these regulations:

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.	216.069

Date	Contract Number	Company name	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

Esthelogue srl

Institution	Type of facilitation	Tax and social security breaks and grants	Amount
Financial administration	Tax Credits for publicity investments	Art. 57bis c.1 D.L. 50/17	13.365

Deka M.E.L.A. srl

Institution granting	Institution supplying	Facilitation	Description	Amount
Region of Tuscany	Tuscany Develoment	Grant for expenses on the research project	POR FESR 2014-2020 - Contest 1: Strategic research and development projects – Project co-financed by the Region of Tuscany and called "INSIDE" (Development of diagnostic and theranostic targeting based on nano-systems and/or l e/o engineered lymphocytes for the early identification and treatment of melanomas and multiple sclerosis	28.593

Lasit spa

Institution	Type of facilitation	Tax and social security breaks and grants	Amount
Internal Revenue Service	Purchase of new instrumental assets as per art. 1 sub-section 98,99 and 101 Law 28 December 2015	Tax credit of 25% on the cost of the goods purchased	96.750

Quanta System spa

Institution	Type of facilitation	Tax and social security breaks and grants	Amount
Financial administration	Tax credit for research and development	D.L. 145/2013 e S.M.	202.402

It should be noted that the company received financing in the form of facilitated credit for the amount of 806.300 Euros during the fiscal year 2012 from MIUR for the development of a Femtosecond laser. The company returned an amount of 97.007 Euros (of which 604 for interest) during 2019.

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 2019 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	2019 fees (Euros)
Audit	Deloitte & Touche SpA	Parent Company		59.683
	Deloitte & Touche SpA	Italian subsidiaries		68.821
	Deloitte & Touche SpA	Foreign subsidiaries		18.509
	Deloitte network	Foreign subsidiaries		79.295
Certification services	Deloitte & Touche SpA	Parent Company	(1)	18.402
	Deloitte & Touche SpA	Italian subsidiaries	(2)	14.500
Other services	Deloitte & Touche SpA	Parent Company		-
				259.210

(1) Revision of the Non-Financial Statement
(2) Certification services for tax credit for R&D

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	31/12/2019	Average of previous period	31/12/2018	Variation	Var. %
Total	**1.433**	**1.498**	**1.290**	**1.368**	**130**	**9,50%**

SUBSEQUENT EVENTS

On January 3rd 2020 to the Chamber of Commerce of Wenzhou a new business license for Penta Laser Wenzhou was registered for the acquisition by Ot-las of a further quota of 29,7%. The amount was about 20 million Euros and it was paid within the following 15 days once the authorization had been obtained from the Chinese authorities for the importation of currency. An earn out of 40 million Renminbi (about 5 million Euros at the current Exchange rate) will be paid if certain events occur, in particular, in the case of an IPO of Penta Wenzhou within 5 years of the agreement.
The percentage of ownership of 83,23% obtained in this way in Penta Wenzhou is therefore related to the entire group of Chinese activities that are now controller 100% by Penta Wenzhou itself, that is, Penta Chutian of Wuhan and Penta Shandong of Lin Yi. With the decline in the power of the minority group we are confident that we will be able to increasingly take advantage of the opportunities for development and growth of the operating structure in terms of the production and marketing capacity that has been organized an re-enforced in China in the last few years, and we are confident that the setback caused by Covid 19 can be overcome and that we can recover the positive trend that has been shown in the past few years.

COVID-19 EMERGENCY

By mid-January it was becoming clear that the spread of the epidemic with its epicenter in the city of Wuhan and the restrictions adopted by the Chinese government were drastic, with house quarantines imposed in all of the province of the city of Wuhan, Hubei and other provinces. There is still even now a limitation on the circulation of people and the city of Wuhan is blocked, while in the other provinces life is gradually returning to normal thanks to the substantially stable number of new victims.
The effects on the activities of the Group were significant and the three factories in China were forced to extend their holiday closure and interrupt production. At Lin Yi and at Wenzhou activities started up again at the beginning of

March at a very slow pace because of the difficulties in moving from one province to another, while at Wuhan, where most of our employees live, the city remains under quarantine. Although the block in the production capacity will soon be overcome, it will take more time for the demand to return to the levels which were expected for 2020.

Also in Italy, the emergency measure taken by the government effectively blocked sales in Italy, while, despite the difficult conditions, where possible and permitted, and with the maximum consideration for the health and safety of the workers, production continued in order to satisfy the many orders that were coming from abroad. The restrictions that were imposed caused the cancellation of the fairs and symposiums that are a point of reference for the Group and prevented them from travelling and conducting the usual promotional and marketing activities even in other countries.

CURRENT OUTLOOK

The forecast which we made at the end of last year envisioned the concrete potential for rapid growth both in the medical and industrial sectors thanks to sheet metal cutting in Europe and, above all, China, and the rapid expansion of sales of laser systems for aesthetic and medical applications in the United States, while for the other applicative we expected a consolidation of the competitive positions and a slight growth in the volume of business. The brilliant start of the year seemed to confirm these forecasts.
The explosion of the Covid 19 virus and its consequences on the economic activity first in China and then in Italy, and the rest of the world, make it very complicated to formulate any forecasts related to the financial results of the Group and for this reason we prefer to postpone any forecasts to a time when the entity and the duration of the pandemic have become more evident and the impact of the effects of Covid 19 on our activities.
We must expect a period in which the entire world scenario is uncertain and, for this reason, the next few months may turn out to be particularly difficult from an economic point of view: we must be prepared for other scenarios and recurrences and, in any case be ready to adopt adequate and opportune measures although we know that the capitalization level of the Company and of the Group and the net financial position are such that, on a short term basis, the financial and economic equilibrium will not be compromised, even if there is a significant reduction in sales volume with the same overhead for which, considering the extraordinary measures of an economic and financial nature that many governments are taking in order to sustain the companies in these unusual circumstances, the Group is, in any case, able to diminish the incidence.

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 2019.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the separate financial statement dated December 31st 2019:

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 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 13th, 2020

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, 2019, 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, 2019, 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, 2019 are Euro 97,037 thousand, net of a provision for inventory writedowns of Euro 12,971 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 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, 2019 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, 2019 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, 2019 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
May 14, 2020

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 2019.

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

Consolidated financial statement as of December 31st 2019.

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 2019 and on the Management Report for 2019 (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 2019, 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 38/05.

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 resolution 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 and the Explanatory Notes of the Consolidated Financial Statement, the administrators have supplied sufficient information concerning the significant events that have affected the El.E, Group during 2019 and early 2020, including the considerations regarding the effects of the spread of the Covid-19 pandemic and the difficulties in predicting the trends in the financial results of the Group in the near future. These same administrators have stated that the level of capitalization of the Group and the net financial position are of an entity such as to not compromise the short-term economic and financial equilibrium even in the case of a significant reduction in sales volume with the same overhead for which, in consideration of the extraordinary measures of an economic and financial nature which the different governments are adopting in order to sustain the companies in these exceptional circumstances, the Group is able to intervene in order to reduce their incidence.

With regard to the proposal for the distribution of a dividend voted by the Board of Directors on the date of the approval of the financials, the Board of Auditors reports that the consolidated financial statement was not modified after the resolution taken by the Board of Directors on April 24th 2020 which suspended the distribution of the dividend, but the effect of this failure to update the document is not significant either alone or for the overall consolidated financial statement.

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.

In relation to the paragraph of the Non-financial statement concerning “the economic value generated and distributed to the stakeholders”, the Board of Auditors pointed out that after the approval of the NFS, on April 24th the Board of Directors, as a cautionary step despite the adequate level of capitalization of the Group, voted to suspend the distribution of the dividend which had been previously approved on March 13th 2020 and to propose to the shareholders’ meeting to assign all of the net income for 2019 to an extraordinary reserve.

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 consolidated non-financial statement drawn up for the financial year 2019 gives adequate information concerning the annual results in terms of sustainability performance achieved this year by the company and by its subsidiaries.

Florence, May 14th 2020

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 2019

ACCOUNTING CHARTS AND NOTES

Statement of financial position

Assets	**Note**		**31/12/2019**		**31/12/2018**
Intangible assets	1		428.146		267.146
Tangible assets	2		17.495.979		15.852.213
Equity investments	3				
- in subsidiary companies		16.028.680		15.833.989	
- in associated companies		819.379		809.457	
- other		1.024.498		1.024.498	
Total Equity investments			17.872.557		17.667.944
Deferred tax assets	4		2.290.184		2.226.387
Other non-current assets	4		21.952.114		12.259.994
Total non current assets			**60.038.980**		**48.273.684**
Inventories	5		25.377.629		24.509.573
Accounts receivable	6				
- third parties		7.269.124		5.609.392	
- subsidiary companies		25.798.187		34.463.726	
- associated companies		684.941		642.472	
Total Accounts receivable			33.752.252		40.715.590
Tax receivables	7		3.903.199		4.140.432
Other receivables	7				
- third parties		698.476		485.634	
- subsidiary companies		7.107.523		7.065.903	
- associated companies		61.565		61.565	
Total Other receivables			7.867.564		7.613.102
Securities and other current financial assets	8		2.126.791		1.951.235
Cash and cash equivalents	9		29.449.845		26.194.767
Total current assets			**102.477.280**		**105.124.699**
Total Assets			**162.516.260**		**153.398.383**

Liabilities	Note		31/12/2019		31/12/2018
Share capital	10		2.537.965		2.508.671
Additional paid in capital	11		41.430.624		38.593.618
Other reserves	12		87.801.601		92.033.747
Treasury stock	13		-		-
Retained earnings / (accumulated deficit)	14		(984.283)		(984.283)
Net income / (loss)			5.833.175		2.814.039
Total shareholders' equity			**136.619.082**		**134.965.792**
Severance indemnity	15		853.700		851.830
Deferred tax liabilities	16		329.257		410.337
Other accruals	17		1.402.769		1.224.121
Financial debts and liabilities	18				
- third parties		573.179		488.285	
Total Financial debts and liabilities			573.179		488.285
Total non current liabilities			**3.158.905**		**2.974.573**
Financial liabilities	19				
- third parties		4.317.848		4.474	
- associated companies		-		276.608	
Total Financial liabilities			4.317.848		281.082
Accounts payable	20				
- third parties		11.603.263		9.752.407	
- subsidiary companies		1.093.885		800.205	
- associated companies		18.000		-	
Total Accounts payable			12.715.148		10.552.612
Income tax payables	21		24.741		-
Other current payables	21				
- third parties		5.668.856		4.473.622	
- subsidiary companies		11.680		150.702	
Total Other current payables			5.680.536		4.624.324
Total current liabilities			**22.738.273**		**15.458.018**
Total Liabilities and Shareholders' equity			**162.516.260**		**153.398.383**

