

Annual Financial Report 2020



EL.EN. S.p.A.

**ANNUAL FINANCIAL REPORT AS OF
DECEMBER 31st 2020**

El.En. S.p.A.
Headquarters in Calenzano (Florence) – Via Baldanzese n. 17
Capital stock: underwritten and paid € 2.554.021,86^(*)
Company registered with the Registro delle Imprese di Firenze n. 03137680488

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

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

CORPORATE BOARDS OF THE PARENT COMPANY

Board of Directors

CHAIRMAN

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangioli

BOARD MEMBERS

Fabia Romagnoli

Michele Legnaioli

Alberto Pecci

Board of statutory auditors

CHAIRMAN

Vincenzo Pilla

STATUTORY AUDITORS

Paolo Caselli

Rita Pelagotti

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

Enrico Romagnoli

Independent auditors

Deloitte & Touche S.p.A.

MANAGEMENT REPORT 2020

INTRODUCTION

To our shareholders,

The financial year 2020 was severely impacted by the effects of the pandemic and closed with a consolidated sales volume of 408 million Euros and a consolidated net income for the Group of 20,3 million Euros net of income tax amounting to 5,4 million and a net income for third parties amounting to 2,3 million.

Overall we are very satisfied with these results which seemed to be a mirage during the months in which we were forced to close the factories in the industrial sector, first in China and then in Italy and almost bring to a halt even the activities in the medical sector.

The pandemic slowed down the plans for growth we had set at the beginning of the year and decisively reduced our profitability, forcing us to slow production rates and lower our sales margins in order to maintain our position on the markets. However, it did not affect our capacity for innovation or the attractiveness of the range of products we offer.

The year ended with an acceleration in the profits in all sectors despite the restrictions that are still imposed on us by the pandemic and allows us to look forward to the financial year 2021 with optimism.

In this very complicated year the basic values which characterize our Group have emerged in all of their strength: the markets with a great growth potential, the excellent competitive position thanks to the past ability of the Group to distinguish itself through technical innovations and new applications and their gradually acquired ability to identify profitable distribution channels for our products and, above all, and underlying everything else, the excellent quality of our human resources. Right during the most difficult months, it became evident that the value of the skills and the great dedication of our staff represent the strong point of our business.

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 2020 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 2020

On January 3rd 2020 the new business license for Penta Laser Wenzhou which certifies the acquisition by Ot-las of an additional quota of 29,6% of the company was registered at the Chamber of Commerce of Wenzhou. The amount owed, about 20 million Euros was paid the next days once the authorization had been obtained from the Chinese institution governing the importation of currency. An *earn out* of 40 million Renminbi (about 5 million Euros at the current Exchange rate) will have to be paid under certain circumstances and, more specifically, in the case of an IPO of Penta Laser Wenzhou within 5 years of the agreement.

The percentage of ownership of 83,11% in Penta Wenzhou thus obtained is related to the group of Chinese businesses which are now 100% controlled by Penta Wenzhou and, that is, Penta Chutian in Wuhan and Penta Shandong in Lin Yi. By reducing the influence of the minority partners, the Group believes that they can more effectively take advantage of the opportunities for growth of the Chinese operating structure in which they have heavily invested in recent years. The Covid pandemic struck China intensely but not for very long and, in fact, the excellent results obtained in the second half of 2020, once the Covid interruption was over, confirm the validity of this decision.

On April 24th the Board of Directors of the Parent Company voted to suspend the proposal for the distribution of a dividend.

Starting in mid-March, in order to limit the costs in the face of the drop in demand, all of the companies of the Group having headquarters in Italy made use of the *cassa integrazione* (CIG)¹ in compliance with the government decree. Deka Sarl in France and Asclepin in Germany also made use of similar institutions.

On September 4th Cutlite Penta Srl stipulated a preliminary contract for the purchase of a building adjacent to the one in Prato where they now conduct their activities. The building, which is about 3.600 mq was subsequently purchased in early 2021 for an amount of about 4.6 million Euros. The additional space is indispensable for the rapid growth that the company has registered during this period, despite the Covid pandemic, and the company is glad that they have been able to acquire the neighboring property with all of the logistic solutions it represents in comparison with other opportunities.

Starting in the month of November, new lockdowns were imposed in Germany, France and Italy, with a direct impact on all of the aesthetic and medical centers and an indirect impact on all of the economic activities due to the limitations on mobility. The new restrictions, which have continued up until now, fortunately have had a lesser impact on our activities than those imposed in the Spring.

On October 21st, as part of the reorganization in the cutting sector, Ot-las Srl sold to Penta Laser Wenzhou their entire equity in Cutlite Penta Srl, the company which has their headquarters and factory in Prato. Also in the month of October, Ot-las Srl underwrote an increase in the capital of Penta Laser Wenzhou, thus increasing their equity to 87,41%.

In the month of December, some of the managers of Penta Laser Wenzhou underwrote and paid out an increase in capital in the company reserved for them. Upon completion of this operation, the controlling equity of Ot-las in Penta Laser Wenzhou was 84,54%.

In the month of December, they inaugurated the new “green” factory at Wenzhou with about 25.000 mq, built with innovative technologies and spaces available for manufacturing activities, research and development, show room for clients, and applicative laboratories. The local authorities and hundreds of clients participated in the event and shared this further step forward in the success of the Wenzhou manufacturing center which they had inspired and supported.

COVID-19 Emergency

The Group was first hit by the lockdown imposed in China starting in the month of January and later, directly by the lockdown imposed in Italy starting in March. The businesses in France and Germany also were directly impacted by the Covid restrictions. Besides the physical interruption of our manufacturing activities for a certain number of weeks the main impact was indirect and derived from the drop in general demand which occurred on our markets. The restrictions on the freedom of circulation, assembly and socializing which were gradually imposed all over the world determined a drop in demand, in particular in the medical sector since it was more related to the sector of services to the individual. The manufacturing sector also registered a general reduction as demonstrated by the GNP in Italy, Europe and the USA. The drop in demand with respect to the preceding year continued for the entire year for the medical sector and the minor segments of the industrial sector, while for the laser cutting segment of industrial sector, the recovery was very rapid and the year closed showing strong growth and acceleration.

In the first half of the year the Group registered a decrease in sales volume of about 13,8%, which represented an overall amount of about 26 million Euros and a decrease in the net income of the Group of 37%, equal to about 3,8 million Euros. These losses were entirely due to the impact of the Covid pandemic.

When the various problems related to the Covid pandemic became apparent, the Group was going through a phase of accelerated growth and rapid expansion mostly due to the plan which involved the significant investments in technical structures and human resources which had been sustained by the company in recent years. The amounts mentioned above therefore represent a cautious, minimum estimate of the losses actually sustained because of the Covid pandemic considering that the expectations for 2020 predicted a growth in sales volume and revenue. We did not register any other factors which might have determined losses for the Group other than those caused by the Covid pandemic. The same can be said for the outlook for short- and mid-term development where the changes with respect to the ambitious development plans can be attributed entirely to the Covid pandemic.

The Group did not earn any revenue from the market niches that opened to face the Covid emergency except in the most marginal way (you can count on the fingers of one hand laser systems sold for cutting surgical masks or separation panels in plexiglass). On the other hand, it benefitted from some government measures for economic and financial support: in the first place the CIG for the employees in the lockdown periods in compliance with the DPCM of March 22nd 2020 and in those when the greatest decrease in demand occurred; in second place obtaining loans for the subsidiaries Asa Srl, Cutlite Penta Srl and Esthelogue Srl which were guaranteed by the small-medium sized companies

¹ The CIG is a kind of unemployment insurance in which the government pays most of the salary to a worker who has been laid off

guarantee fund; and also, the specific grants like those in terms of reimbursement and, in the future, those related to income tax credits for the expenses sustained for the personal protection device.

DESCRIPTION OF THE ACTIVITIES OF THE GROUP

El.En was founded in 1981 and arose from the intuition of a university professor and one of his students. The Company developed over the years and became a multi-faceted, dynamic industrial group specialized in the manufacture, research and development, distribution and sale of laser systems.

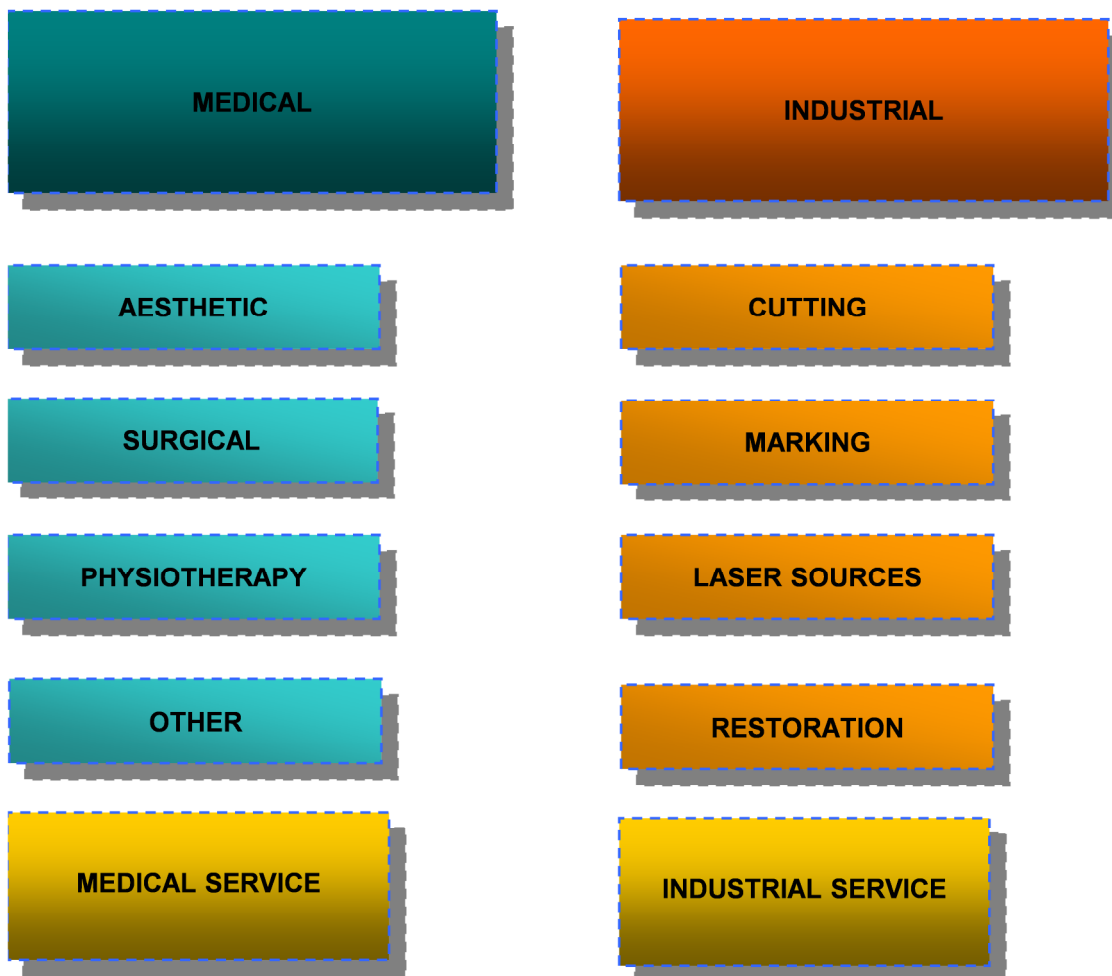
The founders, Professor Leonardo Masotti and his wife, Barbara Bazzocchi, and Ing. Gabriele Clementi, have always conducted the company and are still part of the top management.

The laser, an acronym for “**Light Amplification by Stimulated Emission of Radiation**” is a fascinating technology invented in 1960 and represents the fulcrum of the technology of the Group. This luminous emission with its unique characteristics (monochromaticity, consistency, brilliance) found and is still finding a growing number of applications which have given rise to its own specific industrial sectors and in others has radically changed the way in which they operate. Telecommunications, sensoristics, printers, lithographs, numerous processes in industrial manufacturing, numerous medical and aesthetic applications have been able to benefit from the innovations made available by the versatility, precision and reliability of laser systems. As Prof. Gérard Mourou - Nobel prize for physics in 2018 for the invention of chirped pulse amplification or CPA, which was later used to create ultra-short high intensity laser impulses (terawatt) - pointed out during his visit in January 2019 to the headquarters of Quanta System Spa in Samarate (VA), “the best is yet to come”! Scientific research and applied industrial research will continue to find innovative applications for laser technology from which we can all benefit directly or indirectly.

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

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

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



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

The division of the Group into numerous different companies also reflects the strategy for the distribution of the products and for the organization of the activities for research and development and marketing. El.En. is one of the most successful groups on our market, thanks to a series of acquisitions concluded over the years, in particular, in the medical sector (DEKA, Asclepion, Quanta System and Asa). Following an approach that is unique and original for our sector, each company that has entered the Group has maintained its own special characteristics for the type and segment of the product, with brands and distribution networks that are independent from the other companies of the Group and represent a real business unit. Each one has been able to take advantage of the cross-fertilization which the individual research units has had on the others and has made their own elective technologies available to the other companies of the Group.

Although this strategy makes management more complex, it is chiefly responsible for the growth of the Group which has become one of the most important companies in the field.

While we recognize the importance that the multi-brand and multi-R&D has had on the growth of the Group, at the same time we realize the need to increase the coordination between the activities of the different business units of the medical sector and promote the joint activities like distribution in Italy which, under the new brand name of “Renaissance” will unite into a single organization the pre-existing networks of Deka and Quanta System.

In 2020 the integration of the Group networks continued: the Asclepion laser systems for aesthetic applications were available for sale in Italy through the Renaissance network which will reinforced its leadership in the territory, while, at the same time, the distribution network of Asclepion in Germany offered 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.

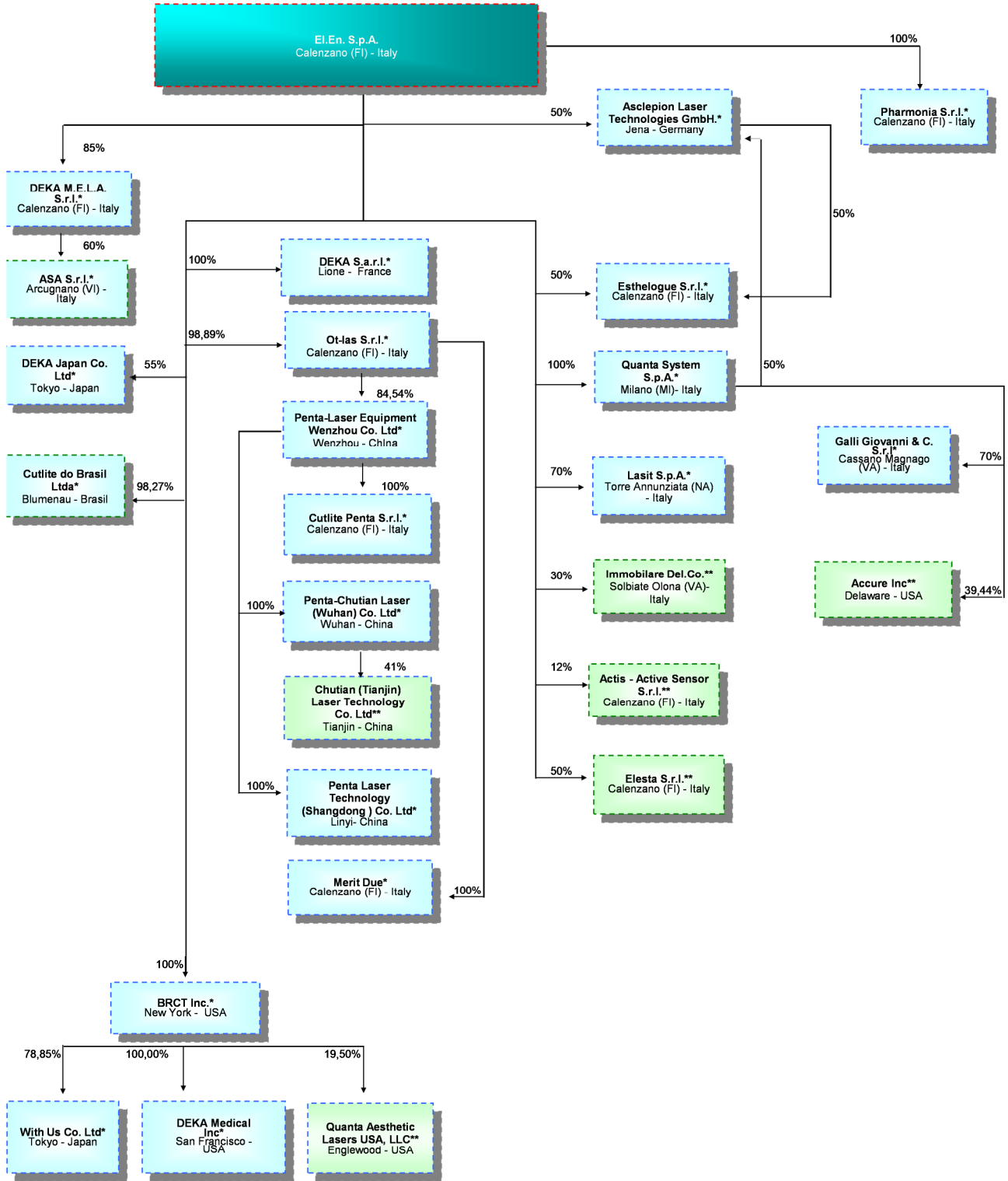
There is also an increased demand for technologies that are able to minimize the duration of surgical operations and of post-operative recovery or to increase their effectiveness by reducing the impact on the patient (minimally invasive surgery) and the overall costs. For the industrial sector laser 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 2020 the structure of the Group was as follows:



* Subsidiaries
** Associates

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.

	31/12/20	31/12/19
Profitability Ratios (*):		
ROE (Net Income / Own Shareholders' Equity)	9,9%	13,2%
ROI (EBIT / Total Asset)	6,4%	9,0%
ROS (EBIT / Sales)	7,4%	9,5%
Capital structural ratios:		
Investments Flexibility ratio (Current Asset / Total Asset)	0,75	0,74
Leverage ((Net Equity+ Loans) / Net Equity)	1,23	1,16
Current Ratio (Current Asset / Current Liability)	1,95	2,06
Current liability coverage ((Current receivables + Cash & cash equivalent + Investments) / Current liabilities)	1,34	1,43
Quick ratio ((Cash & cash equivalent + Investments) / Current liabilities)	0,68	0,65

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

The fourth quarter of 2020, a year which had been so heavily impacted by the effects of the pandemic, saw the Group recover the growth rate and revenue which had been expected for the beginning of the year, and register results of an entity which even in 2020 surpassed the consolidated sales volume of the preceding year. This result, which even in October seemed beyond our reach, was obtained thanks to the extraordinary trend shown in the final quarter which was extraordinary both in absolute terms, and even more so in consideration of the unfavorable conditions in which we were operating.

Consequently, thanks to the record sales volume of this quarter, 140 million Euros, the sales volume for 2020 reached 408 million Euros and surpassed by 1,8% the result for the preceding year.

From the very earliest phases of the pandemic, all the companies of the Group adopted safety measures intended to protect the health of our employees and collaborators and making it so that in our offices and laboratories the staff could work safely by observing the right distance from each other and in conformity with the regulations and, above all, guaranteeing the peace of mind of the personnel. For this reason smart working was adopted in many cases, although direct interaction represents a serious limitation in the effectiveness and creativity of many of the most vital operations, in particular research and development and marketing. All of the safety measures are still being applied according to protocols agreed upon with the employees and periodically up-dated. Even during the fourth quarter of 2020 our daily life and the activities of the Group were conducted in conditions that were almost normal and, above all, without obligatory interruptions.

The economic and financial results once again demonstrate the solidity and vitality of the Group and the resiliency of our organization in facing a period so critical and adverse to the normal conduction of our activity. In fact, in these comments we wish to express our satisfaction and gratitude for having seen all of the companies of the Group carry out their tasks with renewed determination and complete not only all of the scheduled commitments but also and accept new ones which allowed us to attract the attention of new clients.

After the first quarter in which we were penalized more than any of our competitors by the lockdown of our Chinese businesses and, in particular, those in Wuhan, in the second quarter the Italian and European companies were hit by the restrictive measures extended to the western world and suffer from the deleterious effects on our markets. In the third quarter we were able to return to a substantial volume of business and level of growth and a significant amount of orders, although the trend was not uniform and varied from one geographical area to the next and from one segment to the other. In the fourth quarter the consolidated results were exceptional although some sectors were drivers and others were experiencing difficulty, as was difficult to avoid considering the continuation of the pandemic emergency and all of the restrictions which it comported, from the local lockdowns to the impossibility of international travel.

The launching of new products for various applications in which the Group excels is one of the strong points of our strategy. In 2020 the difficulties present did not prevent the launching of numerous new products and new versions of pre-existing products. In the industrial sector we introduced systems with laser cutting power of up to 30kW. For the medical sector, we introduced among others in the hair removal sector the new Nd:YAG and alexandrite systems which were launched in the second half of the year, Elite iQ and Again, while for body contouring with Schwarzy we presented the technology of high intensity magnetic fields along with new functions added to the Onda system which uses microwave technology; the q-switched technology has been used to the best advantage in the Chrome systems made by Quanta System for the most effective treatment of pigmented and vascular lesions. There are also numerous other products which will be released in 2021 which appears to be a year in which the new products will continue to be the backbone for further growth results.

The chart below shows the breakdown of the sales volume as of December 31st 2020 divided by the sectors of activity in which the Group operates in comparison with the same data for 2019.

	31/12/2020	Inc %	31/12/2019	Inc %	Var. %
Medical	229.061	56,13%	242.184	60,43%	-5,42%
Industrial	179.023	43,87%	158.577	39,57%	12,89%
Total revenue	408.083	100,00%	400.761	100,00%	1,83%

The overall growth is close to 2% with the medical sector dropping by 5,4% and the industrial sector increasing by 12,9%.

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

	31/12/2020	Inc %	31/12/2019	Inc %	Var. %
Italy	72.557	17,78%	74.272	18,53%	-2,31%
Europe	73.918	18,11%	78.845	19,67%	-6,25%
ROW	261.608	64,11%	247.643	61,79%	5,64%
Total revenue	408.083	100,00%	400.761	100,00%	1,83%

At the end of the year we registered a small increase in the sales volume. The countries which mainly contributed to this result were the non-European countries. In particular, Japan, where the Covid pandemic had a lesser impact and our subsidiary With Us showed a record sales volume, in China where the activities in the cutting sector maintained a record rate in the second quarter and in the USA where our distributors in the medical sector were able to resist in very adverse conditions for most of the year. The slight decreases registered in Italy and in Europe should be considered excellent results considering the extended periods of lockdown and the various restrictions that had been imposed.

The chart below shows the sales volume of the Group within the sector of medical and aesthetic systems which in 2020 represented about 56% of the sales volume of the Group.

	31/12/2020	Inc %	31/12/2019	Inc %	Var. %
Aesthetic	136.508	59,59%	134.281	55,45%	1,66%
Surgical	38.300	16,72%	50.325	20,78%	-23,89%
Physiotherapy	7.638	3,33%	10.573	4,37%	-27,76%
Others	500	0,22%	1.061	0,44%	-52,93%
Total medical systems	182.945	79,87%	196.240	81,03%	-6,77%
Medical service	46.115	20,13%	45.944	18,97%	0,37%
Total medical revenue	229.061	100,00%	242.184	100,00%	-5,42%

The volume of business was affected by the Covid pandemic and registered a drop of about 5% which was slightly more accentuated in the sales of systems than in that for after-sales services and consumables which benefitted, among other things, from the increase in revenue from the sale of optical fibers for urological surgery.

Under the circumstances, the stability of the aesthetic sector is extraordinary and it even showed a slight growth with respect to 2019. There are two main reasons for this result: the release on to the market of new systems for hair removal and skin and body treatments that are highly innovative and have already achieved some degree of success considering the times, the capacity of our Japanese subsidiary to capitalize on the effectiveness of its distribution network by improving their base of installations with functional upgrades and conveying through the same channels a significant volume of locally produced equipment. It should be noted that the excellent results obtained from this purely distributional activity which is important for obtaining customer loyalty in such a difficult period, is associated with margins that are lower than those associated with the systems produced by the Group.

In the months following the lockdown we registered an increased demand for aesthetic treatments: we believe that because of the limited options available for leisure, vacations and self-gratification, the decision to improve the appearance of one's body and skin has become one of the preferred expenditures for those who have a good level of income.

On the other hand, the sales for surgery and, to an even greater degree, for physical therapy were impacted by the polarization of the activities and the attention of the medical structures on the treatment of the issues related to Covid which overshadowed all the other disciplines and made it very difficult to interact with the structures for the marketing process. In this sector, we will be able to return to the normal market dynamics only when the tension caused by the Covid emergency has been overcome.

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.

	31/12/2020	Inc %	31/12/2019	Inc %	Var. %
Cutting	147.400	82,34%	119.671	75,47%	23,17%
Marking	17.257	9,64%	20.262	12,78%	-14,83%
Laser sources	2.254	1,26%	4.438	2,80%	-49,22%
Conservation	373	0,21%	342	0,22%	9,10%
Total industrial systems	167.283	93,44%	144.713	91,26%	15,60%
Industrial service	11.740	6,56%	13.864	8,74%	-15,32%
Total industrial revenue	179.023	100,00%	158.577	100,00%	12,89%

The sales in the industrial sector increase by about 13%, a remarkable result considering the general conditions.

In the fourth quarter the increase in the sales volume in this sector was 52%, driven by the success of the cutting segment.

It is evident from the chart that the growth in the industrial sector came exclusively from the cutting segment which grew this year by 23% despite the lockdown which was imposed on the manufacturing and installation activities from January to April in China and from March to April in Italy. This is a counter-trend result when compared with the crisis suffered by most of the manufacturing sectors which hit our other applicative segments of marking and laser sources and also the volume of business in the after-sales services which was also forced to register a drop because of the decrease in activity in the manufacturing sector.

In the laser cutting sector the rapid development of the technologies continues with an increase in the cutting power installed on the systems. The gradual improvement in the performance makes the systems feasible in applications which were not accessible previously, while the decrease in costs makes them available to a growing number of potential clients. In a competitive market our companies distinguish their products offered in China by the ability to optimize management of very high powers (we have already installed the first systems with 30kW sources which is a power level that was unthinkable only two years ago) and in Italy for the flexibility of the operating solutions and the competitive prices which are allowing us to win over large portions of the market.

The restoration sector, our flagship, continues to perform well and is a source of great satisfaction because it demonstrates El.En's commitment in the field of conservation and recovery of the masterpieces of our cultural heritage.

CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 31st 2020

The chart below shows the consolidated income statement for the year ending December 31st 2020 compared with that for 2019.

Income Statement	31/12/2020	Inc %	31/12/2019	Inc %	Var. %
Revenues	408.083	100,0%	400.761	100,0%	1,83%
Change in inventory of finished goods and WIP	12.751	3,1%	4.986	1,2%	155,73%
Other revenues and income	5.734	1,4%	3.474	0,9%	65,08%
Value of production	426.569	104,5%	409.221	102,1%	4,24%
Purchase of raw materials	255.211	62,5%	225.233	56,2%	13,31%
Change in inventory of raw material	(3.156)	-0,8%	(7.187)	-1,8%	-56,08%
Other direct services	32.877	8,1%	35.154	8,8%	-6,47%
Gross margin	141.637	34,7%	156.021	38,9%	-9,22%
Other operating services and charges	34.131	8,4%	43.624	10,9%	-21,76%
Added value	107.506	26,3%	112.396	28,0%	-4,35%
Staff cost	66.692	16,3%	66.085	16,5%	0,92%
EBITDA	40.814	10,0%	46.312	11,6%	-11,87%
Depreciation, amortization and other accruals	10.703	2,6%	8.114	2,0%	31,91%
EBIT	30.111	7,4%	38.198	9,5%	-21,17%
Net financial income (charges)	(1.762)	-0,4%	468	0,1%	
Share of profit of associated companies	(425)	-0,1%	(23)	0,0%	1766,80%
Income (loss) before taxes	27.924	6,8%	38.644	9,6%	-27,74%
Income taxes	5.382	1,3%	9.868	2,5%	-45,46%
Income (loss) for the financial period	22.542	5,5%	28.775	7,2%	-21,66%
Net profit (loss) of minority interest	2.287	0,6%	2.759	0,7%	-17,09%
Net income (loss)	20.255	5,0%	26.017	6,5%	-22,15%

The gross margin was 141.637 thousand Euros, a decrease of 9,2% with respect to the 156.021 thousand Euros registered on December 31st 2019, due to the drop in the margins on the sales. The incidence of the margins on the sales volume in fact decreased from 38,9% on December 31st 2019 to 34,7% on December 31st 2020. This decrease was caused by the reduction in the margins that the crisis determined both in the medical and the industrial sectors even though they had different causes and outcomes. In the industrial sector the objective of market expansion was pursued even at the expense of a few points on the margins, in particular when, after the pandemic, the competition in China became more extreme. In the medical sector the mix of products sold had less importance in the segments which had higher margins like surgery and physical therapy, while in the aesthetics sector the sales value remained stable at the levels of 2020, also thanks to the significant increase in sales of products with lower margins.

The costs for operating services and charges were a 34.131 thousand Euros and showed a decrease with respect to the 43.624 thousand Euros on December 31st 2019. Their incidence on the sales volume also dropped from 10,9% in 2019 to 8,4% in 2020. The savings were derived mainly from the marketing sector because of the cancellation of all international travel and of all the trade fairs and symposiums, as well as from as well as from the decrease in logistic expenses related to travel. Most of these were savings which were imposed by the circumstances on expenses that had a high productivity and are fundamental for the marketing policy and sale of our products, but light of this experience may be recise and reserve a greater role in the future for the activities of virtual contact with the markets and clientele which we have used in recent months. During the periods of lockdown they were the only means possible to remain in contact and they still are for many countries considering the impossibility to travel.

The costs for staff were 66.692 thousand Euros, a slight increase with respect to the 66.085 thousand Euros registered on December 31st 2019, while the incidence on the sales volume remained substantially unchanged, just decreasing from 16,5% in 2019 to 16,3% in 2020. Despite the increase in the number of employees in the Group, the staff costs were limited due to the adoption of the *Cassa Integrazione Guadagni* (CIG) and similar instruments which were used in various degrees by all the companies located in Italy as well as Deko in France and Asclepion in Germany. In this

period, the variable components of the salaries and the overtime also decreased; many employees used their accumulated vacation time to avoid the reduction in salary which the CIG comports. The amounts now in use for the CIG were always paid in advance to the employees by the companies of the Group. In China federal measures were taken to slightly reduce the social contributions load during the lockdown.

The Covid did not have any negative effects on the number of staff members in the Group which, on December 31st 2020 amounted to 1.626 employees, an increase with respect to the 1498 registered on December 31st 2019. New hiring was done mostly by the Chinese companies which by the end of the Summer were working at full capacity in all of the factories and with production volumes that were greater than those at the end of 2019, finally aligned with what had been expected before the Covid 19 crisis.

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. Moreover, 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: as of December 31st 2020 the overall cost was 2.311 thousand Euros with respect to the 571 thousand Euros for last year. This latter amount of staff costs had a significant impact in the fourth quarter because of a specific operation conducted on the capital of Penta Laser Wenzhou which alone comported in the quarter an increase in personnel costs of 1,5% on the quarterly consolidated sales volume.

Consequently the EBITDA amounted to 40.814 thousand Euros, a decrease of 11,9% with respect to the 46.312 thousand Euros shown on December 31st 2019. The EBITDA decreased in its incidence on the sales volume which dropped to 10% from the 11,6% registered on December 31st 2019.

The costs for amortizations, depreciations and accruals increased from 8.114 thousand Euros on December 31st 2019 to 10.703 thousand Euros on December 31st 2020, with an incidence on the sales volume which rose to 2,6% in 2020 from 2,0% in 2019.