Income Statement

Income Statement	Note		31/12/2019		31/12/2018
Revenues	22				
- third parties		24.232.455		22.677.406	
- subsidiary companies		42.524.079		38.588.594	
- associated companies		980.664		871.219	
Total Revenues			67.737.198		62.137.219
Other revenues and income	23				
- third parties		283.077		345.969	
- subsidiary companies		599.021		592.388	
- associated companies		20.192		16.251	
Total Other revenues and income			902.290		954.608
Revenues and income from operating activity			**68.639.488**		**63.091.827**
Purchase of raw materials	24				
- third parties		31.536.507		35.621.405	
- subsidiary companies		1.180.640		1.115.702	
Total Purchase of raw materials			32.717.147		36.737.107
Changes in inventory of finished goods			(388.902)		(2.594.113)
Change in inventory of raw material			(815.478)		(782.618)
Direct services	25				
- third parties		10.058.648		4.990.831	
- subsidiary companies		53.519		41.606	
Total Direct services			10.112.167		5.032.437
Other operating services and charges	25				
- third parties		7.381.711		6.948.426	
- subsidiary companies		138.624		129.375	
- associated companies		18.000		-	
Total Other operating services and charges			7.538.335		7.077.801
Staff cost	26		16.247.058		15.759.709
Depreciation, amortization and other accruals	27		1.572.595		1.378.611
EBIT			**1.656.566**		**482.893**
Financial charges	28				
- third parties		(17.745)		(96.991)	
- subsidiary companies		(34.432)		116.318	
Total Financial charges			(52.177)		19.327
Financial income	28				
- third parties		595.548		571.965	
- subsidiary companies		3.437.981		2.391.381	
- associated companies		300		300	
Total Financial income			4.033.829		2.963.646
Exchange gain (loss)	28		259.649		584.170
Other non operating charges	29		(651.260)		(799.359)
Other non operating income	29		-		-
Income (loss) before taxes			**5.246.607**		**3.250.677**
Income taxes	30		(586.568)		436.638
Income (loss) for the financial period			**5.833.175**		**2.814.039**

Statement of comprehensive income

	31/12/2019	31/12/2018
Reported net (loss) income	5.833.175	2.814.039
Other income/(loss) that will not be entered in income statement net of fiscal effects:		
Measurement of defined-benefit plans	(38.394)	20.183
Total other income/(loss), net of fiscal effectes (B)	(38.394)	20.183
Total comprehensive (loss) income	5.794.781	2.834.222

Cash flow statement

Cash flow statement	Note	31/12/19	related parties	31/12/18	related parties
Operating activity					
Income (loss) for the financial period		**5.833.175**		**2.814.039**	
Amortizations and depreciations	27	1.582.415		1.303.375	
Gain/Loss on financial investments and equity investments	29	0		0	
Write-downs for impairment losses	29	478.890	478.890	156.067	156.067
Stock Option		507.618		638.428	
Severance indemnity	15	(48.648)		(10.224)	
Provisions for risks and charges	17	178.649		646.076	
Bad debt reserve	6	(47.356)	83.999	158.321	157.192
Deferred income tax assets	4	(51.672)		299.339	
Deferred income tax liabilities	16	(81.080)		(65.637)	
Inventories	5	(868.055)		(3.094.127)	
Accounts receivable	6	7.010.692	8.539.070	(4.322.272)	(6.405.735)
Tax receivables	7	237.233		(130.927)	
Other receivables	7	(509.693)	(305.250)	1.340.913	983.494
Accounts payable	20	2.162.536	311.679	(2.824.372)	(100.355)
Income tax payables	21	24.741		0	
Other payables	21	1.056.214	(139.022)	302.052	128.650
Cash flow generated by operating activity		**17.465.659**		**(2.788.949)**	
Investment activity					
Tangible assets	2	(2.428.322)		(3.709.016)	
Intangible assets	1	(423.315)		(251.209)	
Equity investments, securities and other financial assets	3-4-8	(847.597)	(479.922)	(537.210)	(421.053)
Financial receivables	7	(9.244.773)	(9.236.371)	(2.454.398)	(2.521.572)
Cash flow generated by investment activity		**(12.944.007)**		**(6.951.833)**	
Financing activity					
Non current financial liabilities	18	(117.692)		0	
Current financial liabilities	19	3.703.807	(276.608)	281.083	276.608
Capital increases	10	2.866.299		0	
Dividends paid	31	(7.718.989)		(7.718.989)	
Cash flow generated by financing activity		**(1.266.574)**		**(7.437.906)**	
Increase/(decrease) in cash and cash equivalents		**3.255.078**		**(17.178.688)**	
Cash and cash equivalents at the beginning of the financial period		**26.194.767**		**43.373.455**	
Cash and cash equivalents at the end of the financial period		**29.449.845**		**26.194.767**	

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 583 thousand Euros, of which 163 thousand Euros from subsidiary companies.
Income taxes for this financial year were 775 thousand Euros.

Changes in the Shareholders' equity

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
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

Total shareholders' equity	**31/12/2018**	**Net income allocation**	**Dividends distributed**	**Other movements**	**Comprehensive income (loss)**	**31/12/2019**
Share capital	2.508.671			29.294		2.537.965
Additional paid in capital	38.593.618			2.837.006		41.430.624
Legal reserve	537.302					537.302
Treasury stock						
Other reserves:						
Extraordinary reserve	87.382.029		-4.904.950			82.477.079
Special reserve for grants received	426.657					426.657
Other reserves	3.687.759			711.198	-38.394	4.360.563
Retained earnings / (accumulated deficit)	-984.283	2.814.039	-2.814.039			-984.283
Net income / (loss)	2.814.039	-2.814.039			5.833.175	5.833.175
Total shareholders' equity	134.965.792		-7.718.989	3.577.498	5.794.781	136.619.082

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 13th 2020.

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 2019 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 2019 and 2018. The financial information on the other hand refer to the situations on December 31st 2019 and December 31st 2018.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The financial statement as of December 31st 2019 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 2018 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 2019" 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.

The estimates that were made did not consider the uncertainties generated by the spread of the Corona virus which we have described in the paragraph titled "Significant events which occurred after December 31st 2019" contained in the Management Report because these factors of instability have been considered events which do not comport corrections in the amounts shown in the statements in compliance with IAS 10 § 21. At the present day, the administrators do not have enough information to estimate the effects of this phenomenon on the amounts shown in the financial reports.
The amounts which, for their very nature, require a greater use of estimates by the administrators and for which a change in the conditions underlying the assumptions used may have an impact on the consolidated financial statement are:

• Bad debt reserve; this fund represents the best estimation of the management on the potential loss in the portfolio of receivables from clients. The estimate is based on expected losses on similar receivables in the past, on the trend of past due receivables, on the evaluation of the quality of the receivable and the outlook for the economic and market conditions; the estimate made by the administrators, although it is based on past data and market conditions, may be subject to change in the competitive or market environment in which the Group operates.
• Inventory obsolescence fund; the inventory of raw materials and finished products with slow rotation are periodically analyzed on the basis of the related data in the past and the possibility of selling them at a lower price than would be normal for market transactions. If, from this analysis, it appears necessary to reduce the value of the inventory, a special devaluation fund is created; as with the bad debt reserve, the determining of the Inventory obsolescence fund is calculated on the basis of past data and market information, and any changes which may have occurred in the market scenario and the trends may significantly modify the criteria used for determining the underlying estimates.
• Leases: the determination of right of use which emerges from leasing contracts, and the relative financial liabilities, represents a significant estimate on the part of the management. In particular, a high level of judgment is used to set the lease term and for the calculation of the incremental borrowing rate. The determination of the lease term bears in consideration the expiration of the contract which has been underwritten as well as any renewal clauses which the Group believes are reasonably certain to be applied. The incremental borrowing rate is created considering the typology of the asset which is the subject of the leasing contract, the jurisdiction in which this object is acquired and the currency that is used in the contract. Any changes in the market scenario and trends may require a review of the elements described.
• Equities: the procedure for determining the recoverable value of the equities in the case that there were elements concerning the loss of value, implicates, in the estimate of the value of the equity, hypotheses regarding the outlook for the cash flow expected from the cash generating units (CGU) identified, with reference to the plans for the next three-year period, the determination of an appropriate actualization rate (WACC) and long-term growth rate (*g-rate*). Any changes in the market scenario and trends may require a review of the elements described.

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 into accounts initially at *fair value* which corresponds to the nominal value and, later, they are evaluated at the amortized cost and reduced in the case of loss of value. Moreover, they are adjusted to their presumed cashing-in value by entering them in a special rectified fund.

The receivables that are in a currency that in different from that used for the financial statement are entered at the exchange rate that is valid on the day of the operation and, later, converted to the rate of the end of the year. The gain or loss derived from the conversion is entered in the income statement.

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) LEASES

Leasing contracts are entered into accounts according to IFRS 16 which identifies the standards for recording them, the measuring, the presentation and the information on leasing contracts and requires the lessor to enter all the leasing contracts in the statement on the basis of a single accounting model similar to that used for the financial leases which were regulated by IAS 17. The Company has made use of two of the exemptions provided by the standard related to the "low value assets" and short-term leasing contracts (for example, those having a duration of 12 months or less).
For the contracts in which the Company is the lessee, on the date of the beginning of the leasing contract a liability is recognized for the payment of the rent established in the leasing contract and an asset which represents the right of use of the underlying asset for the duration of the contract (the right of use). The Company records separately the costs for the interests on the leasing liability and the depreciation of the right of use of the asset. The Company also proceeds with the remeasurement of the leasing liability when certain events occur (for example, a change in the conditions of the leasing contract, a change in the future payments of the lease caused by a variation in a rate or tax used for determining those payments). In these cases, the amount of the remeasurement of the liability for leasing is usually recognized as a rectification of the right of use of the asset.

P) 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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ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS APPLIED SINCE JANUARY 1st 2019

IFRS 16

On January 13th 2016 the IASB published standard **IFRS 16 – *Leases*** which is supposed to replace IAS 17– *Leases*, as well as 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*.