The amortizations increased due to the significant investments made during 2019 and again in 2020. The accruals are greater than usual because they express in the most balanced way the possible deterioration of some credits which are an effect of the crisis caused by the pandemic, also in compliance with the ESMA recommendations on this subject.

The EBIT therefore amounted to 30.111 thousand Euros with respect to the 38.198 thousand Euros registered on December 31st 2019, with an incidence on the sales volume which fell to 7,4% from the 9,5% shown last year. The improvement in the EBIT and its incidence on the sales volume correspond to the indications given by the Company in its guidance. .

The financial charges amounted to 1.762 thousand Euros with respect to the financial income of 468 thousand Euros registered last year. Besides the increase in the amount of interests owed, the result is due to the unfavorable trend in currency exchange, in particular the weakening of the dollar with respect to the Euro and the consequent exchange loss registered during the period.

The current and deferred income taxes this year were 5.382 thousand Euros: the overall tax rate was 19,3% lower than in the past also because of the effects of the tax relief planned in Italy in compliance with the decrees issued during 2020 to counter the effects of the pandemic, the application of the so-called *patent box* on one of the subsidiaries and the tax credits for research, development and innovation activities and for those replacing the benefits granted in preceding years in the form of hyper and super amortization. Moreover, on the basis of the current regulations, some Italian companies have decided to re-evaluate some of the company assets with the consequent result of fiscal benefits. For further details concerning the income tax and tax rate, please consult the relative paragraphs in the Notes.

Consolidated statement of financial position and net financial position as of December 31st 2020

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

Statement of financial position	31/12/2020	31/12/2019	Variation
Intangible assets	4.488	4.834	-346
Tangible assets	85.576	81.813	3.764
Equity investments	1.991	2.403	-412
Deferred tax assets	9.297	6.641	2.656
Other non-current assets	15.486	15.276	210
Total non current assets	116.838	110.966	5.872
Inventories	111.594	97.037	14.556
Accounts receivable	94.009	92.026	1.982
Tax receivables	11.032	12.689	-1.657
Other receivables	13.157	13.453	-296
Financial instruments	0	2.127	-2.127
Cash and cash equivalents	123.744	97.031	26.713
Total current assets	353.535	314.362	39.173
Total Assets	470.373	425.328	45.044
Share capital	2.550	2.538	12
Additional paid in capital	42.556	41.431	1.126
Other reserves	93.668	88.105	5.562
Retained earnings / (accumulated deficit)	66.391	64.337	2.055
Net income / (loss)	20.255	26.017	-5.762
Group shareholders' equity	225.420	222.427	2.993
Minority interest	15.245	18.206	-2.962
Total shareholders' equity	240.665	240.633	31
Severance indemnity	5.147	4.738	410
Deferred tax liabilities	2.210	2.032	179
Reserve for risks and charges	5.717	4.528	1.189
Financial debts and liabilities	30.763	21.116	9.648
Other non current liabilities	5.000	0	5.000
Total non current liabilities	48.838	32.413	16.425
Financial liabilities	23.827	16.706	7.121
Accounts payable	94.923	78.391	16.533
Income tax payables	2.945	3.507	-563
Other current payables	59.175	53.677	5.498
Total current liabilities	180.871	152.282	28.589
Total Liabilities and Shareholders' equity	470.373	425.328	45.044

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 2020 is the following:

Net financial position	31/12/2020	31/12/2019
Cash and bank	123.744	97.031
Financial instruments	0	2.127
Cash and cash equivalents	123.744	99.158
Current financial receivables	14	84
Bank short term loan	(20.659)	(11.794)
Part of financial long term liabilities due within 12 months	(3.168)	(4.913)
Financial short term liabilities	(23.827)	(16.706)
Net current financial position	99.931	82.535
Bank long term loan	(23.366)	(11.802)
Other long term financial liabilities - non current part	(7.398)	(9.314)
Financial long term liabilities	(30.763)	(21.116)
Net financial position	69.168	61.419

At the end of the year the operating activities of the Group were still generating cash, and despite the significant investments made during the year, improving the net financial position which rose, as of December 31st 2020 to 69 million, an amount that was greater than that at the start of the year which was 61 million Euros.

During this year about 20 million were invested in the acquisition of a significant minority share in Penta Laser Wenzhou, which has become the Parent Company of all of our activities in China in the industrial sector and is the subject of a major investment plan aimed at further expanding our manufacturing capacity and product development in order to better serve the local market from which we expect an increase in demand. The final payment for the purchase of the shares was made right at the start of the Chinese New Year which was also the beginning of a very troubled period for China and for the rest of the world, with the Covid 19 pandemic. Our confidence in the outlook for this business unit remains unchanged and with the return to satisfactory results in the last months of the year we are convinced that the difficulties caused by the pandemic will be overcome and we will return to the growth plan that our market and our potential allow us to pursue.

As the year came to a close we re-absorbed the increase in our working capital which was registered in the first quarters because of the sudden and unexpected reduction in the production and sales volumes which occurred in the months from March to June, with the consequent increase in the amount of inventory.

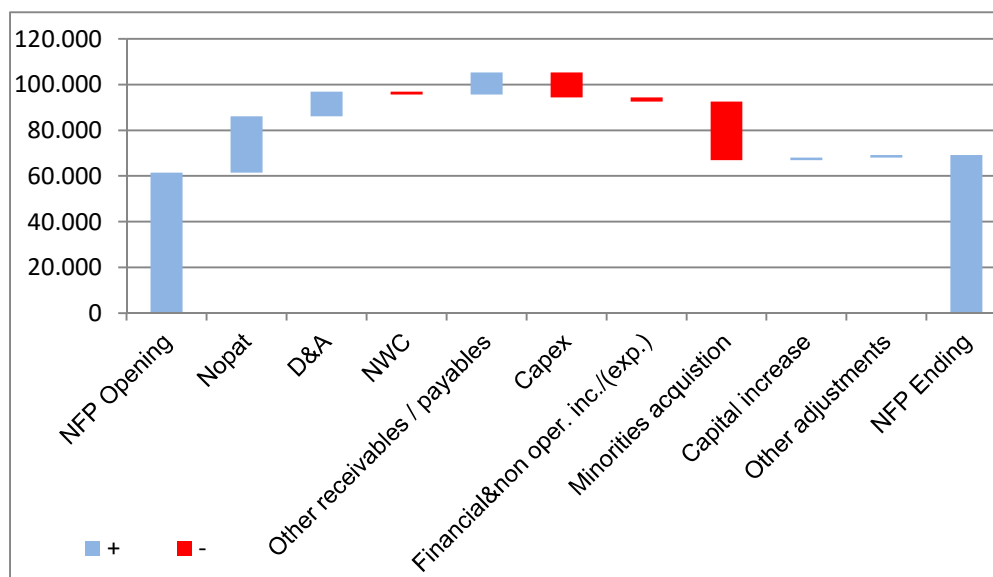
The quantity of gross investments was still significant in 2020 and amounted to about 12,9 million, but was still below those made in the corresponding period in 2019. The investments made in manufacturing structures, in fact, were fewer than in preceding years since almost all of the new buildings have been completed or are in the final stages of completion. In 2020 we sustained costs mainly at Jena, Lin Yi, Wenzhou, Calenzano and Torre Annunziata. The second factory at Wenzhou was inaugurated in the month of December, with a ceremony in which the local authorities and hundreds of clients participated thanks to the freedom of circulation and assembly which in China are now normal. At the El.En. factory in Calenzano we installed systems that will speed up the production of prototype and limited series of electronic boards and for the rapid prototyping of mechanical parts and we also completed the equipping of a new production line for mid-powered sealed laser sources for applications in the manufacturing sector, all of which are investments which were befitted by the *ex industria 4.0* facilitations.

The payment of a dividend to the shareholders of El.En. Spa, which had been initially set by the Board of Directors at 0,40 Euros per share, was suspended by a vote of the shareholders' meeting who acknowledged the persistence of the drop in demand caused by the Covid emergency.

It should be noted that the bank and postal deposits include about 9 million Euros in deposits for the Chinese companies that are restricted until the due dates for some of the payments to suppliers by means of issuing bank bills.

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 last 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 15,2 million Euros.

The chart below illustrates the components of the variations during the year in the net financial position.



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

	31/12/2020 Capital and reserves	31/12/2020 Income statement	31/12/2019 Capital and reserves	31/12/2019 Income statement
Balance per parent company statement	138.212	238	136.619	5.833
Elimination of investments in subsidiary companies:				
- share of profit (loss) of subsidiary companies		35.846		25.136
- share of profit (loss) of associated companies		(362)		7
- elimination of rectification of value of equities		625		480
- elimination of dividends		(136)		(3.815)
- other (charges) income		(15.282)		(1.687)
Total contribution of subsidiary companies	90.530	20.692	88.461	20.121
Elimination of intercompany profits on inventory				
Elimination of intercompany profits from sales of fixed assets	(3.109)	(740)	(2.375)	200
Balance as per consolidated statement – Group quota	(213)	65	(278)	(137)
Balance as per consolidated statement – Third party quota	225.420	20.255	222.427	26.017
Balance as per consolidated statement	15.245	2.287	18.206	2.759
Balance per parent company statement	240.665	22.542	240.633	28.775

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.

	31/12/2020	Inc %	31/12/2019	Inc %	Var. %
Medical	53.565	83,41%	55.426	81,83%	-3,36%
Industrial	10.652	16,59%	12.311	18,17%	-13,48%
Total revenue	64.216	100,00%	67.737	100,00%	-5,20%

The company registered a sales volume of over 64 million Euros, a decrease of 5% with respect to 2019 but accelerating rapidly by the end of the year.

The spread of the pandemic with the limitations, fears, and economic uncertainties that went along with it all over the world in the first half of the year caused a sharp drop in the demand for El.En. products both in the medical and in the industrial sectors. In the most critical period at the beginning of the Spring there were no actual cancellations of orders but there were requests to postpone the deliveries which caused a slow-down in sales and production and an increase in inventory of finished products. In the second half, our clients gradually regained confidence and we again were receiving orders at a significant rate. In recent months the rate has returned to that which we had predicted before the pandemic, as shown by the results for the fourth quarter, with a sales volume that was greater than that for the same quarter last year. The income results were the hardest hit by the pandemic with an EBIT which fell by 51,6% and significant losses shown in the financial management due to the unfavorable trend in the currency exchange, in particular for the amounts in US dollars and the lack of dividends to the subsidiaries Quanta System and Deka MELA. The net financial position dropped by about 13,8 million during the year on account of the mid- to long-term financing issued to the subsidiary Ot-las to support an exceptional operation, the increase in net working capital due to the fall in demand and the investments now being used for the re-organization of some of the areas in the factory in Calenzano. The payment of a dividend to the shareholders which had originally been approved by the Board of Directors for an amount of 0,40 Euros was later suspended by the shareholders meeting who in this way acknowledged the long lasting effects of the fall in demand.

Income statement as of December 31st 2020

Income Statement	31/12/2020	Inc %	31/12/2019	Inc %	Var. %
Revenues	64.216	100,0%	67.737	100,0%	-5,20%
Change in inventory of finished goods and WIP	730	1,1%	389	0,6%	87,73%
Other revenues and income	777	1,2%	902	1,3%	-13,87%
Value of production	65.724	102,3%	69.028	101,9%	-4,79%
Purchase of raw materials	32.878	51,2%	32.717	48,3%	0,49%
Change in inventory of raw material	(2.019)	-3,1%	(815)	-1,2%	147,59%
Other direct services	10.122	15,8%	10.112	14,9%	0,10%
Gross margin	24.743	38,5%	27.015	39,9%	-8,41%
Other operating services and charges	5.990	9,3%	7.538	11,1%	-20,54%
Added value	18.753	29,2%	19.476	28,8%	-3,71%
Staff cost	15.433	24,0%	16.247	24,0%	-5,01%
EBITDA	3.319	5,2%	3.229	4,8%	2,79%
Depreciation, amortization and other accruals	2.518	3,9%	1.573	2,3%	60,12%
EBIT	801	1,2%	1.657	2,4%	-51,63%
Net financial income (charges)	70	0,1%	4.241	6,3%	-98,35%
Other net income and charges	(718)	-1,1%	(651)	-1,0%	10,20%
Income (loss) before taxes	154	0,2%	5.247	7,7%	-97,07%
Income taxes	(85)	-0,1%	(587)	-0,9%	-85,57%
Net income (loss)	238	0,4%	5.833	8,6%	-95,92%

The gross margin was 24.743 thousand Euros, a decrease of 8.4% with respect to the 27.015 thousand Euros for last year. The percentage of incidence of the margin on the sales volume decreased from 39,9% in 2019 to 38,5% in 2020.

The other operating services and charges were 5.990 thousand Euros, a decrease with respect to the 7.538 thousand Euros for last year and with an incidence on the sales volume which fell from 11,1% on December 31st 2019 to 9,3% in 2020. The forced reduction of travel expenses and participation in trade fairs and symposiums represented the main expense that was saved in 2020 with respect to 2019.

The costs for personnel was 15.433 thousand Euros, and decreased by 5% with respect to the 16.247 thousand Euros for last year, but the incidence on the sales volume remained unchanged. The decrease is due to the use of the CIG which involved most of the staff in the months of April and May and then decreased gradually, finally terminating in the month of August. As of December 31st 2020 there were 269 employees in the company, an increase with respect to the 249 registered on December 31st 2019.

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 2020, as in 2019, the company did not receive any grants. 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.

For the reasons explained above, the EBITDA amounted to 3.319 thousand Euros, an increase with respect to the 3.229 thousand Euros for the preceding year with an incidence on the sales volume which rose from 4,8% on December 31st 2019 to 5,2% for this year.

The costs for amortizations, depreciations and accruals were 2.518 thousand Euros, an increase with respect to the 1.573 thousand Euros on December 31st 2019. The increase is due to the greater number of investments made during the year and to the an increase in the accruals for risks.

The EBIT therefore showed a decrease from 1.657 thousand Euros on December 31st 2019 to 801 thousand Euros for this year.

The net financial income amounted to 70 thousand Euros, with respect to the 4.241 thousand Euros for the year which ended on December 31st 2019. The sharp decrease is mainly due to the drop in dividends cashed in by the subsidiary companies and by the unfavorable trend in the exchange rates, particularly the US dollar which was weak in respect to the Euro, and the consequent exchange loss made during this period.

The amount of the other net charges refers to the devaluation operated on the equities in the French subsidiary Deka Sarl and the Italian subsidiary Esthelogue Srl and to the further accrual for losses related to the subsidiaries Deka Sarl and Cutlite do Brasil.

Pre-tax income amounted to 154 thousand Euros, with respect to the 5.247 thousand Euros for last year. The net income amounted to 238 thousand Euros which benefitted from the tax credits for research and development and the fiscal relief determined by the decrees issued after the pandemic.

Statement of financial position and net financial position as of December 31st 2020

Statement of financial position	31/12/2020	31/12/2019	Variation
Intangible assets	292	428	-136
Tangible assets	19.197	17.496	1.701
Equity investments	18.218	17.873	345
Deferred tax assets	2.527	2.290	237
Other non-current assets	40.141	21.952	18.189
Total non current assets	80.375	60.039	20.336
Inventories	28.127	25.378	2.749
Accounts receivable	31.842	33.752	-1.910
Tax receivables	3.463	3.903	-441
Other receivables	7.813	7.868	-54
Financial instruments	0	2.127	-2.127
Cash and cash equivalents	17.649	29.450	-11.801
Total current assets	88.894	102.477	-13.583
Total Assets	169.269	162.516	6.753
Share capital	2.550	2.538	12
Additional paid in capital	42.556	41.431	1.126
Other reserves	93.852	87.802	6.050
Retained earnings / (accumulated deficit)	-984	-984	0
Net income / (loss)	238	5.833	-5.595
Total shareholders' equity	138.212	136.619	1.593
Severance indemnity	848	854	-5
Deferred tax liabilities	265	329	-64
Reserve for risks and charges	2.125	1.403	722
Financial debts and liabilities	370	573	-203
Total non current liabilities	3.609	3.159	450
Financial liabilities	4.318	4.318	-0
Accounts payable	17.325	12.715	4.609
Income tax payables	5	25	-20
Other current payables	5.802	5.681	121
Total current liabilities	27.449	22.738	4.710
Total Liabilities and Shareholders' equity	169.269	162.516	6.753

Net financial position	31/12/2020	31/12/2019
Cash and bank	17.649	29.450
Financial instruments	0	2.127
Cash and cash equivalents	17.649	31.577
Current financial receivables	7	71
Bank short term loan	(4.003)	(4.001)
Part of financial long term liabilities due within 12 months	(314)	(317)
Financial short term liabilities	(4.318)	(4.318)
Net current financial position	13.339	27.330
Other long term financial liabilities - non current part	(370)	(573)
Financial long term liabilities	(370)	(573)
Net financial position	12.969	26.757

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 33.663 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 2020.

	Revenues	Revenues	Variation	EBIT	EBIT	Income (loss) for the financial period	Income (loss) for the financial period
	31/12/2020	31/12/2019		31/12/2020	31/12/2019	31/12/2020	31/12/2019
Ot-Las S.r.l.	3.105	4.616	-32,73%	(322)	(19)	15.432	1.417
Deka Mela S.r.l.	42.116	48.077	-12,40%	2.595	2.494	1.923	2.313
Esthelogue S.r.l.	8.010	11.882	-32,59%	(680)	(618)	(420)	(408)
Deka Sarl	3.447	3.897	-11,55%	(346)	(539)	(347)	(542)
Lasit S.p.A.	14.312	16.594	-13,75%	2.529	3.095	1.840	2.121
Quanta System S.p.A.	69.477	83.579	-16,87%	13.695	19.132	11.175	13.892
Asclepion GmbH	42.334	51.228	-17,36%	4.993	5.796	3.017	3.845
ASA S.r.l.	8.243	11.301	-27,06%	791	1.914	1.150	1.441
BRCT Inc.	-	-	0,00%	(14)	(12)	6	(25)
With Us Co., Ltd	45.224	28.218	60,27%	2.259	1.085	1.374	596
Penta-Chutian Laser (Wuhan) Co., Ltd	33.666	29.956	12,38%	207	1.433	107	1.134
Cutlite do Brasil Ltda	3.575	4.771	-25,07%	(183)	(33)	(559)	(68)
Pharmonia S.r.l.	-	-	0,00%	(5)	(5)	(4)	(4)
Deka Medical Inc.	-	-	0,00%	3	(4)	(9)	(16)
Deka Japan Co., Ltd	1.383	1.973	-29,90%	306	364	152	146
Penta-Laser Equipment Wenzhou Co., Ltd	99.262	88.175	12,57%	156	466	119	686
Merit Due S.r.l.	74	42	76,19%	28	(3)	189	(3)
Cutlite Penta S.r.l	49.843	42.126	18,32%	3.188	2.071	2.172	1.417
Penta Laser Europe S.r.l.	-	-	0,00%	-	(4)	-	(4)
Galli Giovanni & C. S.r.l.	683	332	105,72%	53	(10)	35	(9)
Penta Laser Technology (Shangdong) Co., Ltd.	29.525	4.937	498,04%	736	(213)	659	(171)

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

Deka M.E.L.A. was the first company of the Group to deal in the sale of medical systems, the natural market for the medical systems developed and manufactured by El.En in Calenzano, for which Deka is still the main distribution channel. 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 and, since 2020, the German company Asclepion has also made their products available for the clients of Renaissance in Italy.

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.

The Deka organization, both in Italy and in the international network, is now a visible and recognize presence and a synonym for product innovation, professional marketing and high performance of the laser systems they sell. This is a

condition in which the Group is investing in order to plan for its further growth thanks to their capacity for moving new products through a consolidated and recognized distribution network.

The pandemic has had a powerful impact on the activities of Dekka with the lockdowns which damaged our clients and their inclination to purchase. Activity aimed at facilitations to purchase by the clients have been promoted in Italy with discounts and payments by installments granted also in agreement with our partners (leasing) who finance most of our sales. Moreover, new products were made available for sale, in particular, in the segment of hair removal and body treatments, which made it possible for the company to do well in the second half and thus limit the damage to a fall in sales volume of 12%. Because of the significant savings in operating costs, especially on the marketing expenses which were practically nil due to the impossibility of travelling and the cancellation of trade fairs and symposiums, the EBIT improved with respect to 2020. The net income on the other hand, decreased, on account of the suspension of the payment of the dividend by all of the Italian companies of the Group and, in the case of Dekka by the subsidiary ASA Srl.

The outlook for 2021 at this time would seem to indicate a positive trend in the activities, in particular for the amount of exports while in Italy the restrictions which have remained since the end of the year continue to make the sale of our systems very complicated.

Ot-Las S.r.l.

Ot-Las is involved in the business of systems for laser marking for the decoration of large surfaces, with galvanometric type ray movement, which uses mid-power laser sources supplied by El.En. for most of its systems. They also hold an equity in the Chinese companies of the Group which operate in the sector of laser cutting of sheet metal which was re-organized in 2019 and 2020 with a series of transactions: the sale of the share in Penta Chutian Wuhan (sold to Penta Wenzhou), the acquisition of an additional share in Penta laser Wenzhou for the amount of about 20 million Euros, financed thanks to a mid- to long-term loan issued by the Parent Company, the sale of the entire equity in Cutlite Penta Srl to Penta Laser Wenzhou and the underwriting of an increase in capital by Penta Laser Wenzhou which, by the end of 2020, brought the equity of Ot-las to 84,54%.

Ot-las conducts its activities in Prato in the same building as Cutlite Penta.

Because of the Covid emergency, the company suffered major losses in sales volume amounting to about 33%. Due to the sudden drop in the sales volume the limitations in the costs still could not avoid an operating loss. The sale of the entire equity in Cutlite Penta Srl to the subsidiary Penta Laser Wenzhou comported the entry into the books of a significant capital gains which fully offset the operating losses and the company registered a net income of over 15 million Euros.

Cutlite Penta S.r.l.

This company was created from a branch of Ot-las in order to separate the business in which it operates, systems for laser cutting, from that for marking in which Ot-las operates. Cutlite is dedicated exclusively to the segment of laser cutting for which it conducts the activities of production planning and sales. Cutlite installs on “X-Y” movements controlled by CNC the powerful laser sources produced by the Parent Company, El.En. S.p.A. for applications of plastic cutting and sources produced by other suppliers for the cutting of metal and dies.

Since it was founded in 1992 Cutlite Penta has operated in the sector of systems for cutting dies and plexiglass, a niche in which it is considered one of the market leaders. In the last few years it has benefitted from the transformation of the market for sheet metal cutting. This transformation, with the advent of laser sources in optical fiber which are increasingly powerful, economical and reliable with respect to other technologies has amplified the potential market for systems whose productivity has increased to the extent that prices have become very reasonable for an increasing number of applications and manufacturing industries. In order to sustain the rapid growth Cutlite moved their manufacturing operations to a larger building located in the city of Prato, by buying in 2018 a couple of buildings suitable for containing the spaces they need together with those of Ot-las. Since the Summer of 2019 all of their activities have been moved to the new buildings. Thanks to this new factory the production has developed very efficiently and reached excellent results already in the second half of 2019. In 2020, the company was forced to interrupt production during the period of lockdown but continued an aggressive strategy of growth aimed at acquiring portions on a market in rapid expansion. The results were highly satisfactory, in particular considering the generally adverse circumstances caused by the pandemic, with a sales volume of close to 50 million Euros (+18,3%) and net income and EBIT which grew by more than 50%.

The conditions of the specific market of Cutlite Penta still remain favorable even at this time, with a good outlook for the future which has been sustained by the purchase of another production facility adjacent to the present one; this investment amounted to about 5 million Euros and demonstrates the confidence of the company in the prospects for growth of their business volume.

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

The three companies represent a solid manufacturing structure in China with four factories which preside over the laser cutting of sheet metal for the local market, with over 600 employees involved in the dense marketing network and the effective support of after-sales services for our clients. The companies have existed now for over a decade and are a very important element of the Group in the most dynamic market in the world for manufacturing activities. The growth in recent years has made Penta one of the most significant companies in the Chinese market for laser cutting systems and they have been able to distinguish their products from those of the ferocious local competition thanks to the quality of their key components which are designed and partially made in Europe, without losing the competitive edge necessary to prevail on the local market. These characteristics have allowed it to gain a quota of the market which makes it among the prime players in laser cutting in China. In recent years they have specialized and distinguished themselves from the others for their capacity to manage with perfect efficiency increasingly powerful laser sources, with a leadership which is recognized both by the market and by the laser cutting clients which have made it their preferred partner for new developments. At the end of 2020 they installed the first systems with a power of 30kW and in 2021 they will be installing powers of up to 40 kW.

After the first company, Penta Chutian was founded in Wuhan in 2007, in 2016 we founded the new factory at Wenzhou, which was built thanks to the support guaranteed by the municipality of Wenzhou to the new high-tech manufacturing area. Once they had been equipped with a greater production capacity, the company was able to take advantage of the extraordinary growth of the market and achieve a rapid growth in their sales volume. We expect further growth in this sector and for this reason in 2019 and 2020 we completed two new factories: The larger, second factory at Wenzhou and the new plant in the city of Lin Yi, in the heart of the Shandong region which is an important district in China for the metal working industry. This factory, which was built in record time and inaugurated in December of 2019, is benefitting from significant grants from the local municipality.

In early 2020, precisely in the city of Wuhan, the Covid-19 epidemic started to spread, causing the closure in quarantine of the city and restrictions in circulation in all of China and these limitations were not revoked until the month of March. The impact on the half-yearly results after such a long period of lockdown of the Wuhan factory and the blocking of all of our employees who were returning from other areas of Wuhan after their vacations for the Chinese New Year, was very significant. When the market re-opened it was very receptive and there was a rapid return to the former levels of sales and production along with an increase in the competition which was the consequence of the crisis which had been induced by the pandemic. In the final months of the year the market conditions stabilized and we were able to conclude the year with record volumes of production and sales registered in the fourth quarter thanks to the particular characteristics of the products we offer, the positive phase of our market and the almost complete return to normality in China which allowed us to achieve a record quarter both for sales volume and profitability.

Quanta System S.p.A.

Quanta was created as a company for photonic research and development in the scientific field and became part of the Group in the early 1990s (and a subsidiary in 2004); thanks to its competence it has developed in the sector of laser applications for medicine and produced sophisticated laser systems both for aesthetic medicine and for surgery, in particular in the urology segment where it detains a significant share of the market on a global level.

After the records it set in 2019, with a sales volume of 83,6 million and net income of 13,9 million, in early 2020 Quanta was hit by the effects of the Covid pandemic, especially because of its location in Lombardy. At the end of March it was forced to suspend production in order to guarantee the safety of its employees, it gradually began to resume its activities and for several months made use of the CGI, mainly due to the sudden drop in demand. Consequently, besides the period of closure, since March Quanta has had to deal with an international market scenario characterized by the fall in demand, first in the aesthetic sector which was directly affected by the Covid restrictions, and then indirectly in the surgery sector because of the total focus of the hospital structures on the Covid related issues. Since then, the trend in demand and the obtaining of orders has constantly improved thanks to the hard work of all the company functions despite the adverse conditions. This admirable result was able to limit the loss in sales volume to 17% and the EBIT to about 28% and thus maintain the operating profits at close to 20% of the sales volume.

The resiliency shown in the face of the pandemic crisis was possible because of the mid-term scheduling of the research and development activities which are aimed at marketing numerous systems with state-of-the-art technical features that are capable of generating a strong demand or keep it stable in times of crisis, in various areas of application: in aesthetics, hair removal, tattoo removal and treatment of vascular lesions and anti-aging; in surgery, high-powered lithotripsy and benign hyperplasia of the prostate (BPH) and endovascular treatment.

The results obtained even during this extremely difficult year of 2020 demonstrate that the quality of the range of products along with superb top level management in the most essential functions of the company make Quanta a solid entity with a winning position on the market.

Lasit S.p.A.

Lasit is specialized in the design, manufacture and sale of systems for marking small surfaces. The company conducts the production and development of their products in their headquarters at Torre Annunziata (NA).

Their systems are used for the identification of products, parts and subassemblies, a practice that is increasingly common because of the severity of the requirements for traceability of products and their components. The laser marking systems, with their operative flexibility and low environmental impact are able to satisfy this type of requirement with the greatest efficiency.

Lasit has acquired a respectable position on the market by offering the clientele a quality product along with a punctually supplied personalized service thanks to the great flexibility of their production structure which is organized in such a way as to manage all the main manufacturing phases within the company. In this way they are able to control the costs and better respond to the even the most complex requests for personalization by the clients.

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.

The growth in sales volume and profits which the company has registered in recent years came to a halt in early 2020 due to the effects of the pandemic and the direct limitations of the lockdown and the indirect ones, like the fall in demand which the pandemic caused. Despite the drop in the sales volume of about 14%, by maintaining a good level of margins on sales, controlling their overhead costs and using the CIG, Lasit was able to register a net annual income and, considering the general conditions, very satisfying. In the face of a drop in sales volume of 14%, the EBIT fell rapidly however, it was able to reach an excellent level of 18% on the sales.

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 150 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.

Asclepion benefits from its location in Jena, the global cradle of the electro-optical industry and now a cluster of companies and start-ups which are active in the phototonics sector. The image of Asclepion is rightly associated with the highly prestigious consideration which the German high-tech products enjoy throughout the world.

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 Medistar 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 Medistar, 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 the main product of the company in 2019 and 2020. The erbium technology for ablation applications in dermatology has thousands of installations, especially in Germany.

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.

After a record year in 2019, in 2020 the company found itself having to deal with the crisis which was caused by the Covid pandemic. The gradual increase in sales volume which had been registered in recent years came to a sudden halt with a drop of about 17%. A careful management of overheads and a partial use of CIG in any case allowed the company to register an excellent EBIT which decreased less than the drop in the sales volume and consequently with an improved incidence on the sales volume, which was 11,8% for the year 2020. The beginning of 2021 was good and we are confident that we can make up the ground lost in 2020 because of the pandemic.

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 or intended for home use, in significant volumes considering the high number of stores they serve.

The all-inclusive maintenance services they provide for the systems previously installed contribute significantly to the sales volume and revenue. The company benefitted from the reduced impact that Covid had in Japan on the economy

and the habits of the citizens with respect to other countries and was able to take advantage of the great success of the distribution of the home-use products. The growth trend that had started in 2019 was confirmed in 2020 with a record sales volume and excellent revenue results.

ASA S.r.l.

From its Headquarters in Vicenza which were recently moved to a new building they own, ASA operates in the sector of physical therapy for which it develops and manufactures a line of low and mid-powered semi-conductor lasers. Thanks to the range of products which it offers and their capacity to supply training services to their clients which make it possible for the clients to take best advantage of the benefits of the technologies in their elective applications, ASA has grown rapidly and consistently in size over the years and has always maintained a good level of profits.

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.

ASA's markets were severely impacted by the effects of the Covid pandemic and the company was forced to register a significant fall in demand which determined a reduction of 27% in the annual sales volume. The low overhead and variable costs allowed ASA to maintain a positive net result even in such unfavorable circumstances. For precautionary purposes the company accepted the facilitations offered by the government with financing guaranteed on the PMI and in 2020 suspended the payment of the dividend to the shareholders.

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. The plan to relaunch the company in 2020 was thwarted by the effects of the Covid pandemic with a lockdown also imposed in France and the halting of the activities of the company and most of its clients.

After the activities started up again there was a certain vivacity in sales in France present but not enough to prevent a loss. Thanks to the savings in overhead made possible by the use of CGI the losses were fewer than in 2019. The phase of uncertainty in the economy which continues and in particular in our sector in any case makes the work of our French branch very difficult and it is unlikely that in 2021 they will be able to improve the result achieved in 2020. In an attempt to reduce costs, the company has given up their marketing director and this function is covered by the administrator and other area managers for sales, with promising results shown at the end of the year and the beginning of 2021.

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. Despite the effects of the Covid pandemic which, in Japan were minor compared to the rest of the world, the company was able to maintain an economic balance and satisfactory revenue for the year.

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 represent the most characteristic product offered by Esthelogue, and it is able to satisfy every requirement of the clientele with a range that includes the very powerful Monolith handpieces of the latest generation.