This standard supplies a new definition of a *lease* and introduces a criteria based on the *right of use* of an asset to distinguish leasing contracts from contracts for the supplying of services and identifies as discriminating factors of a lease: 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 object referred to in the contract.

The standard sets a single model for the recognition and evaluation of leasing contracts for the lessee which includes the entering of the asset which is named in the contract, including operative ones, among the assets with the corresponding sum in the financial debts. On the contrary, the standard does not include any significant modifications for the lessor.

The standard has been applied since January 1st 2019.

The Company decided to apply the standard retrospectively, however, entering the cumulative effect derived from the application of the standard in the shareholders equity on January 1st 2019 (not modifying the comparative data for 2018) in compliance with paragraphs IFRS 16 C7-C13.
In particular, the Company entered into accounts the following items related to leasing contracts which had been previously classified as operative:

-a financial liability which was equal to the current value of the future residual payments on the date of the transaction, actualized using for each contract the incremental borrowing rate applicable on the date of the transaction;

- a right of use equal to the value of the financial liability on the date of the transaction, net of any deferred income and prepaid expenses referred to the lease and registered in the statement of financial position on the date of the closing of the financials for this year.

The application of IFRS 16 on the date of the transaction, January 1st 2019, brought about the entry of rights of use for 0,3 million Euros and a financial liability of the same amount.

When applying IFRS 16, the Company made use of the exemption granted by paragraph IFRS 16:5(a) in relation to *short-term lease* for contracts with a duration of less than a year.
At the same time, they made use of the exemption granted by IFRS 16:5(b) concerning leasing contracts for which the underlying asset is considered a low value asset. The contracts for which the exemption was applied fall mainly into the following categories:
Computers, telephones, printers, small equipment and electronic devices.
For these contracts the introduction of IFRS 16 did not comport the recording of the financial liability of the leasing and the right of use, but the leasing fees were entered in the income statement on a linear basis for the duration of the contract.

For the purpose of supplying assistance in the understanding of the impact caused by the first application of the standard, the chart below shows the reconciliation between the future commitments related to leasing contracts, information for which was given in the same paragraph of the separate financial statement of El.En. SpA for 2018 and the impact derived from the adoption of IFRS 16 on January 1st 2019 (data expressed in thousands of Euros).

	January 1st 2019
Assets right of use	
Industrial and commercial equipment	44
Motor vehicles	218
Plants & machinery	30
Right of use	**292**
Financial liabilities:	
< 1 year	92
> 1 year	200
Total	**292**

Besides the information regarding the application of IFRS16, as far as the accounting standards, amendments and interpretations applied mandatorily or voluntarily starting on January 1st 2019 are concerned, please consult the relative paragraphs in the Consolidated Notes: "IFRS Accounting standards, amendments and interpretations applied since January 1st 2019.

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
		01/01/2019	01/01/2019 - 31/12/2019	01/01/2019 - 31/12/2019	01/01/2019 - 31/12/2019	01/01/2019 - 31/12/2019	31/12/2019	31/12/2019	
Plan 2016-2025	31-dic-25	800.000			225.338		574.662	174.662	€ 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 2019 the average price registered for the El.En. S.p.A. stock was about 20,4 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:

	31/12/2018	Increase	Decrease	Revaluation / Devaluation	Other movements	Depreciation	31/12/2019
Development costs	165.786	261.439				-184.407	242.819
Patents and rights to use patents of others		20.000				-3.334	16.666
Concessions, licenses, trade marks and similar rights	38.934	78.375			23.525	-61.326	79.508
Other intangible assets	13.901					-13.248	653
Intangible assets under construction and advance payments	48.525	35.300			4.675		88.500
Total	**267.146**	**395.114**			**28.200**	**-262.315**	**428.146**

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	**31/12/2018**	**Increase**	**(Disposals)**	**Revaluation / Devaluation**	**Other movements**	**31/12/2019**
Lands and buildings	16.862.187	168.417			94.802	17.125.406
Plants & machinery	3.102.670	381.830			8.710	3.493.210
Industrial and commercial equipment	5.765.059	391.319	-81.008		52.327	6.127.697
Other assets	2.614.295	352.615	-86.184		16.841	2.897.567
Tangible assets under construction and advance payments	307.666	1.170.727			-239.084	1.239.309
Total	**28.651.877**	**2.464.908**	**-167.192**		**-66.404**	**30.883.189**
Lands and buildings right of use		37.618				37.618
Plants & machinery right of use					29.947	29.947
Industrial and commercial equipment right of use		21.340			43.701	65.041
Other assets right of use		181.511			221.426	402.937
Total		**240.469**			**295.074**	**535.543**
Total	**28.651.877**	**2.705.377**	**-167.192**		**228.670**	**31.418.732**

Accumulated depreciation	**31/12/2018**	**Depreciations**	**(Disposals)**	**Revaluation / Devaluation**	**Other movements**	**31/12/2019**
Lands and buildings	3.904.956	420.536				4.325.492
Plants & machinery	2.151.602	180.164			1	2.331.767
Industrial and commercial equipment	5.018.745	349.387	-80.442		-31.971	5.255.719
Other assets	1.724.361	227.189	-80.949		-3.651	1.866.950
Tangible assets under construction and advance payments						
Total	**12.799.664**	**1.177.276**	**-161.391**		**-35.621**	**13.779.928**
Lands and buildings right of use		5.210				5.210
Plants & machinery right of use		13.310				13.310
Industrial and commercial equipment right of use		11.239				11.239
Other assets right of use		113.066				113.066
Total		**142.825**				**142.825**
Total	**12.799.664**	**1.320.101**	**-161.391**		**-35.621**	**13.922.753**

Net value	**31/12/2018**	**Increase**	**(Disposals)**	**Revaluation / Devaluation / Depreciations**	**Other movements**	**31/12/2019**
Lands and buildings	12.957.231	168.417		-420.536	94.802	12.799.914
Plants & machinery	951.068	381.830		-180.164	8.709	1.161.443
Industrial and commercial equipment	746.314	391.319	-566	-349.387	84.298	871.978
Other assets	889.934	352.615	-5.235	-227.189	20.492	1.030.617
Tangible assets under construction and advance payments	307.666	1.170.727			-239.084	1.239.309
Total	**15.852.213**	**2.464.908**	**-5.801**	**-1.177.276**	**-30.783**	**17.103.261**
Lands and buildings right of use		37.618		-5.210		32.408
Plants & machinery right of use				-13.310	29.947	16.637
Industrial and commercial equipment right of use		21.340		-11.239	43.701	53.802
Other assets right of use		181.511		-113.066	221.426	289.871
Total		**240.469**		**-142.825**	**295.074**	**392.718**
Total	**15.852.213**	**2.705.377**	**-5.801**	**-1.320.101**	**264.291**	**17.495.979**

The heading of “Lands and buildings” and the relative right of use includes the real estate complex in Via Baldanzese in Calenzano (Florence) where the Company and its subsidiaries Deka M.E.L.A. S.r.l., Esthelogue S.r.l., Pharmonia S.r.l.

and Merit Due S.r.l. operate and the buildings in Via Dante Alighieri also in Calenzano; the first was acquired in 2008 and the second in 2014; the building located in the municipality of Torre Annunziata, acquired in 2006, which is used for the activities of research, development and manufacture of the subsidiary Lasit S.p.A.

The increase under the heading of “Other assets” is related in particular to the purchase of motor vehicles, light constructions and electronic machinery.

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

In the column of “Other movements” of the various categories, we have registered the reclassification made to the respective categories of right of use in compliance with what was stated in IAS 17 and the amount that was inserted in the categories of right of use as a result of the first application on January 1st 2019 of IFRS 16. The effect of this application amounted to about 0,3 million Euros.

Equity investments (note 3)

Equities in subsidiary companies

Company name	Headquarters	Percentage held	Book value	Equity 31/12/2019	Result 31/12/2019	Share of equity	Difference
Ot-Las S.r.l.	Calenzano (ITA)	96,65%	2.678.888	7.874.376	1.416.960	7.610.584	4.931.696
Deka Mela S.r.l.	Calenzano (ITA)	85,00%	1.524.198	14.678.535	2.313.485	12.476.755	10.952.557
Esthelogue S.r.l.	Calenzano (ITA)	50,00%	288.677	17.507	-407.634	8.754	-279.924
Deka Sarl	Lione (FRA)	100,00%	0	-214.615	-542.214	-214.615	-214.615
Lasit S.p.A.	Torre Annunziata (ITA)	70,00%	1.110.967	8.199.214	2.121.040	5.739.450	4.628.483
Quanta System S.p.A.	Milano (ITA)	100,00%	8.042.648	37.605.007	13.892.475	37.605.007	29.562.359
Asclepion GmbH	Jena (GER)	50,00%	1.162.269	20.999.679	3.845.188	10.499.840	9.337.571
BRCT Inc.	New York (USA)	100,00%	1.128.446	-77.869	-24.900	-77.869	-1.206.315
Deka Japan Co., Ltd	Tokyo (JAP)	55,00%	42.586	1.407.404	146.020	774.072	731.486
Cutlite do Brasil Ltda	Blumenau (BRASIL)	98,27%	0	-1.331.827	-68.131	-1.308.786	-1.308.786
Pharmonia S.r.l.	Calenzano (ITA)	100,00%	50.000	284.151	-3.977	284.151	234.151
Total			16.028.680	89.441.562	22.688.312	73.397.342	57.368.663

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).

As of December 31st 2019, the recoverable value related to the equity in Esthelogue Srl was subjected to an impairment test to verify the existence of any losses in value by comparing the accounting value of the unit with the value of use, that is to say, the current value of the expected future financial flows which we suppose will be derived from the continued use and the ultimate disposal of the same at the end of its useful life. The results of this test are shown below.