For the non-invasive body contouring applications Esthelogue offers three innovative products: the new release Icoone system hundreds of which have been sold in recent years; the B-Star system which uses innovative technologies and methods, and the latest arrival, B-Strong which uses magnetic fields to stimulate and firm up the muscles. These systems are characterized by a level of quality and safety which is unequalled in the aesthetics sector, guaranteed by the manufacturers which are European companies operating with the standards of their main sector, the medical one.

The position at the highest level of product quality is completed by another decisive factor for success: the services of training, assistance and client support which transfers the value and knowledge to the users of our technologies.

The spread of the pandemic had a severe impact on the markets of Esthelogue, with the aesthetic centers forced to close for lengthy periods during the lockdown and again in the red zones during the following waves spreading the pandemic. Although they were working with a reduced staff because of the inevitable use of the CIG, Esthelogue was able to

develop a wide network of contacts on the web with the clientele and maintain interest in the products thus facilitating a good sales volume when activities resumed. During the periods in which the clients were able to operate the sales volume reached acceptable levels but the annual result had been compromised by the long periods of closure and great uncertainty which the pandemic had caused in this sector which prevented our clients from maintaining the trust and confidence needed to make new investments in technology. Considering the general conditions, the loss in sales volume and the net income for the year can be interpreted with a spirit of optimism thanks to the capacity that the company had to remain in touch with their clients and prepare the ground for an immediate recovery which would seem to be coming in early 2021.

Pharmonia S.r.l. now conducts a sporadic activity in the marketing of some products on specific international markets.

Galli Giovanni & C. Srl is a workshop specialized in high precision mechanical processing was a qualified supplier of Quanta Systems which became part of the Group in 2019 after the acquisition by Quanta of a majority interest of 70%. Thanks to the characteristics of the CNC machinery and the professional capacity and specialization of the staff, it will contribute to the maintenance of the high quality standards and production flexibility of the mechanical parts which constitute a very significant category of purchases also from the point of view of the amount of production costs. In 2020 they were able to maintain the level of sales volume of the preceding year and reach an economic balance.

Other companies, industrial sector

Cutlite do Brasil Ltda has their offices in Blumenau in the state of Santa Catarina and produces laser systems for industrial applications and attends to the distribution of laser systems produced by the Italian companies of the Group. The company was severely impacted by the economic crisis in Brazil in recent years but in 2019 had begun to produce a significant volume of business by taking advantage of the of the opportunities which in Brazil were also opened by the technology for laser cutting with increasingly powerful optical fibers.

By acting mainly as a distributor for Cutlite Penta Srl they were able to acquire a growing role on the market of sheet metal cutting systems in Brazil where they had the same competitive advantages which are at the base of the success of Cutlite Penta, combined with the advantage of a local presence. The outlook for a successful 2020 was frustrated by the spread of the Covid pandemic which arrived later than in Italy but very seriously affected the market and the economy and the rapid devaluation of the Brazilian Real made the sales of imports with prices in Euros less attractive. In the first quarter it was not possible to deliver a single system but in the second half of the year the sales began to recover and the company was able to register an excellent sales volume and come close to breaking even. We have more confidence in our technological proposals than in the state of the Brazilian economy and consequently believe that we can achieve a good sales volume in 2021.

BRCT Inc. acts as a financial subholding.

Research and Development activities

During 2020, despite all of the difficulties caused by the Covid pandemic emergency, we continued conducting research and development activities according to the strategy which, in times of crisis, is even more valid, pursuing continual innovation intended to open new applications for laser and other energy sources both in the medical and industrial sectors (which includes the applications for the conservation of our cultural heritage) and to release on to 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. Moreover, for the laser systems that are dedicated both to new and consolidated applications we continue to develop technologies to improve the performance, efficiency and sustainability.

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. In China the expenses for research and development have fiscal advantages due to the increased deductibility.

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. We conduct an intense activity in order to obtain patents and protect the intellectual property of our inventions; this process becomes increasingly difficult over the years because of the policies of protectionism promoted by the most technologically advanced nations.

Systems and applications for lasers in medicine

The Parent Company, **El.En.**, in collaboration with **DEKA** and more recently with **Quanta System** and **Elesta**, 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, urology and vulnology.

In the field of urinary tract infections (UTI) we have conducted preliminary tests to evaluate the feasibility and effectiveness of our CO₂ laser equipment on the basis of studies on the specific embryonic development of the bladder trigone where there are active bacterial colonies which can be decimated by a laser.

In the month of November 2020 DEKA instituted its own Medical Advisory Board for women's genital health, the applicative segment of the CO₂ laser system Mona Lisa Touch, one of the main products of the Group to which a vast amount of scientific and experimental literature is dedicated.

The Advisory Board is composed of experts of International fame in their respective fields of women's health and represent all of the continents. Their role on the board is aimed at the definition of a global plan for the clinical development of new protocols and new clinical guidelines, the creation of techniques and methods based on new and energy based systems for women's health.

For a new laser that emits ultra-short pulses in red and tissues (epidermis and dermis) studies on the characterization and the dosage were conducted by the Photo Bio Lab of El.En. We completed the development of the laser equipment for dermatology called "RED TOUCH" and we presented the request for an international patent (PCT) for the device and the method (in the USA). Very recently we received the authorization of patentability and we are now extending it to the countries belonging to the international convention and to the most important countries which have not adhered to the convention.

We are now able to confirm the exceptional results obtained in the treatment of chronic wounds and lesions at several different centers where they have used CO₂ laser equipment with special technical performance, which is increasingly specialized with respect to those used for the Mona Lisa Touch treatments.

We have continued to collect clinical data to confirm the methods used in the Luxea equipment, whose performance comports a number of uses for various applications in aesthetic medicine; in this equipment the main laser sources for various applications have been added. The level of integration and management met with the approval of the first experimenters and clients who bought it.

We have continued to gather objective data for the clinical evaluation of the results to enrich the specific scientific literature related to our innovative system for body shaping, Onda Coolwaves. We have designed additional handpieces to complete the therapeutic potential of the equipment and they will be released for sale in 2021. 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.

In the PHOTOBIO LAB at El.En. which was created to contribute to the research conducted at the various companies belonging to the Group, we have continued research on applications of laser energy in urology.

For the purpose of making the process of clinical development (an integral part of the development of new products, with relative testing, pre-launching and opportune physical and clinical debugging) more effective and in order to develop material to improve support of the marketing, white paper and scientific articles, as well as the capitalization of laboratory experiments at El.En we have created a commission called **Clinical Research and Practice (CRP)**.

We have completed studies which were intended to confirm the anti-inflammatory action, the acceleration of the healing of surgical wounds, the analgesic effects as well as the improvement in the function of the limbs effected by lasers used in physical therapy.

In the segment of Body Contouring we concluded the development of systems with matrix technology using superluminescent LEDs combined with electro-stimulation for the reduction of adipose layers and systems for muscular stimulation for the reduction of localized adipose based on electric (PhysiQ) or magnetic (Schwarzzy) stimulation. These latter types of equipment for stimulation by means of magnetic fields of particular muscular masses in the body are planned for use also in the field of rehabilitation. In the sector of hair removal we have launched two high-range products designed on the basis of a new controlling platform based on embedded PC which are used for managing the Tele-assistance (Elite-IQ e Again).

In the field of gynecology we have been working on the development of systems for the treatment of incontinence caused by stress and, in particular we have completed a medical system called "Dr Arnold" for the stimulation of the pelvic floor by means of high intensity magnetic impulses.

For surgical applications we have continued the research and development activities related to CO₂ laser technology. We have created new accessories and systems including *Multipulse Duo* which is marketed by the subsidiary Asclepion, and is a system which makes it possible to perform a vast range of surgical operations thanks to the double function of the arm-fiber. El.En. S.p.A. this year obtained medical certification for the sterile single-use wave guides produced by Quanta System and soon the re-processable multi-use fibers will also be available.

Among the new products that were released this year, we should mention the *Therma Eye*, a solution based a on pulsed light for the treatment of the dry eye pathology.

The SmartPico was related to the development of a new laser system in the medical segment which was mainly intended for the application of removal of tattoos and benign pigmented lesions operating at a pico-second regime.

The SVATT project saw El.En. involved in a research partnership called ATS (*Associazione Temporanea di Scopo*). As part of the SVATT project they will be conducting research and development projects for the creation of a new technology which is solid enough and transmittable to the reality of hospitals for making products that can be used in the field of immunotherapy and immunotherapy re-enforced by nano-particles for the treatment of the melanoma pathology.

At **Quanta System** they have continued work on the development of laser instruments designed for the market of aesthetic medicine and the sector of medical therapies in urology, also using new technologies for the manufacture of sources with emission characteristics capable of further improving the performance of the systems already available on the market. They have also continued experiments on innovative applications on the field of gastroenterology (GI), based on the particular characteristics of the laser emissions of the Opera Evo system.

In the urology sector they have completed the development of a 150W laser system with a holmium source and emission mode with double impulse (Virtual Basket – Bubble Blast), for use in lithotripsy and prostatic enucleation. Clinical experimentation conducted with this equipment represented the basis for some scientific publications.

Also for urological applications, they developed the TFL 60W system, based on the technology of fiber sources and Thulium wave lengths, which started production at the end of 2020 and is the subject of clinical studies that are still running, in particular a comparative study with pre-existing technologies to evaluate the particulate obtained in urological lithotripsy. Moreover we are now conducting an evaluation of the action of the tissue by means of an in vitro study in a collaboration with other centers whose main support is the San Raffaele group.

We are also completing the development of a new laser system for urology using a technology which is able to emit a greater peak power with increased efficiency in the pulverization of hard stones.

Among the other products whose development has been conducted by Quanta System this year, we should note the continuation of the activity for the development and innovation in dermatology in the segment dedicated to the removal of tattoos, skin lesions and dermatological lesions in general.

At Quanta they also developed a solid state laser handpiece (OPO) for generating a wave length in red (694 nm), using an energy delivery system with a patented pump. The technology is that of parametric oscillator positioned on the handpiece and pumped by the YAG at 532 nm. Another development involved a handpiece with a variable focal length with diffractive homogenization optics to be installed on the Q-switch line and PICO for improve homogeneity of the laser beam. In order to guarantee a better uniformity in the geometric distribution of the air flow and a greater speed in the flow, with more comfort for the patient during the dermatological and aesthetic applications like hair removal, vascular lesions, and skin rejuvenation, we have developed a new handpiece called Skin Cryo with computerized fluid dynamics and thermographic analysis for air cooling of the skin.

At **Asclepion** they have continued the development activities that are part of a strategy of updating of all the systems in the catalog which includes a new philosophy of user interface, new electronics and new design. They have developed an automatic recognition system for blood vessels for vascular treatments using a camera, and they are now conducting technical and clinical experimentation.

At **Elesta** they are in the final phases of developing methods and essential accessories for minimally invasive surgery using lasers in urology and endocrinology. They have completed the experimental verification of innovative systems for the forming of the laser beam emitted by optical fibers. They have also applied for a new International patent.

Our associated company **Accure Acne Inc.** has obtained the EU brand for their Accure Laser™ system for the treatment of moderate cases of acne vulgaris. Accure Laser is the first laser platform in the world developed to selectively strike the sebaceous glands which are the source of the production of sebum and the key for an effective and long-lasting treatment of acne. The first pieces of equipment of this type will be released on the market in Europe by the end of the year.

Asa has continued to conduct clinical and trial experiments related to the therapeutic effectiveness of their equipment for physical therapy using their own research facility at ASA campus which characterizes the high scientific content of the body of documents for clinical reference for the Asa instruments.

All of the companies of the Group working in the medical sector in recent months have had to deal with the complex and onerous task of adapting the technical and clinical documentation required in order to obtain the quality certification for laser systems used in medicine (EU brand). In fact, as part of the series of modifications in the regulations imposed by the new “MDR” directive the documentary requirements and the experimental evidence necessary to prove the safety and effectiveness of medical devices which is already very extensive are now even more stringent.

Laser systems and applications for industry

At **El.En.** they have continued experimentation with the range of mid-powered sealed CO₂ sources and the applicative experiments on the first examples of the Blade RF1222 series of sources which, with 1200 watts is, as of now, the most powerful in the range. They continued the development of the sources aimed at increasing the average power of emission up to 1,5 kW, a threshold which makes it possible to use RF sources in some specific fields of application which otherwise would be excluded.

We have proceeded with the development of the emission characteristics of the Blade RF888 source for marking textiles by creating a reliable validation protocol for the unfiltered optical resonator, before the mounting of the external optical path and before the installation of the external body.

The activity related to the marking systems developed in several different directions aimed at the evolution of the product and of the electronic controls and relative software. In particular we have focused on the development of the controls and testing equipment of the galvanometric groups of the relative testing procedures. This activity which is now almost entirely conducted within the area of the industrial group, makes it possible to maintain a strict control of the production and to intervene promptly if the characteristics of the product are not in conformity or if the components are misshapen. The controlling software was the subject of an important development project aimed at stabilizing the performance and implementing the controlling algorithms capable of guaranteeing them in every phase of operation.

At **Cutlite Penta** they have continued experimentation on a new line of machines and continued the development of cutting heads for laser fibers by improving the performance and the capacity to manage very high powers, 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 fluiddynamic and sensoristic developments of our EVO2 cutting heads made it possible to introduce levels of laser power over 15kw into the range of products. For 2020 they have planned the first system which includes a 30kW fiber source. They have also expended a great deal of effort on the development of innovative systems for cutting pipes and flat cutting which show great potential for sales.

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.

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.

On the machines of **Ot-las** they have continued the experiments on the use of a new CO₂ RF1222 laser source by El.En. and on the new scanning optics which have been specifically developed for it. 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:

<i>Thousands of Euros</i>	31/12/2020	31/12/2019
Staff costs and general expenses	11.067	11.145
Equipment	362	310
Costs for testing and prototypes	3.957	2.783
Consultancy fees	564	575
Other services	119	201
Total	16.069	15.014

The chart demonstrates that, even in this year which has seen the stagnation of so many activities, the Group has increased its commitment to research and development.

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 amounted 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. This contract expired in April 2020.

Credit risks

As far as the commercial transactions are concerned, the Group operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance. There are no significant concentrations of credit risks within the Group. The devaluation provision which is accrued at the end of the year represents about 7% of the total accounts receivable from third parties. For an analysis of the overdue receivables from third parties, please consult the relative paragraph in the consolidated financial statement.

As far as guarantees granted to third parties are concerned:

With the conclusion of the acquisition of the minority share of Penta Laser Wenzhou by Ot-las S.r.l., El.En. S.p.A. granted a guarantee in favor of the selling partner for the payment described in the earn-out clause for 40 million Renminbi (about 5 million Euros) in the case that they proceeded with an IPO of Penta Wenzhou within 5 years from the acquisition.

In the month of July 2020 Esthelogue Srl obtained a guarantee from Mediocredito Centrale on the financing of 1,5 million Euros issued by Intesa San Paolo. The amount of the guarantee was 1,35 million Euros.

In the month of July 2020 Cutlite Penta Srl obtained a guarantee from Mediocredito Centrale on the financing of 5 million Euros issued by Intesa San Paolo. The amount guaranteed was 4,5 million Euros.

The Chinese subsidiary Penta-Laser Equipment (Wenzhou) in previous years obtained financing for the construction of a new factory and the necessary equipment by taking out a mortgage for a total value of 41 million RMB. For the same reason, in 2020 mortgages for 100 million RMB were added.

Also the new Chinese subsidiary Penta Laser Technology (Shangdong) in 2019 obtained financing for the construction and equipping of a new factory by taking out mortgages for an overall amount of about 6,8 million RMB. During 2020 they took out other mortgages reaching a total amount of 20 million RMB.

The subsidiary ASA S.r.l. underwrote a loan contract to be used for the construction of the new factory by taking out a mortgage for a total amount of 4,8 million Euros. Also in 2018 ASA underwrote a bank guarantee issued by CREDEM to the supplier ENI Spa for 8.000 Euros with expiration date on December 31st 2021, a guarantee for the issuing of thirteen "MULTICARD ENI" cards after underwriting a contract for the supplying 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. This policy was not renewed when it expired. In the month of June 2020 ASA obtained a guarantee from Mediocredito Centrale on the financing of 3 million Euros obtained from Intesa San Paolo. The amount guaranteed was 2,7 million Euros.

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 and on September 14th 2020 the period for picking up the second set of options started. As of December 31st 2020, 314.750 of the 800.000 available options had been picked up and consequently underwritten shares issued for the same amount.

Therefore, on December 31st 2020 the capital stock that had been underwritten and paid out amounted to 2.549.588,86 Euros subdivided into 19.612.222 ordinary shares having a value of 0,13 Euros each.

It should also be noted that the market capitalization of the Company is currently greater with respect to the amounts implicit in the consolidated shareholders' equity as of December 31st 2020.

TREASURY STOCK

The shareholders' meeting of El.En. S.p.A. on January 17th 2019 authorized the Board of Directors to purchase treasury stock within 18 months of the vote as fully detailed in the section of the management report for the year ending on December 31st 2019.

As of the date of this report, El.En. S.p.A. does not own any treasury stock and the above mentioned authorization expired definitively in July 2020.

STAFF

As already mentioned, the number of employees in the Group rose from 1.498 on December 31st 2019 to 1.626 on December 31st 2020. The chart below shows the number of employees in each company:

Company	2020 average	31-dec-20	31-dec-19	Var.	Var. %
El.En. S.p.A.	259	269	249	20	8,03%
Ot-las Srl	14	14	13	1	7,69%
Cutlite Penta Srl	79	86	72	14	19,44%
Deka M.E.L.A. Srl	29	32	26	6	23,08%
Esthelogue Srl	19	19	19	0	0,00%
Deka Sarl	13	13	14	-1	-7,14%
Lasit SpA	67	66	67	-1	-1,49%
Quanta System SpA	178	183	172	11	6,40%
Galli Giovanni & C. Srl	6	6	7	-1	-14,29%
Asclepion Laser T. GmbH	149	148	151	-3	-1,99%
Asa Srl	54	53	55	-2	-3,64%
BRCT Inc.	0	0	0	0	0,00%
With Us Co Ltd	42	42	42	0	0,00%
Penta-Chutian Laser (Wuhan) Co., Ltd	116	123	109	14	12,84%
Cutlite do Brasil Ltda	18	15	21	-6	-28,57%
Pharmonia S.r.l.	0	0	0	0	0,00%
Deka Medical Inc	0	0	0	0	0,00%
Deka Japan Ltd	0	0	0	0	0,00%
Penta-Laser Equipment Wenzhou Co. Ltd	426	432	421	11	2,61%
Penta Laser Technology (Shangdong) Co., Ltd.	92	125	60	65	108,33%
Merit Due S.r.l.	0	0	0	0	0,00%
Total	1.562	1.626	1.498	128	8,54%

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 governance (“*Relazione sul governo societario e gli assetti proprietari*”) which has been deposited with the authorities and published in a separate section of this document. This report on corporate governance can also be consulted on internet on the site of the Group: www.elengroup.com – in the section “Investor relations/governance/corporate documents”.

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

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

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

CONSOLIDATED NON-FINANCIAL STATEMENT (NFS)

In compliance with the laws and regulations,, El.En. S.p.A. has drawn up a consolidated Non-Financial Statement for 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 2020 can also be consulted on the site www.elengroup.com - "Sustainability/reports and financial statements" section.

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

The Company already has their own system for the treatment and protection of personal data since the Italian Privacy Code (D. Lgs. 196/2003) became effective and has adhered to the indications of EU Regulation 679/2016 by appointing an external person to be responsible for the protection of personal data (Data Protection Officer) in compliance with art. 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 2019, 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.

This year, as part of the re-organization of the cutting sector which began in 2017 and for which the operation described above was one of the components, Ot-las Srl sold to Penta Laser Wenzhou all of its equity in Cutlite Penta Srl, the company with headquarters in Prato.

Since the operation involved transactions among related parties, the Commission for risks and controls which is the competent authority in this field, was called to examine and approve the conditions in the light of the expertise performed by Prof. Giovanni Liberatore concerning the appropriateness of the prices which had been agreed upon, and proceeded with the identification of the various subjects which in some way were connected with the related parties and the companies involved in the transaction.

First the commission and then the Board of Directors which had voted in favor of the operation considering that it was a strategic transaction among subsidiary companies, received the favorable opinion of the Board of Auditors and concluded that it was an operation that was excluded from the combined provisions of art. 14, sub-section 2, Consob Regulations 17221/2010 and art. 9.2 letter d) of the regulations for Disciplining the Operations with Related Parties adopted by the Company. In fact, although it involved operations between subsidiary companies, in the transactions conducted by the companies participating in the transaction, Ot-las and Penta Laser Wenzhou, they did not find any significant interests of other related parties of the Company other than the fact that they had some administrators in

common. In this regard it should be noted that the executive board members of El.En., Clementi, Cangioli and Bazzocchi are also board members of the subsidiaries involved as follows: Clementi is a non-executive board member of Penta Laser Wenzhou; Cangioli is a non-executive board member of Ot-las, Cutlite Penta and Penta Laser Wenzhou; Bazzocchi is executive president of Ot-las and Cutlite Penta. For the purposes of significant interests in other related parties we considered irrelevant the circumstance that Delio Patrizio Mugnaioni, board member of Cutlite Penta and non-executive board member of Penta Laser Wenzhou is also a partner of Ot-las for the amount of 1,11%. 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 2020 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., Penta Laser Technology (Shangdong) 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 for the subsidiary Ot-las srl, and 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

In the month of January Cutlite Penta completed the formalities for the acquisition of an industrial building adjacent to their Headquarters with an investment of about 5 million Euros through leasing, thus amplifying the area available for their rapid expansion in the most logistically ideal manner.

COVID-19 Emergency

The Group was severely impacted by the Covid pandemic and by the restrictions imposed in an attempt to contain the spread of the pandemic. When the pandemic first appeared in early January, our factories in Wuhan Wenzhou and Lin yi were forced to close and all activity was interrupted until the end of March for Wenzhou and Lin Yi while at Wuhan production was resumed only in April. Once the block in production had been overcome, the demand for products required several months before it returned to the levels expected for 2020 which, in fact, it reached in the last quarter of the year.

In Italy also the measures taken by the government in March 2020 and later, effectively blocked sales in all of Italy while, despite the adverse conditions, where possible and allowed and with the greatest consideration for the safety and health of the workers, production continued in order to fill the orders which continued to arrive from abroad.

At the end of March we became aware of a sudden and anomalous change in the demand, with requests for the suspension of delivery from most of the Italian companies which in April forced us to slow down or stop the production operations in many of our factories in Italy and later in those in Germany and Brazil. Later on, the demand both in Italy and abroad, slowly recovered although it was influenced by the local restrictions and those regarding certain sectors like the forced closure of aesthetic centers. The market was even more favorable than in 2019 in the segment of sheet metal cutting and for aesthetic devices in Japan, while for the other types of applications and geographical areas at the end of the year we registered a drop in sales volumes which varied from 10% to 25%.

Besides the restrictions imposed like the closure of the factories, the impossibility to travel and participate in trade fairs and symposiums, the pandemic had a negative effect on demand because of the general climate of uncertainty in which it casts all of the economic activities. The Group was able to limit the negative impact of the pandemic and achieve the results described in this report only due to an intense work involving contacting the clients on the web and developing new innovations made available to the market.

CURRENT OUTLOOK

The predictions for 2021 are related to the recovery of the growth trend that the pandemic had slowed down but not interrupted. The company, equipped with powerful operating structures which have been consolidated over time in an organization aimed at mid-term sustainability for the success of the Group, the Company for 2021 aims at a growth of over 10% with an improvement in the EBIT and, hopefully, in the operating profitability.

DESTINATION OF NET INCOME

To our Shareholders,

While submitting the separate financial statement of El.En. S.p.A. as of December 31st 2020 to your approval, we propose:

- to assign all of the net income for 2020 to an extraordinary reserve;
- to distribute to the shares in circulation on the date that Coupon 5 comes due on May 24th 2021 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 2017 accrued in the extraordinary reserve for an amount which is currently 7.858,528,80, Euros while recognizing the fact that this amount may be increased by other sums which were necessary for the distribution of the dividend 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 25th 2021);
- 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 15th 2021

Financial year 2020

Internet site: www.elengroup.com

GLOSSARY

Assembly: the shareholders’ meeting of El.En S.p.A

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 2020 which is referred to in the report.

Group: the industrial Group with El.En. as its Parent Company.

“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 in force up to June 30th 2021

“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 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 art., 2-ter of the Consob regulations, El.En. Spa, as of December 31st 2020 continues to be qualified as PMI as per art. 1, sub-section 1, lett. w-quater, 1) TUF.

The value of the capitalization of El.En. Spa in the past three years for which we intend the simple average of the daily capitalization calculated with reference to the official price registered during the year is as follows:

YEAR	DAYS	AVERAGE
2018	252	492.795.409
2019	252	399.546.703
2020	255	452.497.800

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 December 30th 2020.

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 Assembly held on April 27th 2018 and, after the vote of approval of the Board on the same date, is made up of executive and non-executive members organized according to the resolution taken on May 15th 2018, 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 and art. 3 of the Code.

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 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* (formerly *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; the subsidiary companies 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. With reference to the present regulations, even after the modifications introduced by art. 147-ter TUF as modified by art. 1, sub-section 302 of L. n. 160 dated December 27th 2019 in the text republished in G.U. n. 13 on January 17th 2020 they did not require any modifications in the relative part

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. 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. With reference to the present regulations, even after the modifications introduced by art. 147-ter TUF as modified by art. 1, sub-section 302 of L. n. 160 dated December 27th 2019 in the text republished in G.U. n. 13 on January 17th 2020 they did not require any modifications in the relative part.

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. The Assembly which was called to approve the financial statement for 2019 conferred the appointment for 2021-2029 to ERNST & YOUNG s.p.a. in compliance with art. 17 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 2019, the Ethics Code was again modified and the black-out periods as per Reg. EU, art. 19 was extended also to the 30 days preceding the approval of the quarterly reports.

2.0 INFORMATION ON OWNERSHIP (ex art. 123-bis, sub-section 1, TUF) as of December 31st 2020

a) Structure of capital stock (ex art. 123-bis, sub-section 1, letter a), TUF)

The extraordinary Assembly 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 and on September 14th 2020 that for picking up the second set. On the 31st of December 2020. 314.750 options out of the 800.000 available for the entire period of validity of the Plan were picked up and consequently underwritten and the same number of shares was issued. Therefore, on December 31st 2020 the capital stock that had been underwritten and paid out amounted to 2.549.588,86 Euros and is divided into 19.612.222 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 2020 the shareholders listed on the attached Table 1 have significant ownership (over 3%)¹ 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.

¹ Due to the COVID-19 epidemic, they introduced a re-enforced transparency policy and the limit was reduced by the CONSOB to 3% starting from April 10th 2020 until April 13th 2021

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 Assembly 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 Assembly 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.

The authorization to purchase treasury stock was granted on January 17th 2019:

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 version of the Code (July 2018) on the basis of which this report is formulated is accessible to the public at the web site <https://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/corporategovernance.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 Assembly 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. Lgs. 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 of an 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 Assembly 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 Assembly 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 is 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 as 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 S.p.A as a non-executive vicepresident, of Assicurazioni Generali, of Banca Intesa and of Alleanza Assicurazioni. 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 July 23rd, 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	<ul style="list-style-type: none"> • None. 	0
Fabia Romagnoli	<ul style="list-style-type: none"> • Managing director of Mariplast Spa • Sole director of Goldplast s.r.l. • Administrator of Interporto della Toscana centrale s.p.a. 	0
Alberto Pecci	<ul style="list-style-type: none"> • 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. 	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 organization* 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 are 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 know-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 two-fifths 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; Moreover, the presence of different genders on the Board increases the perception of the different needs of the genders of which the entire company organization is composed and facilitates the adoption of measures which are suited to pervasively promote the equality of treatment and opportunity in the entire 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-quinquies 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 if, according to the Code:

- 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 Composition and Diversity Policy 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 modified the Composition and Diversity Policy by resolution of the Assembly on March 5th 2021 in view of the publication on the date of the orientation of the Board for purposes of the new election of the administrative body by the Assembly 2021. This modification was made 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 their orientation 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.

On the date of the Report was drawn up, with the resolution taken on March 5th 2021, also for the purpose of living information to the shareholders' called to appoint the new Board of Directors in the assembly held for the approval of the financial statement for December 31st 2020, the Board established that their members cannot hold the office of board member or of auditor in more than three companies that are quoted on the stock market.

As far as the Board of Statutory Auditors is concerned, after the approval of the Assembly, 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 2020 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 analysis of the Corporate Governance Code for 2020.

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 2020 the Board of Directors met eight (8) times on the following dates:

1. March 13th
2. April 24th
3. May 15th
4. June 4th
5. July 23rd
6. September 10th
7. November 13th
8. November 30th

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 2,17 hours (1.C.1, letter I, n 2)

During the financial year 2021, the Board of Directors has already met on the following dates:

1. March 5th
2. March 15th

and, on November 13th 2020 established the following calendar of meetings in compliance with the company regulations (1.C.1.letter i):

3. May 14th - Quarterly report as of March 31st 2021;
4. September 10th – Half-yearly report
5. November 12th – Quarterly report as of September 30th 2021.

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, until 2019 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 2019 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.

The relevant documentation is made available to each Board Member and Auditor on the same day as the meeting has been called, where possible, and, in any case, within the third day before that set for the meeting, with the exception of urgent cases for which the documentation is made available as soon as possible.

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).

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 13th 2020 (related to the activities of the second half of 2019: 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 developments and outcome of the rotation of the job consultant with reference also to the companies of the Group; the activities conducted as part of the L. 262/05), of September 10th 2020 (referred to the first half of 2020; updating of the matrices of the areas subject to control and the control activities that have been conducted and/or scheduled; follow up of the analysis of the methods for managing the area of supplies and scheduling of purchase with reference also to the impact of the Covid-19 pandemic: 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 2020 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 area of finance.

The companies that have been selected as significant for this financial year are: Deka Mela S.r.l, Cutlite Penta S.r.l.; Quanta System s.p.s., Asclepion GmbH, With Us Co. Ltd., Penta Chutian Laser Wuhan Co Ltd., and Penta Laser Wenzhou Co Ltd. The Esthelogue S.r.l. company is selected as relevant only for conducting, specific tests on single areas of the financial statement.

The results of the activities conducted this year and of the tests which were conducted have been summarized, as usual, in the written reports and were shown and illustrated to the Committee for controls and risks and to the Board of statutory auditors acting as a Committee for internal controls in periodic meetings.

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

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

Art. 20 of the company, moreover, although it is the subject of specific Consob Regulations and El.En. statutes, grants the faculty to the Board to examine and approve in advance all the operations of El.En. and of its 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 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. Any other evaluations of the frequency of the self-evaluations will be examined in the light of the Corporate Governance Code for 2020.

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 and the Composition and Diversity Policy. 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 July 23rd. 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 July 22nd, the assessment had a positive outcome.

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 Assembly, 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 July 22nd, 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 connection or 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 meeting of July 23rd the Board, 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, in March and in December. They discussed the analysis of the Corporate Governance Code 2020 and the contents of a company operation which, however, did not take place.

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 treatment 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, 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) in 2019 the Company 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, subsection 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.

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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 July 22nd).

All of the members were present.

The meeting held on July 22nd lasted 90 minutes.

The work that was conducted during the meeting was coordinated by the president.

The Board of Auditors was present with two members.

In 2021 the Nominations Committee met on February 26th and planned to meet after the election of the new Board and for the activities necessary for adapting the Corporate Governance Code for 2020.

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 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 held on July 23rd 2020, to analyze the recommendations contained in the Letter of the President for Corporate Governance of Borsa Italiana and proceeded to support the Board in the implementation of the relative activities.

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 five times: on March 13th, May 15th, May 29th, September 10th and December 22nd.

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 2021 the committee has met once, on March 10th.

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 phase of discussion and resolution of 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 managers 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 of 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 an 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 2019 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 2020. 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 2021/ASSEMBLEA ORDINARIA 27 APRILE 2021 – 4 MAGGIO 2021*

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 2020 for the inspection and decision of the Assembly during the meeting for the approval of the financials for 2019. 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 generally 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- to long-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 and the second set on September 14th 2020.
- 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 June 4th 2020, 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 June 20th 2020 according to a proposal by the Remuneration Committee..