Esthelogue Srl.: the value of use was determined by the Discounted Cash Flow method (DCF) by actualizing the cash flow contained in the economic-financial plan approved by the administrative body of Esthelogue Srl in reference to the time span from 2020 to 2022. For the purpose of determining the value of use of the equity, we considered the cash flow actualized in the forecast for these three years added to the terminal value assumed to be equal to the current value of the perpetual income of the flow calculated by applying to the sales volume of the last year of forecast a growth rate “g” amounting to 1.5% considering a margin equal to the average for the three-year period for which there had been an explicit forecast.
The main hypothesis of the financial-economic plan used to make the impairment test is related to the growth rate of the sales volume in the time period covered by the plan. The rates that were considered in order to formulate the forecasts used as part of the impairment test are consistent with the final data during 2019 and with the outlook for the market in which they operate.
The hypotheses in question and the corresponding financial forecasts were considered by the administrative body to be suitable for the purposes of conducting the impairment test and they approved the results.
The discount rate applied to the prospective cash flows (WACC) was 8,80%, including a cautionary *execution risk* of 1%; for the cash flows related to the years following the period of explicit forecast we assume a long-term growth rate “g” of 1,5%.
The determination of the value of use on the basis of these parameters allowed us to avoid making any reduction to the value of the equity.
The values of use are lower than the book values with the exception of the hypothesis formulated with a growth rate “g” of 0,5% and a WACC+1% of 9,80%.

In any case, it should be noted that the business plan and the cash flow used in the impairment test do not reflect the possibility of changes related to the current national and international scenario characterized by the spread of the Corona virus and the consequent restrictive measures which may be imposed by the authorities in various countries.

This circumstance, which emerged in the first few months of 2020, is extraordinary both in its nature and its extent, and has had both direct and indirect repercussions on the economic activities; it has created a general climate of uncertainty, the evolution and related effects of which cannot be predicted and the potential effects of this phenomenon cannot be determined at this time and will be closely monitored during the year.

For BRCT Inc. one must consider that this company holds equities evaluated at the cost which fair value would be much greater and more than enough to cover the negative difference between the book value and the fraction of the shareholders' equity.

Equities in associated companies

Company name	Headquarters	Percentage held	Book value	Equity 31/12/2019	Result 31/12/2019	Share of equity	Difference
Actis S.r.l. (*)	Calenzano (ITA)	12,00%	1.240	355.212	-31.486	42.625	41.385
Elesta S.r.l.	Calenzano (ITA)	50,00%	543.939	2.341.343	551	1.170.672	626.733
Immobiliare Del.Co. S.r.l.	Solbiate Olona (ITA)	30,00%	274.200	41.719	28.820	12.516	-261.684
Total			819.379	2.738.274	-2.115	1.225.813	406.434

(*) Data as of December 31st 2018

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 (*)	470.587	115.375	-31.486	22.041	53.527
Elesta SpA	4.296.999	1.955.656	551	3.057.608	3.057.057
Immobiliare Del.Co. Srl	791.019	749.300	28.820	188.496	159.676

Equities

Equity investments	31/12/2018			Movements of the period			31/12/2019		
	Cost	Reval./(Deval.)	Balance 31/12/2018	Changes	Reval./(Deval.)	Other movements	Balance 31/12/2019	Reval./(Deval.)	Cost
- in subsidiary companies									
Deka Mela S.r.l.	1.499.751		1.499.751	24.447			1.524.198		1.524.198
Ot-Las S.r.l.	2.910.847	-309.746	2.601.101	77.787			2.678.888	-309.746	2.988.634
Esthelogue S.r.l.	1.854.370	-1.574.583	279.787	8.890			288.677	-1.574.583	1.863.260
Deka Sarl	2.866.468	-2.866.468		478.890	-478.890			-3.345.358	3.345.358
Lasit S.p.A.	1.093.187		1.093.187	17.780			1.110.967		1.110.967
Quanta System S.p.A.	8.012.867		8.012.867	29.781			8.042.648		8.042.648
BRCT Inc.	1.128.446		1.128.446				1.128.446		1.128.446
Asclepion GmbH	1.126.265		1.126.265	36.004			1.162.269		1.162.269
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	23.969.706	-8.135.716	15.833.989	673.579	-478.890	0	16.028.680	-8.614.606	24.643.285

Equity investments	31/12/2018			Movements of the period			31/12/2019		
	Cost	Reval./(Deval.)	Balance 31/12/2018	Changes	Reval./(Deval.)	Other movements	Balance 31/12/2019	Reval./(Deval.)	Cost
- in associated companies									
Actis S.r.l.	1.240		1.240				1.240		1.240
Elesta S.r.l.	1.162.765	-628.747	534.018	9.922			543.940	-628.747	1.172.687
Immobiliare Del.Co. S.r.l.	274.200		274.200				274.200		274.200
Total	1.438.205	-628.747	809.457	9.922	0	0	819.379	-628.747	1.448.127

Equity investments	31/12/2018			Movements of the period			31/12/2019		
	Cost	Reval./(Deval.)	Balance 31/12/2018	Changes	Reval./(Deval.)	Other movements	Balance 31/12/2019	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					0	-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				1.024.498	-364.686	1.389.184

The amount of "equities in other companies" is mainly due to the equity held by "Epica International Inc" for an amount of 888 thousand Euros. With reference to the value of this equity the administrators decided that since the equity instrument was not quoted on the regulated markets and, since there was a wide range of possible evaluations at fair value related to various underwritings, the cost represented the best estimate of the fair value in this range and also in consideration of the average share price of the underwriting.

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	31/12/2019	31/12/2018	Variation	Var. %
Financial receivables - subsidiaries	9.500.000		9.500.000	
Deferred tax assets	2.290.184	2.226.387	63.797	2,87%
Other non-current assets	12.452.114	12.259.994	192.120	1,57%
Total	**24.242.298**	**14.486.381**	**9.755.917**	**67,35%**

The financial receivables from subsidiary companies refer to the mid- to long-term part of the financing issued this year to Cutlite Penta for a total of 10 million Euro, to be repaid in deferrable half-yearly installments, with the last payment due on December 31st 2029, at the BCE rate + 0,5% as specified in note (7).

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 heading "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:

	31/12/2019	31/12/2018	Variation	Var. %
Raw materials, consumables and supplies	12.611.477	11.795.999	815.478	6,91%
Work in progress and semi finished products	9.527.645	8.165.008	1.362.637	16,69%
Finished products and goods	3.238.507	4.548.566	-1.310.059	-28,80%
Total	**25.377.629**	**24.509.573**	**868.056**	**3,54%**

The chart shows an increase in inventory of about 3,5%; it should be recalled that the amounts shown in the chart are net of the devaluation fund as shown in the chart below.

	31/12/2019	31/12/2018	Variation	Var. %
Gross amount of Inventory	30.401.674	29.428.971	972.703	3,31%
Devaluation provision	-5.024.045	-4.919.398	-104.647	2,13%
Total	**25.377.629**	**24.509.573**	**868.056**	**3,54%**

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 amount of the fund increased by about 105 thousand Euros with respect to December 31st 2018, while the incidence on the gross value of the inventory remained unchanged at about 17% .

Accounts receivable (note 6)

Receivables are composed as follows:

	31/12/2019	31/12/2018	Variation	Var. %
Accounts receivable from third parties	7.269.124	5.609.392	1.659.732	29,59%
Accounts receivable from subsidiaries	25.798.187	34.463.726	-8.665.539	-25,14%
Accounts receivable from associated	684.941	642.472	42.469	6,61%
Total	**33.752.252**	**40.715.590**	**-6.963.338**	**-17,10%**

Accounts receivable from third parties	31/12/2019	31/12/2018	Variation	Var. %
Italy	2.737.753	2.176.077	561.676	25,81%
EEC	1.019.275	869.474	149.801	17,23%
ROW	3.855.706	3.038.805	816.901	26,88%
minus: bad debt reserve	-343.610	-474.965	131.355	-27,66%
Total	**7.269.124**	**5.609.392**	**1.659.732**	**29,59%**

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.

	2019
At the beginning of the period	474.965
Provision	15.000
Amounts utilized and unused amounts reversed	-46.812
Other movements	-99.543
At the end of the period	**343.610**

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

Accounts receivable in:	**31/12/2019**	**31/12/2018**
Euros	4.588.153	3.646.203
USD	2.680.971	1.963.189
Total	**7.269.124**	**5.609.392**

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 31^{st} 2019 and December 31^{st} 2018.

The chart below shows the analysis of the accounts receivable from third parties and from subsidiary companies for 2019 and for 2018:

Accounts receivable from third parties	**31/12/2019**	**31/12/2018**
To expire	4.689.734	3.890.463
Overdue:		
0-30 days	1.054.800	583.786
31-60 days	750.727	145.526
61-90 days	180.599	438.260
91-180 days	266.398	68.798
Over 180 days	326.866	482.559
Total	**7.269.124**	**5.609.392**

Accounts receivable from subsidiaries	**31/12/2019**	**31/12/2018**
To expire	9.578.699	10.293.095
Overdue:		
0-30 days	788.036	701.964
31-60 days	430.694	524.683
61-90 days	466.599	729.206
91-180 days	397.545	1.935.551
Over 180 days	14.136.614	20.279.226
Total	**25.798.187**	**34.463.726**

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:

	31/12/2019	31/12/2018	Variation	Var. %
Tax receivables				
VAT receivables	1.440.935	1.768.369	-327.434	-18,52%
Income tax receivables	2.462.264	2.372.063	90.201	3,80%
Total	**3.903.199**	**4.140.432**	**-237.233**	**-5,73%**
Current financial receivables				
Financial receivables - third parties	71.407	63.005	8.402	13,34%
Financial receivables - subsidiaries	6.588.633	6.852.262	-263.629	-3,85%
Financial receivables - associated	61.565	61.565		0,00%
Total	**6.721.605**	**6.976.832**	**-255.227**	**-3,66%**
Other current receivables				
Security deposits	130.178	2.448	127.730	5217,73%
Advance payments to suppliers	221.779	120.003	101.776	84,81%
Other receivables	275.112	300.178	-25.066	-8,35%
Other receivables from subsidiary companies	518.890	213.641	305.249	142,88%
Total	**1.145.959**	**636.270**	**509.689**	**80,11%**
Total Current financial receivables e Other current receivables	**7.867.564**	**7.613.102**	**254.462**	**3,34%**

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. Moreover, on account of the effect of the agreement made with the tax authorities of Florence in the month of December 2019 for the "patent box" facilitation related to the years 2015-2019, this entry includes the credit for IRES and IRAP for 1,2 million Euros related to the lower amount of taxes due for the first four years involved in the ruling. This entry also includes 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.	10.500	Eur	BCE + 1% on 500.000 BCE + 0,5% on 10.000.000
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.	1.594	Eur	BCE + 1%
BRCT Inc.	608	USD	2,50%
Deka Medical Inc.	285	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, Deka Mela Srl and from Esthelogue srl, as part of the adhesion to the national fiscal consolidated (procedure as per articles 117 and following of the TU 917/86 and D.M. activated June 1st 2018).