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.

On December 22nd the Remuneration Committee advanced a proposal for the incentive remuneration of the General Director which the Board later applied starting on January 1st 2021. The details are contained in the Remuneration Report for 2021.

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 Assembly 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 Assembly 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.).

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 13th, July 20th, September 10th and November 13th.

The average duration of the meetings was one hour. 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 2021 the Committee for Controls and Risks has already met once, on February 12th.

At this time at least one meeting is scheduled for the month of September, as well as those that the Commission believes necessary as part of the activities for the adoption of the Corporate Governance Code for 2020.

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 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 .2021 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 developments and outcome of the rotation of the labor consultant with reference also to the companies of the Group; follow up of the analysis of the methods for managing the area of procurement and scheduling of purchases with reference also to the impact of the COVID-19 epidemic.
- c) Along with the Nominations Committee, examination and assessment of the recommendations contained in the Letter of the President for Corporate Governance of the Italian Stock Market (*Borsa Italiana*) proceeding to support the Board in the implementation of the relative activities;.
- d) Support of the Board in relation to the analysis of the Corporate Governance Code for 2020 and the scheduling of activities for 2020-2021;
- e) Support of the Board for the evaluation of operations between subsidiaries both in terms of the operations and in compliance with the Consob Regulations 17221/2010.
- f) Up-dating of the sustainability plan 2018-2022: report 2019 and scheduling 2020.

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 make direct use of external consultants since they believed that the reports drawn up by external consultants before the presentation of the operations of the subsidiaries involved was sufficient.

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 13th of November the Board approved the work plan for 2021 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 13th, May 15th, September 10th , and November 13th, 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 brought 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 labor consultant also with reference to the companies of the Group; follow up of the analysis of the methods for the management of the area of procurement and scheduling of purchases with reference to the impact of the COVID-19 epidemic and the activities conducted in compliance with law 262/05.

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 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 appointed a 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* C. C.).

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 the postponement of the meeting and of the resolution in order to acquire further information.

During 2021 this regulation will be analyzed for the purpose of evaluating the modifications which should be made on the basis of the Consob Resolution n. 21624 of December 10th 2020.

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 be 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 in conformity 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 Manfredi 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 2020 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 14 th 1966
Rita Pelagotti	Acting auditor	Firenze, Via Francesco Corteccia 28/2	Firenze, December 6 th 1956
Daniela Moroni	Supplementary auditor	Firenze, Borgo Pinti, 80	Monteverdi Marittimo (Pisa) September 16 th 1952
Gino Manfredi	Supplementary auditor	Firenze, Via A. La Marmorata, 29	Borgo San Lorenzo (FI), April 26 th 1963

The average duration of the meetings of the Board of Auditors was 117 minutes.

9 (nine) meetings were held during the year.

There are 5 (five) meetings planned for this year (2021) of which two have already been held: February 1st and March 8th.

The participation in the meetings was 100%.

The Company always places at the disposal of the Board of Statutory Auditors the staff and resources that the Board feels necessary in order to 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 internal 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 2020 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.

Diversity policies

Besides what has already been said in general about the Policy of Composition and Diversity in paragraph 4.2, it should be noted that the formalizing of the policies related to the composition of the controlling bodies is strongly conditioned by the detailed regulations which govern this subject.

Therefore, in the Policy of Composition and Diversity adopted by El.En., the Company has simply repeated the essential elements of these regulations.

As far as the quantitative composition is concerned, in conformity with law and with Art. 25 of the By-laws, the Board of Statutory Auditors is composed of five members: three acting auditors, one of which is the president, and two alternate auditors.

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

In the case of El.En., since the Board 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 dismissal of the candidate or the elected, auditors 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).

The Board of Statutory Auditors:

- verified the independence of its members on the first occasion after their appointment (Applicative criteria 8.C.1) and evaluated their requisites for independence as art. 148, comma 3, TUF (*Art. 144- novies*, sub-section 1-*bis*, *Regolamento Emittenti*; 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 July 23rd 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 of the Board of Statutory Auditors is concerned, it was approved by the Assembly 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.4).

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 Assembly which met on May 15th 2012.

During the year, moreover, the Board of Statutory Auditors, as part of the process started by the Company in 2019 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 assembly

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 approved, 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 2019 financials reported in relation to the activities conducted and scheduled. Moreover during the Assembly held this 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 Assembly which will be held for the approval of the financial statements for 2020 and to elect the new Board of Directors, 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 n. 18, which was changed by the

modifications contained in L. April 24th 2020, n. 27 and extended by D.L. December 31st 2020, n. 183, converted with L. February 26th 2021, n. 21 as well as the decrees and directives issued by the competent authorities (national or regional) and in force on the date that the Assembly is held, 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 20th 2019 FROM THE PRESIDENT OF THE CORPORATE GOVERNANCE COMMITTEE

The recommendations contained in the letter received from the President of the Corporate Governance Committee 2019 (“Letter”) were brought to the attention of the Board of Directors and Board of Statutory Auditors and were taken into consideration by the committees in a unified single meeting which was held on July 22nd 2020 and then by the Board on July 23rd.

The document which was sent to the companies along with the usual recommendations for overcoming some critical obstacles that still exist in the application of the Code, suggested some evolutionary guide lines for the governance, mainly to assure the centrality of a sustainable vision of the success of the companies when organizing their governance and setting their strategies. The letter also anticipated some of the contents which later appeared in the Corporate Governance Code for 2020 and therefore some of the areas that are commented on had already been scheduled for verification and, if needed, modification during this year and the next.

In particular with reference to the single recommendations:

- a) in reference to recommendation 1 (integration of sustainability in the definition of the strategies and the remuneration policy): as far as the remuneration is concerned, during 2019 the Company had already applied objectives that were related to the sustainability of the Company as a parameter for measuring the performance of the executives. In relation to an integrated strategic industrial sustainability plan, considerations on the intrinsic relationship which exists, inevitably, between the two natures of the strategic plan in light of sustainability interpreted as the generation of value over a long period of time were already discussed during the meetings of the Controls and Risks Commission (which also acts as the Sustainability Commission, as described in Paragraph 11 of the Report) and in the Board meetings. This issue is in a continuous state of evolution and even formal integration in the strategy of the Group.
- b) with reference to recommendation 2 (adequate management of the flow of information): we have now optimized the system for transmitting the documents required for the Board meetings as well as the others in order to guarantee rapidity in the delivery of information with the greatest privacy possible by using a virtual room that is more evolved than the preceding system of transmission of the documents and which is, to the greatest degree made feasible by the latest technology, opportunely segregated and with controlled access. Moreover, the Board proceeded with the control both of the methods and the times of the information flow in the regulations they approved definitively in the meeting held on November 13th and which will be applied starting on January 1st, 2021.
- c) with reference to recommendation 3 (application of criteria of independence and monitoring of the controlling bodies, the company conducts an annual verification of the independence of its administrators who are qualified as such when proposed as candidates. This evaluation, as shown in the minutes of the meetings of the Board of Auditors, is based on the absence of economic relations of any kind or nature and the absence of family ties and/or affinity with members of the Board or important stockholders. The residual non-application of the criteria of a duration of more than nine years in office which the Company, for the reasons repeatedly presented by the company during the elections and the Report on Corporate Governance, is not considered of any relevance considering the recognized ethical qualities and professional capacity as well as the continued independence of judgment and evaluation of the independent administrator in relation to whom this criteria is not applicable.
- d) with reference to recommendation 4 (adequate verification of the remuneration of the non-executive administrators and controlling bodies): analysis and verification procedures were conducted first by the Remuneration Committee on a proactive basis and then by the Board which led to the elaboration of the proposal for remuneration which will be submitted to the shareholders also in the light of the renewal of the Board of Directors.

With reference to the Letter of December 22nd 2020, it was brought to the attention of the President of the Board of Directors and Board of Statutory Auditors in February of 2021 and was examined during the meeting of the Board on March 15th 2021 for the purpose of scheduling the necessary activities.

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 2020.

STRUCTURE OF CAPITAL STOCK				
	Number of shares	% of the capital stock	Quoted	Rights and obligations
Ordinary shares	19.612.222	100%	Milan Stock Exchange	<i>ex lege</i>
Shares with limited voting rights	0			
Shares with no voting rights	0			

OTHER FINANCIAL INSTRUMENTS <i>(attributing the right to underwrite newly issued shares)</i>				
	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 31 st 2020.			
Person declaring	Direct shareholder	Quota % of the ordinary capital	Quota % of the voting capital
ANDREA CANGIOLI	ANDREA CANGIOLI	15,014	15,014
ALBERTO PECCI	S.M.I.L. S.R.L.	10,266	10,266
GABRIELE CLEMENTI	GABRIELE CLEMENTI	9,755	9,755
IMMOBILIARE DEL CILIEGIO	IMMOBILIARE IL CILIEGIO s.r.l.	7,398	7,398
BARBARA BAZZOCCHI	BARBARA BAZZOCCHI	5,090	5,090
KEMPEN CAPITAL MANAGEMENT N.V.	KEMPEN CAPITAL MANAGEMENT N.V.	6,634	6,634
ALBERTO PECCI	ALBERTO PECCI	0,340	0,340

* the percentages are those related to the relative certifications deposited for participation in the shareholders' meeting on June 4th that are different from the 120 TUF received during the year and also modified after the options for the Stock Option Plan 2016-2025 had been picked up.

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors as of December 31 st 2020										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
<i>Chairman and managing director</i>	Gabriele Clementi	April 27 th 2018	Appr. of annual report 2020	M	X				100%	0						
<i>Managing director</i>	Andrea Cangoli	April 27 th 2018	Appr. of annual report 2020	M	X				100%							
<i>Managing director</i>	Barbara Bazzocchi	April 27 th 2018	Appr. of annual report 2020	M	X				100%	0						
<i>Director</i>	Fabia Romagnoli	April 27 th 2018	Appr. of annual report 2020	M		X	X	X	100%	0	X	100%	X	100%	X	100%
<i>Director</i>	Alberto Pecci	April 27 th 2018	Appr. of annual report 2020	M		X			100%	0	X	100%	X	100%	X	100%
<i>Director</i>	Michele Legnaioli	April 27 th 2018	Appr. of annual report 2020	M		X	X	X	100%	0	X	100%	X	100%	X	100%
Number of meetings held during 2020				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 15 th 2019	Approval annual report 2021	M	X	100%	0
Acting auditor	Paolo Caselli	May 15 th 2019	Approval annual report 2021	M	X	100%	0
Acting auditor	Rita Pelagotti	May 15 th 2019	Approval annual report 2021	M	X	100%	0
Supplementary auditor	Daniela Moroni	May 15 th 2019	Approval annual report 2021	M	X	==	0
Supplementary auditor	Gino Manfriani	May 15 th 2019	Approval annual report 2021	M	X	==	0
Number of meetings held in 2020: 9 (nine)							
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 of 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, *Internal Dealing*, Consolidated Non-financial Document, Manual for the protection of personal data (GDPR), Document for the evaluation of risks (DVR), Manual for the Integrated Management System, Organizational Model D.Lgs 231/2001 and the Environmental Policy, Human Rights and 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: Directive 93/42/ECC (which will be replaced starting in May 2021 by the European Regulations on Medical Devices EU 2017/745 MDR).*

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

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

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

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

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

a.1) Identification and evaluation of the risks in financial information:

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.

a.2) Identification of the controls for the risks which have been identified

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.

a.3) Evaluation of the controls for the risks which have been identified:

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. 39/2010.
- 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 of 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 2020**

**FINANCIAL CHARTS AND NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENT**

Consolidated statement of financial position

Assets	Note	31/12/2020	31/12/2019
Intangible assets	1	4.487.744	4.833.808
Tangible assets	2	85.576.374	81.812.628
Equity investments	3		
- in associated companies		955.564	1.367.332
- other		1.035.420	1.035.420
Total Equity investments		1.990.984	2.402.752
Deferred tax assets	4	9.296.749	6.641.048
Other non-current assets	4	15.486.016	15.275.980
Total non current assets		116.837.867	110.966.216
Inventories	5	111.593.640	97.037.190
Accounts receivable	6		
- third parties		93.159.079	91.210.947
- associated companies		849.451	815.140
Total Accounts receivable		94.008.530	92.026.087
Tax receivables	7	11.031.771	12.688.545
Other receivables	7		
- third parties		12.833.998	13.324.317
- associated companies		322.685	128.326
Total Other receivables		13.156.683	13.452.643
Securities and other current financial assets	8	-	2.126.791
Cash and cash equivalents	9	123.744.217	97.030.962
Total current assets		353.534.841	314.362.218
Total Assets		470.372.708	425.328.434

Liabilities	Note	31/12/2020		31/12/2019
Share capital	10		2,549.589	2,537.965
Additional paid in capital	11		42,556.321	41,430.624
Other reserves	12		93,667.795	88,105.328
Treasury stock	13		-	-
Retained earnings / (accumulated deficit)	14		66,391.080	64,336.515
Net income / (loss)			20,255.146	26,016.748
Group shareholders' equity			225,419,931	222,427,180
Minority interest			15,244.569	18,206.282
Total shareholders' equity			240,664,500	240,633,462
Severance indemnity	15		5,147.074	4,737.530
Deferred tax liabilities	16		2,210.480	2,031.588
Other accruals	17		5,716.769	4,528.232
Financial debts and liabilities	18			
- third parties		30,763.330		21,115.757
Total Financial debts and liabilities			30,763.330	21,115.757
Other non current liabilities				
Other payables - non current	18	5,000.000		-
Total Other non current liabilities			5,000.000	-
Total non current liabilities			48,837,653	32,413,107
Financial liabilities	19			
- third parties		23,827.095		16,706.435
Total Financial liabilities			23,827.095	16,706.435
Accounts payable	20			
- third parties		94,909.844		78,372.780
- associated companies		13.600		18.000
Total Accounts payable			94,923.444	78,390.780
Income tax payables	21		2,944.543	3,507.179
Other current payables	21			
- third parties		59,175.473		53,606.690
- associated companies		-		70.781
Total Other current payables			59,175.473	53,677.471
Total current liabilities			180,870,555	152,281,865
Total Liabilities and Shareholders' equity			470,372,708	425,328,434

Consolidated Income Statement

Income Statement	Note	31/12/2020	31/12/2019
Revenues	22		
- third parties		407.118.895	399.442.772
- associated companies		964.397	1.317.917
Total Revenues		408.083.292	400.760.689
Other revenues and income	23		
- third parties		5.608.425	3.309.141
- associated companies		125.909	164.495
Total Other revenues and income		5.734.334	3.473.636
Revenues and income from operating activity		413.817.626	404.234.325
Purchase of raw materials	24		
- third parties		255.210.640	225.233.225
- associated companies		-	269
Total Purchase of raw materials		255.210.640	225.233.494
Changes in inventory of finished goods		(12.751.485)	(4.986.388)
Change in inventory of raw material		(3.156.387)	(7.187.200)
Direct services	25		
- third parties		32.877.479	35.153.507
Total Direct services		32.877.479	35.153.507
Other operating services and charges	25		
- third parties		34.119.004	43.606.459
- associated companies		12.000	18.000
Total Other operating services and charges		34.131.004	43.624.459
Staff cost	26	66.692.366	66.084.687
Depreciation, amortization and other accruals	27	10.702.675	8.113.578
EBIT		30.111.334	38.198.188
Financial charges	28		
- third parties		(642.577)	(757.660)
Total Financial charges		(642.577)	(757.660)
Financial income	28		
- third parties		840.971	956.082
- associated companies		4.305	4.376
Total Financial income		845.276	960.458
Exchange gain (loss)	28	(1.964.902)	265.473
Share of profit of associated companies	29	(424.735)	(22.752)
Income (loss) before taxes		27.924.396	38.643.707
Income taxes	30	5.382.041	9.868.415
Income (loss) for the financial period		22.542.355	28.775.292
Net profit (loss) of minority interest		2.287.209	2.758.544
Net income (loss)		20.255.146	26.016.748
Basic net income/(loss) per share	31	1,03	1,35
Diluted net income/(loss) per share	31	1,01	1,29