Securities and other current financial assets (note 8)

	31/12/2019	31/12/2018	Variation	Var. %
Securities and other current financial assets				
Other current financial assets	2.126.791	1.951.235	175.556	9,00%
Total	**2.126.791**	**1.951.235**	**175.556**	**9,00%**

The amount entered under the heading of “Securities and other current financial assets” is made up of mutual funds that had been acquired by the Company for the purpose of a temporary use of cash. These securities have been evaluated at the market value shown on December 31st 2019, 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:

	31/12/2019	31/12/2018	Variation	Var. %
Bank and postal current accounts	29.444.053	26.188.529	3.255.524	12,43%
Cash on hand	5.792	6.238	-446	-7,15%
Total	**29.449.845**	**26.194.767**	**3.255.078**	**12,43%**

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

Net financial position as of December 31st 2019

The net financial position as of December 31st 2019 is composed as follows (in thousands of Euros).

Net financial position	**31/12/2019**	**31/12/2018**
Cash and bank	29.450	26.195
Financial instruments	2.127	1.951
Cash and cash equivalents	**31.577**	**28.146**
Current financial receivables	**71**	**63**
Bank short term loan	(4.001)	(4)
Part of financial long term liabilities due within 12 months	(317)	0
Financial short term liabilities	**(4.318)**	**(4)**
Net current financial position	**27.330**	**28.205**
Other long term financial liabilities - non current part	(573)	(488)
Financial long term liabilities	**(573)**	**(488)**
Net financial position	**26.757**	**27.716**

As far as the use of cash is concerned in this period, even though the profitability has been excellent, it should be noted the impact of the distribution of dividends to third parties by El.En. Spa for the amount of 7.7 million Euros, while the investments in technical assets amounted to 2,7 million during this period.

The net financial position shows a decrease of about one million Euros with respect to December 31st 2018 and amounted to about 26,8 million Euros.
Concerning the amounts shown in the chart above, it should be noted that starting on January 1st 2019, because of the adoption of accounting standard IFRS 16, the financial liabilities also include the amounts of residual debt related to

operative leases and rentals which are now registered following the procedure which used to be in IAS 17. The impact that was a consequence of this adoption amounted to about 396 thousand Euros, of which 148 were entered among the current debts and 248 among the non-current debts, bringing the total of the net financial position on December 31st to 26,8 million Euros compared with the 27,2 which would have been registered if the accounting standards had been the same.
It should also be recalled that in the preceding years 11,5 million Euros in cash was invested in financial instruments of an insurance type which, for their very nature must be entered among the non-current financial assets; although they represent 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 for 12,5 million Euros.

Financial receivables from subsidiaries and associated companies for an amount of 16.150 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 2019, the capital stock of El.En. was as follows:

Authorized (to stock option plan service)	Euros	2.612.671
Underwritten and deposited	Euros	2.537.965

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

Category	31/12/2018	Increase	Decrease	31/12/2019
No. of Ordinary Shares	19.297.472	225.338	0	19.522.810
Total	**19.297.472**	**225.338**	**0**	**19.522.810**

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.

After some of the beneficiaries of the stock option plan 2016-2025 picked up their options on the first occasion which opened on September 14th 2019, the Company issued up until December 31st 2019, 225.338 ordinary shares for a nominal amount of 29.293,94 Euros and cashed in 2,8 million Euros as an increase in capital with share premium.

It should also be noted that, even though the storm on the stock market which was a result of the Covid-19 virus registered a rapid and generalized drop in the stock quotations, the value of capitalization of the Company is currently greater with respect to the implicit values of the shareholders' equity on December 31st 2019.

Additional paid in capital (note 11)

On December 31st 2019 the share premium reserve amounted to 41.431 thousand Euros, an increase with respect to the 38.594 on December 31st 2018 due to the stock options which were picked up during the year, as described in the preceding note.

Other reserves (note 12)

	31/12/2019	31/12/2018	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	82.477.079	87.382.029	-4.904.950	-5,61%
Stock option/ stock based compensation reserve	4.505.417	3.794.219	711.198	18,74%
Special reserve for grants received	426.657	426.657		0,00%
Other reserves	-144.854	-106.460	-38.394	36,06%
Total	**87.801.601**	**92.033.747**	**-4.232.146**	**-4,60%**

On December 31st 2019 the "extraordinary reserve" amounted to 82.477 thousand Euros; the decrease with respect to December 31st 2018 is due to the use for payment of dividends, in accordance with the resolution of the shareholders' meeting held on May 15th 2019.

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 2016-2025 described above that matured on December 31st 2019.

The reserve for contributions in capital account must be considered a reserve of profits and is unchanged with respect to December 31st 2018.

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)

On the 17th of January the shareholders' meeting authorized the Board of Directors to purchase treasury stock within 18 months of the date of the resolution as described in further detail in the specific section on significant events which occurred during 2019.
On the date of this report, El.En. S.p.A. does not own any treasury stock.

Retained earnings (note 14)

This category includes the rectifications in the shareholders' equity which were a consequence of the adoption of the international accounting standards and the entry of the capital gains earned after the sale of the treasury stock which took place in February 2005 and, in a minimal quantity, the sale of treasury stock in October 2012.

Availability and possibility of utilization of the reserves

SHAREHOLDERS' EQUITY:	31/12/2019	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	2.537.965				
Additional paid in capital	41.430.624	ABC	41.430.624		
Legal reserve	537.302	B	537.302		
Reserve for treasury stock					
Other reserves:					
Extraordinary reserve	82.477.079	ABC	82.477.079		12.582.792
Reserve for contribution on capital account	426.657	ABC	426.657		
Retained earnings	-984.283	ABC	-984.283		
Other reserves	4.360.563	AB	13.392		
			123.900.771	**0**	**12.582.792**
Portion not distributable					
Portion distributable			**123.900.771**		

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.

31/12/2018	Provision	(Utilization)	Payment to complementary pension forms, to INPS fund and other movements	31/12/2019
851.830	664.159	-255.216	-407.073	853.700

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 the purposes of international accounting standards, 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 indemnity fund remaining with the company as of December 31st 2019 was 852 thousand Euros.

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

Financial hypotheses	Year 2018	Year 2018
Annual implementation rate	1,57%	0,77%
Annual inflation rate	1,60%	1,0%-1,2%-1,4% (*)
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%

(*) 1.0% for the first five years, 1.2% from the sixth to the tenth year, 1.4% from the eleventh year.

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 0,77% 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.

	31/12/2018	Provision	(Utilization)	Other movements	31/12/2019
Deferred tax assets on inventory devaluation	1.172.058	31.509	-	-	1.203.567
Deferred tax assets on warranty reserve	97.680	-	-	-	97.680
Deferred tax assets on bad debt reserve	893.017	-	(33.061)	-	859.957
Deferred tax assets on losses carryforwards	20.883	-	(20.880)	-	3
Deferred tax assets on intercompany profits and consolidation adjust.	-	-	-	-	-
Other deferred tax assets and on IAS adjust.	42.749	74.104	-	12.124	128.977
Total	**2.226.387**	**105.613**	**(53.941)**	**12.124**	**2.290.184**
Deferred tax liability on advance depreciations	124.470	-	-	-	124.470
Deferred tax liability on grants on capital account	136.982	-	(58.220)	-	78.762
Other deferred tax liabilities and on IAS adjust.	148.885	-	(22.860)	-	126.025
Total	**410.337**	**-**	**(81.080)**	**-**	**329.257**
Net	1.816.050	105.613	27.139	12.124	1.960.927

Deferred tax assets amounted to about 2,3 million Euros. The main variations this year are due to the decrease in deferred tax assets calculated on inventory devaluation and on the deferred payments included in the credits for other deferred taxes.

Deferred tax liabilities amounted to 329 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.

	31/12/2018	Provision	(Utilization)	Other movements	31/12/2019
Reserve for pension costs and similar	73.828	7.088		-810	80.106
Warranty reserve on the products	407.001				407.001
Other accruals	743.292	323.662	-151.292		915.662
Total	**1.224.121**	**330.750**	**-151.292**	**-810**	**1.402.769**

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 their 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 2018	Year 2019
Annual implementation rate	1,57%	0,7700%
Annual inflation rate	1,60%	1,0%-1,2%-1,4% (*)

(*) 1.0% for the first five years, 1.2% from the sixth to the tenth year, 1.4% from the eleventh year.

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 still in a preliminary phase during which they are gathering information using written questionnaires about the conducting of the contractual obligations and the contents of the obligations taken on with the sale of the laser systems. Currently there are not enough elements to evaluate the entity of economic risk for the two companies. In fact, no proof has been presented nor has any quantification of the damage been requested. 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	31/12/2019	31/12/2018	Variation	Var. %
Amounts owed to leasing companies	247.655		247.655	
Amounts owed to other financiers	325.524	488.285	-162.761	-33,33%
Total	**573.179**	**488.285**	**84.894**	**17,39%**

The amount entered under the heading of “Amounts owed to leasing companies” is derived from the application of IFRS 16 as previously described.

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 half-yearly installments, starting on April 2020 with the last installment on October 31st 2022.

Current liabilities

Financial debts (note 19)

Financial short term debts	31/12/2019	31/12/2018	Variation	Var. %
Amounts owed to banks	4.000.815	4.474	3.996.341	89323,67%
Amounts owed to associated companies		276.608	-276.608	-100,00%
Amounts owed to leasing companies	148.560		148.560	
Amounts owed to other financiers	168.473		168.473	
Total	**4.317.848**	**281.082**	**4.036.766**	**1436,15%**

The “Amounts owed to banks” include the financing granted by Intesa San Paolo for 4 million Euros at the rate of 0,1% annually with expiration date within one year.

The “Amounts owed to associated companies” included last year the residual debt to the associated company Elesta Spa which arose as a result of the increase in capital which was underwritten in 2018 and entirely paid in 2019.

The “Amounts owed to leasing companies” and “Amounts owed to other financiers” include the short-term quota of debts described in the previous note.

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.

	31/12/2019	31/12/2018	Variation	Var. %
Accounts payable	11.603.263	9.752.407	1.850.856	18,98%
Amounts owed to subsidiary companies	1.093.885	800.205	293.680	36,70%
Amounts owed to associated companies	18.000		18.000	
Total	**12.715.148**	**10.552.612**	**2.162.536**	**20,49%**

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

Accounts payable in:	31/12/2019	31/12/2018
Euros	10.139.122	8.800.472
USD	1.422.536	913.777
Other currencies	41.605	38.158
Total	**11.603.263**	**9.752.407**

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 2019 and on December 31st 2018.

Income tax payables /Other current payables (note 21)

The debts for income taxes on December 31st 2019 amounted to 25 thousand Euros and were entered net of the relative down payments and sums withheld.

The breakdown of the other current payables is the following:

	31/12/2019	31/12/2018	Variation	Var. %
<u>*Social security debts*</u>				
Debts to INPS	1.089.790	1.005.779	84.011	8,35%
Debts to INAIL	77.693	69.785	7.908	11,33%
Debts to other Social Security Institutions	149.681	145.798	3.883	2,66%
Total	**1.317.164**	**1.221.362**	**95.802**	**7,84%**
<u>*Other debts*</u>				
Debts to the tax authorities for withholding	1.090.271	787.487	302.784	38,45%
Other tax liabilities		1.789	-1.789	-100,00%
Debts to staff for wages and salaries	2.224.700	1.982.992	241.708	12,19%
Down payments	374.908	211.392	163.516	77,35%
Other debts to subsidiary companies	11.680	150.702	-139.022	-92,25%
Other debts	661.813	268.600	393.213	146,39%
Total	**4.363.372**	**3.402.962**	**960.410**	**28,22%**
Total Social security debts e Other debts	**5.680.536**	**4.624.324**	**1.056.212**	**22,84%**

The "Debts to staff for wages and salaries" includes, among other things, the debts for deferred salaries matured by employees as of December 31st 2019.

Analysis of debts according to due date

	31/12/2019			31/12/2018		
	<= 1 year	**>1 year <= 5 years**	**> 5 years**	**<= 1 year**	**>1 year <= 5 years**	**> 5 years**
Amounts owed to banks	4.000.815	-	-	4.474	-	-
Amounts owed to leasing companies	148.560	244.213	3.442	-	-	-
Amounts owed to other financiers	168.473	325.524	-	-	488.285	-
Accounts payable	11.603.263			9.752.407		
Amounts owed to subsidiary companies	1.105.565	-	-	950.907	-	-
Amounts owed to associated companies	18.000	-	-	276.608	-	-
Income tax payables	24.741			-		
Social security debts	1.317.164			1.221.362		
Other debts	4.351.692			3.252.260		
Total	**22.738.273**	**569.737**	**3.442**	**15.458.018**	**488.285**	**-**

Information on the Income Statement

Revenue (note 22)

	31/12/2019	31/12/2018	Variation	Var. %
Medical	55.426.245	49.400.074	6.026.171	12,20%
Industrial	12.310.953	12.737.145	-426.192	-3,35%
Total revenue	**67.737.198**	**62.137.219**	**5.599.979**	**9,01%**

The company registered a sales volume of 67 million Euros, an increase of 9% with respect to 2018 thanks to the excellent trend of medical sector..

Subdivision of revenue by geographical area

	31/12/2019	31/12/2018	Variation	Var. %
Italy	45.329.157	41.075.148	4.254.009	10,36%
Europe	10.451.584	9.531.097	920.487	9,66%
ROW	11.956.457	11.530.974	425.483	3,69%
Total revenue	**67.737.198**	**62.137.219**	**5.599.979**	**9,01%**

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:

	31/12/2019	31/12/2018	Variation	Var. %
Other income due to Insurance refunds		62	-62	-100,00%
Recovery of expenses	152.263	125.423	26.840	21,40%
Capital gains on disposal of fixed assets	6.303	31.537	-25.234	-80,01%
Other income	743.724	797.586	-53.862	-6,75%
Total	**902.290**	**954.608**	**-52.318**	**-5,48%**

It should be recalled that in the category of other income, on December 31st 2018 we entered about 140 thousand Euros for a co-financed research project and that this revenue was not renewed in 2019.

Costs for the purchase of goods (note 24)

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

	31/12/2019	31/12/2018	Variation	Var. %
Purchases of raw materials and finished products	31.544.902	35.784.189	-4.239.287	-11,85%
Packaging	513.313	421.773	91.540	21,70%
Shipping charges on purchases	320.186	253.223	66.963	26,44%
Other purchase expenses	320.770	226.981	93.789	41,32%
Other purchases	17.976	50.941	-32.965	-64,71%
Total	**32.717.147**	**36.737.107**	**-4.019.960**	**-10,94%**

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

Breakdown of this category is shown on the chart below:

	31/12/2019	31/12/2018	Variation	Var. %
Direct services				
Outsourced processing	9.022.075	3.976.981	5.045.094	126,86%
Technical services on products	151.673	131.904	19.769	14,99%
Shipment charges on sales	265.686	240.095	25.591	10,66%
Sale commissions	66.988	36.568	30.420	83,19%
Royalties		1.680	-1.680	-100,00%
Travel expenses for technical assistance	142.994	188.517	-45.523	-24,15%
Other direct services	462.751	456.692	6.059	1,33%
Total	**10.112.167**	**5.032.437**	**5.079.730**	**100,94%**
Other operating services and charges				
Maintenance and technical assistance on equipment	431.270	363.650	67.620	18,59%
Commercial services and consulting	189.071	198.540	-9.469	-4,77%
Legal and administrative services and consulting	357.059	386.724	-29.665	-7,67%
Audit fees	112.828	108.316	4.512	4,17%
Insurances (no staff cost)	170.084	155.855	14.229	9,13%
Travel and accommodation expenses	527.658	623.297	-95.639	-15,34%
Trade shows	200.868	385.030	-184.162	-47,83%
Promotional and advertising fees	205.120	202.746	2.374	1,17%
Expenses related to real estate	893.304	892.680	624	0,07%
Other taxes	95.609	92.165	3.444	3,74%
Vehicles maintenance expenses	282.690	284.214	-1.524	-0,54%
Office supplies	48.351	61.336	-12.985	-21,17%
Hardware and Software assistance	266.228	229.377	36.851	16,07%
Bank charges	40.550	38.248	2.302	6,02%
Leases and rentals	191.935	326.936	-135.001	-41,29%
Salaries and indemnity to the Board of Directors and Board of Auditors	818.307	567.887	250.420	44,10%
Temporary employment	177.128	84.633	92.495	109,29%
Other services and charges	2.530.275	2.076.167	454.108	21,87%
Total	**7.538.335**	**7.077.801**	**460.534**	**6,51%**

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.

In the category of other services and charges we have included among other things, the costs for technical and scientific consulting and for studies and research for a total of 768 thousand Euros. For the costs related to research and development activities, please consult the description contained in the consolidated management report.

Staff costs (note 26)

The chart below shows the costs for staff:

	31/12/2019	31/12/2018	Variation	Var. %
Wages and salaries	11.770.665	11.352.822	417.843	3,68%
Social security contributions	3.428.257	3.256.411	171.846	5,28%
Severance indemnity	650.754	645.761	4.993	0,77%
Staff costs for stock options/stock based compensation	397.382	504.715	-107.333	-21,27%
Total	**16.247.058**	**15.759.709**	**487.349**	**3,09%**

The increase in the staff cost is mainly due to the rise in the number of employees.
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:

	31/12/2019	31/12/2018	Variation	Var. %
Amortization of intangible assets	262.315	207.214	55.101	26,59%
Depreciation of tangible assets	1.177.276	1.096.162	81.114	7,40%
Depreciation of tangible assets right of use	142.825		142.825	
Accrual for bad debts	-9.821	75.235	-85.056	-113,05%
Total	**1.572.595**	**1.378.611**	**193.984**	**14,07%**

The amortizations and depreciations increased due to the investments made this year and for the application of IFRS 16 as described above.

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

The breakdown of the category is as follows:

	31/12/2019	31/12/2018	Variation	Var. %
Financial income				
Interests income on bank and postal deposits	227.873	347.423	-119.550	-34,41%
Dividends	3.275.000	2.307.500	967.500	41,93%
Financial income from subsidiary companies	162.981	83.881	79.100	94,30%
Financial income from associated companies	300	300		0,00%
Interests income from current securities and financial assets	192.120	201.355	-9.235	-4,59%
Capital gain and other income from current securities and financial assets	175.555		175.555	0,00%
Other financial income		23.187	-23.187	-100,00%
Total	**4.033.829**	**2.963.646**	**1.070.183**	**36,11%**
Financial charges				
Capital losses and other charges on current securities and financial assets		85.198	-85.198	-100,00%
Financial charges - subsidiary companies	34.432	-116.318	150.750	-129,60%
Other financial charges	17.745	11.793	5.952	50,47%
Total	**52.177**	**-19.327**	**71.504**	**-369,97%**
Exchange gain (loss)				
Exchange gains	407.167	937.815	-530.648	-56,58%
Exchange losses	-85.510	-207.945	122.435	-58,88%
Other exchange gains (losses)	-62.008	-145.700	83.692	-57,44%
Total	**259.649**	**584.170**	**-324.521**	**-55,55%**

During this year dividends from subsidiaries were entered into accounts for an amount of about 3.3 million Euros distributed by the subsidiary Deka M.E.L.A. S.r.l. for 1,3 million Euros and by Quanta System S.p.A. for 2 million Euros
The interest from securities and financial assets are related to investments of cash entered both in the current assets and non-current assets.

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 13 thousand Euros.

Other net income and charges (note 29)

	31/12/2019	31/12/2018	Variation	Var. %
Other non operating charges				
Accrual for losses in group companies	172.370	643.292	-470.922	-73,21%
Devaluation of equity investment	478.890	156.067	322.823	206,85%
Total	**651.260**	**799.359**	**-148.099**	**-18,53%**

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 due to the losses registered this year.

The heading of "Devaluation of equity investments" this year includes the devaluation operation conducted directly on the value of the equity held in Deka Sarl

Income taxes (note 30)

	31/12/2019	31/12/2018	Variation	Var. %
IRES income taxes	647.055		647.055	
Income taxes - IRAP	128.194	103.455	24.739	23,91%
Deferred IRES income taxes	-133.885	219.388	-353.273	-161,03%
Deferred income taxes - IRAP	1.133	14.315	-13.182	-92,09%
Charges (Income) for IRES from tax consolidation		95.832	-95.832	-100,00%
Other income tax	-4.987		-4.987	
Previous years tax	-1.224.078	3.648	-1.227.726	-33654,77%
Total	**-586.568**	**436.638**	**-1.023.206**	**-234,34%**

Income taxes for this year were -587 thousand Euros as opposed to the 437 thousand Euros for last year.

It should be noted that the agreement reached with the internal revenue service for the "patent box" facilitation for the years 2015-2019 on the basis of the ruling made it possible to enter into the financial statement for 2019 a reduction of IRES and IRAP taxes for five years for a total of 1,3 million Euros of which 1,2 million Euros related to the period 2015-2018.

The chart below shows the reconciliation between the theoretical fiscal aliquots and the actual aliquot limited to the income tax of the companies (IRES).

	2019	2018
Profit/loss before taxes	5.246.607	3.250.677
Theoretical IRES Aliquot	24,00%	24,00%
Theoretical IRES	1.259.186	780.162
One time income tax charges		3.648
Tax credit		
Charges (income) for IRES from fiscal consolidation		95.832
Patent box	(1.155.866)	
Participation exemption		
Higher (lower) fiscal incidence with respect to the theoretical aliquot	(819.215)	(560.775)
Actual IRES	(715.895)	318.868
Actual IRES aliquot	-13,64%	9,81%

The *tax rate* this year was effectively negative because of the strong impact on the accounting of the “patent box” described above. More than 1 million Euros was an IRES benefit related to previous years.

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 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.

The shareholders’ meeting of El.En. SpA which was held on May 15th 2019 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.
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Non-recurring significant, atypical and unusual events and operations (note 32)

For the year 2019 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 52.554 Euros. Moreover, as president of the Board of Directors of Deka MELA S.r.l. he received a salary of 21.000 Euros, as president of the Board of Directors of Elesta SpA, he received a salary of 6.410 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 16 thousand Euros; moreover, for a similar task performed for the subsidiary Deka M.E.L.A. Srl he received 8 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 < 1 year	Financial receivables > 1 year	Other receivables < 1 year	Other receivables > 1 year	Accounts receivable < 1 year	Accounts receivable > 1 year
Asclepion Laser Technologies GmbH	984.966				1.258.576	
Deka MELA Srl			167.709		6.927.372	
Otlas Srl			300.951		3.591.648	
Cutlite Penta Srl	10.500.000				5.253.348	
Esthelogue Srl	2.116.942		50.231		2.759.514	
Deka Sarl					2.354.672	
Deka Japan Ltd					1.011	
BRCT Inc.	607.724				15.417	
Lasit Spa	1.594.151				54.349	
Quanta System SpA					260.991	
ASA Srl					195.477	
Cutlite do Brasil Ltda					283.959	
Penta-Chutian Laser (Wuhan) Co. Ltd					3.648.296	
Deka Medical Inc	284.850				3.109.643	
Pharmonia Srl					610	
- Bad debt reserve					-3.916.695	
Total	**16.088.633**		**518.890**		**25.798.187**	

Associated companies:	Financial Receivables < 1 year	Financial Receivables > 1 year	Accounts Receivable < 1 year	Accounts Receivable > 1 year
Actis Srl	30.000		1.703	
Immobiliare Del.Co. Srl	31.565			
Elesta Srl			683.238	
Total	**61.565**	**-**	**684.941**	**-**

Subsidiary companies:	Financial payables < 1 year	Financial payables > 1 year	Other payables < 1 year	Other payables > 1 year	Accounts Payable < 1 year	Accounts Payable > 1 year
Asclepion Laser Technologies GmbH					21.990	
Deka MELA Srl					14.013	
Otlas Srl			11.680		292.544	
Cutlite Penta Srl					380.152	
Deka Sarl					13.950	
Lasit Spa					94.755	
Quanta System SpA					152.605	
Deka Medical Inc					100.360	
Penta-Chutian Laser (Wuhan) Co. Ltd					23.516	
Total			**11.680**		**1.093.885**	

Associated companies:	Financial payables < 1 year	Financial payables > 1 year	Other payables < 1 year	Other payables > 1 year	Accounts Payable < 1 year	Accounts Payable > 1 year
Actis Srl					18.000	
Total	**-**	**-**	**-**	**-**	**18.000**	**-**

Subsidiary companies:	Purchase raw materials	Services	Other	Total
Deka MELA Srl	28.564	92.030		120.594
Otlas Srl	238.940			238.940
Cutlite Penta Srl	29.828	9.577	1.500	40.905
Deka Sarl	13.950	170		14.120
Lasit Spa	435.364		17.974	453.337
Quanta System SpA	247.619	57.927	750	306.296
Asclepion Laser Technolohies GmbH	166.720	10.515		177.235
With Us Co Ltd	5.826			5.826
Deka Japan Ltd		1.700		1.700
Penta-Chutian Laser (Wuhan) Co. Ltd	13.830			13.830
Total	**1.180.640**	**171.919**	**20.224**	**1.372.783**

Associated companies:	Purchase raw materials	Services	Other	Total
Actis Srl		18.000		18.000
Total	**-**	**18.000**	**-**	**18.000**

Subsidiary companies:	Sales	Services	Total
Deka MELA Srl	32.250.369	1.229.030	33.479.399
Otlas Srl	1.051.279	26.231	1.077.510
Cutlite Penta Srl	1.538.786	491.491	2.030.277
Esthelogue Srl	723.136	58.996	782.132
Deka Sarl	1.844.847	36.765	1.881.612
Lasit Spa	37.255	3.890	41.145
Asclepion Laser Technologies GmbH	1.274.914	251.478	1.526.392
Quanta System SpA	553.083	120.246	673.329
ASA Srl	977.348	2.042	979.389
Penta-Laser Equipment (Wenzhou) Co. Ltd	35.559		35.559
Cutlite do Brasil Ltda	15.336		15.336
Pharmonia Srl		2.000	2.000
Total	**40.301.912**	**2.222.167**	**42.524.079**

Associated companies:	Sales	Services	Total
Elesta Srl	875.367	105.297	980.664
Total	**875.367**	**105.297**	**980.664**

Subsidiary companies:	Other revenues
Deka MELA Srl	371.013
Otlas Srl	50.147
Cutlite Penta Srl	34.282
Esthelogue Srl	21.178
Deka Sarl	1.500
Lasit Spa	105.525
Quanta System SpA	7.407
Asclepion Laser Technologies GmbH	7.967
Total	**599.021**

Associated companies:	Other revenues
Elesta Srl	18.829
Actis Srl	1.363
Total	**20.192**

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, Esthelogue and Elesta Spa 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. 163 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., Deka M.E.L.A and Esthelogue S.r.l. for an amount of 519 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	17.872.557	16.848.059	94,27%
Receivables LT	9.500.000	9.500.000	100,00%
Accounts receivable	33.752.252	26.483.128	78,46%
Other current receivables	7.867.564	7.169.088	91,12%
Non current financial liabilities	573.179	-	0,00%
Current financial liabilities	4.317.848	-	0,00%
Accounts payable	12.715.148	1.111.885	8,74%
Other current payables	5.680.536	11.680	0,21%
Impact of related parties transactions on the income statement			
Revenues	67.737.198	43.504.743	64,23%
Other revenues and income	902.290	619.213	68,63%
Purchase of raw materials	32.717.147	1.180.640	3,61%
Direct services	10.112.167	53.519	0,53%
Other operating services and charges	7.538.335	156.624	2,08%
Financial charges	52.177	34.432	65,99%
Financial income	4.033.829	3.438.281	85,24%
Income taxes	(586.568)		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 5% 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 and not renewed.

Cash and interest rate risks
The cash risk represents the risk that the financial resources available might be inadequate to cover the debts coming due. At this time the Company possesses a large amount of cash and the net financial position was very positive at the end of the year. For this reason we believe that these risks are adequately covered.

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

Financial Instruments (note 35)

Fair value

The table below shows a comparison by category between book value and fair value of all the financial instruments of the Company.

	Book value 31/12/2019	Book value 31/12/2018	Fair value 31/12/2019	Fair value 31/12/2018
Financial assets				
Equities in other companies	1.024.498	1.024.498	1.024.498	1.024.498
Non current financial receivables	9.500.000	-	9.500.000	-
Current financial receivables	6.721.605	6.976.832	6.721.605	6.976.832
Securities and other non-current financial assets	12.449.006	12.256.886	12.449.006	12.256.886
Securities and other current financial assets	2.126.791	1.951.235	2.126.791	1.951.235
Cash and cash equivalents	29.449.845	26.194.767	29.449.845	26.194.767
Financial debts and liabilities				
Non current financial liabilities	573.179	488.285	573.179	488.285
Current financial liabilities	4.317.848	281.082	4.317.848	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 2019 the Company possesses the following securities evaluated at fair value:

	Level 1	Level 2	Level 3	Total
Investment contracts		12.449.006		12.449.006
Mutual funds	2.126.791			2.126.791
Total	**2.126.791**	**12.449.006**	**0**	**14.575.797**

Other information (note 36)

Remuneration of directors and statutory auditors

	31/12/2019	31/12/2018	Variation	Var. %
Remuneration of directors	725.983	475.587	250.396	52,65%
Remuneration of statutory auditors	72.800	72.800	0	0,00%
Total	**798.783**	**548.387**	**250.396**	**45,66%**

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 and the subsequent modifications in art. 35 D.L. 34/2019 with modifications by L. 58/2019 introduced 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 and in the consolidated Notes if there is one, information regarding any subsidies, grants, benefits, contributions in money or in kind, which do not have a general character and are not paid for or reimbursed as those effectively issued by the public administration and by the subjects specifically indicated in the above mentioned law.

Therefore, the amounts for the sales of goods or services inherent in the operations conducted as part of their activity are excluded, in the presence of reciprocal relations managed according to the rules of the market, the general measures that can be used by all of the companies belonging to the general structure of the system defined by the state (for example, ACE), the selective economic advantages received in application of a regime of assistance accessible to all companies which satisfy certain conditions, on the basis of predetermined general criteria (tax facilitations and grants, also related to the hiring of the disabled), the grants for training received from inter-professional funds like, for example, Fondimpresa, since they are institutions financed by the contributions from the companies themselves.

Consequently, in compliance with Law no. 124 of August 4th 2017, we can state that during 2019 the Company did not receive any of the attributions among those listed in the above mentioned regulation.

It should also be recalled that, in reference to the help from the state and the "de minimis" help, the transparency of the latter is monitored by the publication in the National Register of State Assistance active since August of 2017, by the institutions which grant this help and to which the reader is referred.

***Information supplied in compliance with* art. 149-duodecies of the Regolamento Emittenti Consob (Consob Regulations)**

In compliance with article 149-*duodecies* of the *Regolamento Emittenti Consob*, the chart below shows the amounts for the year 2019 related to auditing services.

	Company providing the service	Receiver	note	2019 fees (Euros)
Audit	Deloitte & Touche SpA	El.En. SpA		59.683
Certification servises	Deloitte & Touche SpA	El.En. SpA	(1)	18.402
Other services	Deloitte & Touche SpA	El.En. SpA	(2)	-
				78.085

(1) Revision of the Non-Financial Statement

(2) Servizi di assistenza metodologica in relazione all'adozione del 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	31/12/2019	Average of previous period	31/12/2018	Variation	Var. %
Executives	15	15	14	14	1	7,14%
Middle managers	13	12	15	13	-1	-7,69%
White collar workers	124	125	121	123	2	1,63%
Blue collar workers	96	97	90	94	3	3,19%
Total	**247**	**249**	**239**	**244**	**5**	**2,05%**

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 2019.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the separate financial statement dated December 31st 2019:

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 13th 2020

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

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
EL.EN. S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of El.En. S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2019, 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, 2019, 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, 2019 are Euro 25,378 thousand, net of a provision for inventory writedowns of Euro 5,024 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, 2019, 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, 2019 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, 2019 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
May 14, 2020

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 our 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 2019 which was consigned to the Board of Statutory Auditors on March 13th 2020.

During the financial year 2019 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 15th 2019 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 2021, in the persons of Vincenzo Pilla (President), Paolo Caselli and Rita Pelagotti (Acting auditors). During 2019 the Board of Auditors conducted the activities assigned to them by holding 14 meetings and has participated with one or more of their members in all of the meetings to which it has been called and precisely: 2 shareholders' meetings, 5 Board meetings, 4 meetings of the Risks and Controls Commission and 1 meeting 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.
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 2019 (described in the Management Report for 2019) that the Board of Auditor's deems important to recall considering their relevance, are the following:

- On January 17th 2019 the Shareholders' meeting authorized the purchase of treasury stock in compliance with articles 2357 and 2357-ter cc, to be concluded within 18 months from the date of the resolution, in one or more sets for a maximum number of ordinary shares of the Company which, in any case shall not exceed one-fifth of the capital stock (which on the date of the resolution amounted to 501.734,22 Euros); in relation to this resolution the Board of Auditors released their authorization as described below.
- On April 1st 2019 PENTA Laser Technology (Shangdong) Co., Ltd was founded., which is owned 100% by the subsidiary Penta Laser Technology (Wenzhou) Co., Ltd.
- On May 15th 2019 the Shareholders' Assembly of El.En. S.p.A. approved the financials for 2018 and voted to

allocate all of the net income for 2018 for an amount of 2.814.039,00 Euros to the distribution of dividends to the shareholders and to distribute to the shares in circulation on the date the coupon came due, May 27th 2019, in compliance with art. 2357-ter, second sub-section, Civil Code, a dividend of 0,40 Euros gross, for each share in circulation for an overall amount of 7.718.988,80 Euros and using for the missing part, amounting to 4.904.949,80 Euros, the extraordinary reserve made up of retained earnings from the preceding years.

- This same Assembly also resolved to approve the remuneration report including the incentives ex art. 123-ter T.U.F. as well as the appointment of the Board of Auditors and the president for the three-year period 2019-2021 and the determination of the relative salaries.
- On June 19th 2019 the subsidiary Quanta System S.p.A. concluded the purchase of 70% of the capital stock of "Galli Giovanni & C. Srl", a company specialized in the manufacture of very high precision mechanical parts, for an amount of 350 thousand Euros.
- In the month of July 2019 they concluded the operations for the transfer of the activities of Cutlite Penta and Ot-las to new, larger buildings in Prato.
- On September 14th 2019 the first opportunity occurred for picking up the stock options assigned by the Board of Directors of El.En. spa with the resolution on September 13th 2016 in implementation of the Stock Option Plan 2016-2025, resolved by the shareholders' assembly held on May 12th 2016. After several of the beneficiaries of the stock option plan 2016-2025 mentioned above effectively picked up the options, in 2019 the Company issued 225.338 shares for a nominal amount of 29.293,94 Euros and cashed 2,8 million as an increase in capital with additional paid. The picking up of the options in accordance with the plan continued in 2020, and overall, up until the date of the approval of the Management Report, they issued 245.463 ordinary shares for a nominal amount of 31.910,19 Euros and cashed in 3,1 million as an increase in capital with additional paid.
- In the months of September and October 2019, the new factories of the subsidiaries Asclepion Laser Technologies at Jena in Germany and Asa in Vicenza were inaugurated; the factory in Jena is intended for the manufacture of laser systems for medical, aesthetic and surgical applications, and that at Vicenza for the production of laser systems for physical therapy and rehabilitation.
- On November 27th 2019 they reached an agreement with the main minority shareholder of the Chinese activities for the purchase of their share in the joint ventures in Wenzhou and Wuhan. The operation was conducted in two phases: in the first one, Penta Laser Wenzhou acquired 100% of the equity in Penta Chutian Wuhan from Ot-las Srl and the Chinese minority shareholders, then in December of 2019, the second phase in which Ot-las bought 29,7% of Penta Laser Wenzhou, which was concluded finally in early 2020. On December 31st 2019 the residual debt of Penta Laser Wenzhou toward third parties included in the net financial position amounted to 1,7 million Euros.

The Board of Auditors moreover acknowledges that they:

- Issued their approval concerning the acquisition of treasury stock voted by the shareholders' meeting on January 17th 2019;
- Have formulated their own proposal at the assembly of El.En. Spa for the appointing of the new auditing company in compliance with articles 13 and 17 of D.Lgs. January 27th 2010, n. 39 for the nine year period 2021 – 2029.

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 organizational structure of El.En. S.p.A., also following the introduction of the new position of General Director, 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 Managing Director, the General Director, the management, 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.

3.1 Self-evaluation process
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).
The self-evaluation process took into consideration the subjective profiles of the single components and the overall body, in relation to its quantitative composition, qualitative composition, independence, honorability, professionalism, diversity, time available, and remuneration and concluded with a positive result in terms of conformity to the requirements established by the current laws.
The Board, moreover has acknowledged the positive outcome of the evaluations in terms of composition, dimensions, and functions of the Board of Directors and the committees with particular attention to the requirements for the independent administrators and the determination of the remuneration.

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 14^{th} 2019.
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 and recently modified on March 14th 2019.
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 2019 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, is 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 13th 2020.
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 2019 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 2019, 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 13th 2020 and was entirely placed at the disposal of the Board of Auditors.

It should be noted that with several different press releases the Board of Auditors informed the shareholders and the markets regarding the postponement, caused by the emergency related to the spread of the Covid-19 virus, of the preparation and publication of the financial documents as well as for those related to the convocation of the shareholders' assembly for their approval which had been set for June 4th 2020 and June 18th 2020 respectively for the first and second convocations , in compliance with the Company statutes and current regulations.

On May 14th 2020 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 2019.

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 2019, 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 2019 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 2019, 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 that performed the service	Client	note	Fees for services in 2019 (thousands of Euro)
Audit	Deloitte & Touche SpA	El.En. SpA		60
Certification services	Deloitte & Touche SpA	El.En. SpA	(1)	18
Other services	Deloitte & Touche SpA	El.En. SpA	(2)	0
		Total		**78**

(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 13th 2020.

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

During the financial year 2019 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. COVID-19 virus emergency

In the Management Report, the administrators refer to the health emergency caused by the spread of the Corona virus COVID-19 and the effects it has had and will have on the activities of the Group. In mid-January the Chinese subsidiaries had to suspend their operations and the spread of the virus to Italy and to the rest of Europe blocked the sales in Italy and caused the cancellation of fairs, symposiums and other events as well as the circulation of commercial vehicles.
After we had already drawn up the financial statements, the Company sent updates several times to the market the market concerning the evolution of the situation of the Group which reported a gradual improvement in the situation of the Chinese subsidiaries and a worsening of the markets in the rest of the world.
However, the administrators wish to point out that, even though this emergency makes it very complicated to make any predictions about the trends of the financial results of the Group, the level of capitalization of the Company and the Group and the net financial position are such that they believe that the short-term economic and financial equilibrium will not be compromised even in the case of a significant reduction in sales volume with the same overhead for which, also on account of the various measures taken by the different governments in order to sustain the companies in this exceptional circumstance, and that the Group is able to intervene to decrease their incidence. The Board of Auditors has no reason to disagree with these evaluations and considerations expressed by the Board of Directors.

12. Proposal for the destination of the net income for this year

The Board of Auditors wishes to point out that after the approval of the financials, on the 24th of April the Board of Directors, as a cautionary step and despite the adequate level of capitalization of the Group, voted to suspend the resolution for the distribution of dividends which had been approved on March 13th 2020 and to propose to the shareholders meeting to allocate all of the net income for 2019 to an Extraordinary Reserve, adding, moreover, that this decision was dictated by the change in the global economic scenario which had intervened in the meantime because of the spread of the pandemic as well as, in consideration of art. 1 lett. i) D. L. 8 April 2020, n. 23 in relation to the possibility for all the companies of the Group to have access to the temporary measure sustaining the cash of the companies only in the absence of the distribution of dividends by the companies.

13. Conclusions

Bearing in mind the situation described above, the Board of Auditors, in consideration of the contents of the reports issued by the Independent Auditors and the joint statements of the Managing Director and the Executive officer responsible for the preparation of the financial statements, expresses a favorable opinion for the approval of the financials of El.En. S.p.a. as of December 31st 2019 and the allocation of the net income as restated by the Board of Directors on April 24th.2020.

Florence, May 14th 2020

The Board of Auditors

Dott. Vincenzo Pilla, President of the Board of Auditors.

Dott. Paolo Caselli, acting auditor

Dott.ssa Rita Pelagotti, acting auditor