Consolidated statement of comprehensive income

	Note	31/12/2020	31/12/2019
Reported net (loss) income (A)		22.542.355	28.775.292
<u>Other income/(loss) that will not be entered in income statement net of fiscal effects:</u>			
Measurement of defined-benefit plans		(218.178)	(305.487)
<u>Other income/(loss) that will be entered in income statement net of fiscal effects:</u>			
Cumulative conversion adjustments		(650.257)	251.919
Total other income/(loss), net of fiscal effects (B)		(868.435)	(53.568)
Total comprehensive (loss) income (A)+(B)		21.673.921	28.721.725
Referable to:			
Parent Shareholders		19.612.009	25.947.354
Minority Shareholders		2.061.912	2.774.371

Consolidated cash flow statement

Cash flow statement	Note	31/12/20	related parties	31/12/19	related parties
Operating activity					
Income (loss) for the financial period		22.542.355		28.775.292	
Amortizations and depreciations	27	7.899.157		6.886.064	
Gain/Loss on financial investments and equity investments	29	0		0	
Share of profit of associated companies		424.735	424.735	22.752	22.752
Write-downs for impairment losses	27-29	0		27.007	
Stock Option Share payment loss		2.359.361		711.198	
Severance indemnity	15	122.467		(42.912)	
Provisions for risks and charges	17	1.188.537		573.100	
Bad debt reserve	6	1.212.588		(734.986)	
Deferred income tax assets	4	(2.586.803)		(210.999)	
Deferred income tax liabilities	16	178.892		354.086	
Inventories	5	(14.556.450)		(11.144.853)	
Accounts receivable	6	(3.195.030)	(34.311)	(11.044.754)	(105.899)
Tax receivables	7	1.656.775		(1.252.744)	
Other receivables	7	416.962		(961.177)	
Accounts payable	20	16.532.663	(4.400)	14.499.742	18.000
Income tax payables	21	(562.636)		1.021.418	
Other payables	21	10.498.001	(70.781)	10.247.400	70.781
Cash flow generated by operating activity		44.131.574		37.725.634	
Investment activity					
Tangible assets	2	(10.155.887)		(20.558.682)	
Intangible assets	1	(352.631)		(1.021.428)	
Equity investments, securities and other financial assets	3-4-8	1.894.400	411.768	(2.826.598)	56.577
Financial receivables	4-7	(111.618)	(194.358)	(10.507)	(1.259)
Cash flow generated by investment activity		(8.725.736)		(24.417.215)	
Financing activity					
Non current financial liabilities	18	9.808.129		4.993.188	
Current financial liabilities	19	6.151.788		5.546.483	(276.608)
Capital increase	10	1.137.321		2.866.299	
Dividends paid	32	(113.541)		(8.611.453)	
Purchase of a minority quota of a subsidiary company		(25.644.870)			
Cash flow generated by financing activity		(8.661.172)		4.794.517	
Change in cumulative translation adjustment reserve and other no monetary changes		(31.411)		(2.038.076)	
Increase/(decrease) in cash and cash equivalents		26.713.255		16.064.860	
Cash and cash equivalents at the beginning of the financial period		97.030.962		80.966.102	
Cash and cash equivalents at the end of the financial period		123.744.217		97.030.962	

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 795 thousand Euros. Income taxes for this financial year amounted to 5,4 million Euros.

Changes in the consolidated shareholders' equity

<i>Total shareholders' equity</i>	31/12/2018	Net income allocation	Dividends distributed	Other movements	Comprehensive income (loss)	31/12/2019
	Share capital	2.508.671			29.294	
Additional paid in capital	38.593.618			2.837.006		41.430.624
Legal reserve	537.302					537.302
Treasury stock						
<i>Other reserves:</i>						
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
<i>Total Group shareholders' equity</i>	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
<i>Total Minority interest</i>	18.575.570		-892.464	-2.251.195	2.774.371	18.206.282
<i>Total shareholders' equity</i>	219.235.689		-8.611.453	1.287.501	28.721.725	240.633.462

<i>Total shareholders' equity</i>	31/12/2019	Net income allocation	Dividends distributed	Other movements	Comprehensive income (loss)	31/12/2020
	Share capital	2.537.965			11.624	
Additional paid in capital	41.430.624			1.125.697		42.556.321
Legal reserve	537.302					537.302
Treasury stock						
<i>Other reserves:</i>						
Extraordinary reserve	82.477.079	5.833.175				88.310.254
Special reserve for grants received	426.657					426.657
Cumulative translation adjustment	303.727				-487.722	-183.995
Other reserves	4.360.563	-8		247.941	-30.919	4.577.577
Retained earnings / (accumulated deficit)	64.336.515	20.183.580		-18.004.519	-124.496	66.391.080
Net income / (loss)	26.016.748	-26.016.748			20.255.146	20.255.146
<i>Total Group shareholders' equity</i>	222.427.180			-16.619.258	19.612.009	225.419.931
Capital and reserve of minority interest	15.447.738	2.758.544	-113.541	-4.910.084	-225.297	12.957.360
Result of minority interest	2.758.544	-2.758.544			2.287.209	2.287.209
<i>Total Minority interest</i>	18.206.282		-113.541	-4.910.084	2.061.912	15.244.569
<i>Total shareholders' equity</i>	240.633.462		-113.541	-21.529.342	21.673.921	240.664.500

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 Capital and Reserves of minority interests and the retained earnings/(accumulated deficit), the decrease shown in the column of other movements, amounting respectively to about 4,9 and 18 million Euros, refers mostly to the effects of the liquidation of the main minority partner of Penta Laser Wenzhou by Otlas Srl which took place in January 2020. The variation in the retained earnings/(accumulated deficit) also includes the amount which will have to be paid in compliance with the earn-out clause for 40 million Reminbi (about 5 million Euros) if there is an IPO of Penta Wenzhou within 5 years of the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

INFORMATION ON THE COMPANY

The parent company El.En. SpA is a corporation which was founded and is registered in Italy. Headquarters of the company are in Calenzano (Florence), Via Baldanzese 17.

Ordinary stock of the company is quoted on the MTA which is managed by Borsa Italiana SpA.

The Consolidated Financial Statement for the El.En. Group was examined and approved by the Board of Directors on March 15th 2021.

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

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 2020.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

This consolidated financial statement for the financial year ending December 31st 2020 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 2020

Accounting principles, amendments and interpretations applied since January 1st 2020:

- On October 31st 2018 the IASB published a document called "***Definition of Material (Amendments to IAS 1 and IAS 8)***". The document introduced a modification to the definition of the word "relevant" contained in the IAS standards 1 *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*. The purpose of this amendment is to make the definition of "relevant" more specific and to introduce the concept of "*obscured information*" along with the concept of omitted and erroneous information which are already present in the two standards that were modified. The amendment clarifies that information is "obscured" when it is described in such a way as to procure in the primary readers of a financial report an effect that is similar to that which would have been produced if the information had been omitted or was wrong. The adoption of the amendment did not comport any effects on the consolidated financial report of the Group.

- On September 26th 2019, the IASB published an amendment called “**Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform**”. This amendment also modifies IFRS 9 - *Financial Instruments* and IAS 39 - *Financial Instruments: Recognition and Measurement* as well as IFRS 7 - *Financial Instruments: Disclosures*. In particular, the amendment modifies some of the requirements for the application of hedge accounting, and includes some temporary exceptions to it for the purpose of mitigating the impact caused by the uncertainties in the reform of (which is still in progress) on the future cash flow in the period preceding its completion. The amendment also requires the companies to show in their financial reports further information concerning their hedge accounting which are directly involved by the uncertainties generated by the reform and to which they are applying the above mentioned exceptions.

The adoption of the amendment did not comport any effects on the consolidated financial report of the Group.
- On October 22nd 2018 the IASB published a document called “**Definition of a Business (Amendments to IFRS 3)**”. This document supplies clarifications concerning the definition of business for the purpose of correctly applying IFRS 3. In particular, the amendment clarifies that while a business normally produces an output the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities/processes and assets. In any case, in order to meet the definition of business, an integrated system of activities/processes and assets must include, at the very least, an input and a substantial process which together contribute significantly to the capacity to create an output. For this purpose the IASB has replaced the term “capable of creating an output” with “capacity to contribute to the creation of an output” in order to clarify that a business can exist even without the presence of all the input and processes necessary to create an output. Moreover, the amendment has introduced the “concentration test” an optional which makes it possible to exclude the presence of a business if the price paid is substantially referable to a single activity or group of activities. The modifications are applied to all of the *business combinations* and acquisitions of activities after January 1st 2020 but application in advance is allowed.

The adoption of the amendment did not comport any effects on the consolidated financial report of the Group.
- On May 28th 2020 the IASB published an amendment called “**Covid-19 Related Rent Concessions (Amendment to IFRS 16)**”. The document states that lessee may enter into accounts the reduction of rents related to Covid-19 without having to evaluate, through the analysis of the contracts, if the definition of “lease modification” of IFRS 16 has been respected. Consequently lessee who make use of this facilitation can enter the effects of the reduction of the rent directly into the income statement as soon as the reduction takes effect. This modification is applicable to accounts starting on June 1st 2020 but the Group has taken advantage of the possibility of applying it in advance starting on January 1st 2020.

The adoption of the amendment did not comport any effects on the consolidated financial report of the Group.

Accounting standards, IFRS and IFRIC amendments and interpretations approved by the European Union but not yet obligatory and not adopted in advance by the Group as of December 31st 2020:

- On August 27th 2020, in the light the reform of interbank interest rates like IBOR, the IASB published a document called “Interest Rate Benchmark Reform—Phase 2” which contains amendments to the following standards:

 - IFRS 9 *Financial Instruments*;
 - IAS 39 *Financial Instruments: Recognition and Measurement*;
 - IFRS 7 *Financial Instruments: Disclosures*;
 - IFRS 4 *Insurance Contracts*;
 - IFRS 16 *Leases*.

All of these modifications will enter into force on January 1st 2021. At this time the administrators are evaluating the possible effects of the application of the amendment which we do not believe will have significant effects on the consolidated financial statement of the Group.

The other standards or modification approved by the European Union but not yet obligatory and not applied in advance by the Group as of December 31st 2020 are shown in the chart below:

Description	Approved before the date of this report	Date the standard enters into force
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current	NO	01-Jan-22
Amendments to IFRS 3: Business Combination (issued in May 2020)	NO	01-Jan-22
Amendments to IAS 16: Property, plant and equipment (issued in May 2020)	NO	01-Jan-22
Amendments to IAS 37: Provisions, contingent liabilities and contingent assets (issued in May 2020)	NO	01-Jan-22
Annual improvements 2018-2020 (issued in May 2020)	NO	01-Jan-22
IFRS 17 - Insurance Contracts (issued in May 2017)	NO	01-Jan-23
Extension of the temporary exemption from applying IFRS 9 – amendments to IFRS 4 (issued in May 2020)	SI	01-Jan-21

The Group has not applied in advance any new standards, interpretations or modifications which were issued but have not yet entered into 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	2.549.589				
Subsidiary companies								
Ot-Las S.r.l.		Calenzano (ITA)	EUR	154.621	98,89%		98,89%	98,89%
Cutlite Penta S.r.l	1	Calenzano (ITA)	EUR	500.000		100,00%	100,00%	83,60%
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%	83,60%
Penta-Laser Equipment Wenzhou Co., Ltd	7	Wenzhou (CHINA)	CNY	44.852.983		84,54%	84,54%	83,60%
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%	98,89%
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%	83,60%

(1) held by Penta-Laser Equipment Wenzhou Co., Ltd (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 (84,54%)

(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 2020” 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.p.A.		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%	34,27%
Quanta Aesthetic Lasers Usa, LLC	2	Englewood (USA)	USD	200		19,50%	19,50%	19,50%
Accure Inc	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%)

Operations conducted during this year

For the operations conducted during this year, please refer to the description given in the paragraph “Significant events which occurred during 2020” in the Management Report.

EQUITIES IN OTHER COMPANIES

For the operations conducted during this year, please refer to the description given in the paragraph “Significant events which occurred during 2020” 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.

At the date of this report, El.En. S.p.A. does not own any treasury stock and the above mentioned authorization expired definitively in July of 2020.

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:

	Exchange Rate	Average exchange rate	Exchange Rate
Currencies	31/12/2019	31/12/2020	31/12/2020
USD	1,12	1,14	1,23
Yen	121,94	121,85	126,49
Yuan	7,82	7,87	8,02
Real	4,52	5,89	6,37

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.

Impact of the Corona virus on the estimates.

The estimates that have been made have taken into consideration the uncertainties generated by the spread of the Corona virus, which is described in detail in the section titled “Covid-19 Emergency” contained in the management report. In particular, the entries which, because of their nature required a greater use of estimates by the administrators and for which they considered the effects and potential of the economic storm derived from the Corona virus, are as follows:

- **bad debts Reserve:** this accrual represents the best estimate of the management of the potential losses on accounts receivable. The estimate is based on the losses expected, determined on the basis of similar losses in the past, the trend in overdue receivables, the evaluation of the quality of the receivable and the predictions for the economic conditions and the market; the estimate made by the administrators, although it is based on past data and market information, may be subject to changes in the competitive or market environment in which the Group operates. Although the Group has clients of excellent credit rating and a history of insignificant losses, the reserve is greater than usual in order to represent, in the most balanced way possible, the potential deterioration of some of the receivables.
- **Reserve for inventory obsolescence:** the slow overturn inventory of raw material and finished products are periodically analyzed on the basis of past data and the possibility of selling them at amounts that are lower than the normal market prices. If, on the basis of these analyses, it is determined that the amount of the inventory must be reduced, a special devaluation fund is entered into accounts; as is used for the devaluation of receivables, the definition of the inventory obsolescence fund is determined by past data and market information, changes in the scenario of the market, and the market the criteria used for determining the estimates may vary significantly;
- **Leases:** the determination of the right of use which emerges from lease contracts, and the relative financial liabilities, constitutes a significant estimate by the management. In particular, a high level of judgment is made in determining the lease-term and in calculating the incremental borrowing rate. The determination of the lease term takes into consideration the expiration dates of the contract which has been underwritten, as well as the renewal clauses for which the Group believes there is a reasonable certainty for confirmation. The incremental borrowing rate is determined considering the type of asset which is the subject of the lease contract, the jurisdiction in which it is acquired, and the currency in which the contract is stipulated. Any changes in the scenario and the trends in the market may require the revision of the components described above.
- **Goodwill:** Since the Covid-19 pandemic, because of its intensity and unexpectedness, represents an external factor for a presumed potential loss in value, (indicator of impairment), we recalculated the impairment tests, and evaluated the trends of the different CGU on the basis of an up-dated projection elaborated considering the negative effects of the Covid-19. The procedure for determining the recoverable value of the goodwill implicates, in the estimate of the value of use, hypotheses related to predictions of the cash flow expected from the cash generating units (CGU) that have been identified, making reference to multi-year plans, the determination of an appropriate rate of actualization (WACC) and the long-term growth (*g-rate*). Any changes in the relative scenario and market trends may require the revision of the components described above.

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 identified 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.

<i>Description</i>	<i>Depreciation percentage</i>
<i>Buildings</i>	
- buildings	3.00%
<i>Plants and machinery</i>	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
- other plants and machinery	15.50%
<i>Industrial and commercial equipment</i>	
- miscellaneous and minute equipment	25.00%
- kitchen equipment	25.00%
<i>Other goods</i>	
- 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
		01/01/2020	01/01/2020 - 31/12/2020	01/01/2020 - 31/12/2020	01/01/2020 - 31/12/2020	01/01/2020 - 31/12/2020	31/12/2020	31/12/2020	
Plan 2016-2025	31-dic-25	574.662			89.412		485.250	485.250	€ 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 2020 the average price recorded for El.En. stock was about 23,1 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:

	31/12/2019	Increase	Decrease	Revaluation / Devaluation	Other movements	Depreciation	Translation adjustment	31/12/2020
Goodwill	3.038.065							3.038.065
Development costs	747.253				184.697	-317.780		614.170
Patents and rights to use patents of others	33.868	7.141			8.790	-24.153		25.646
Concessions, licenses, trade marks and similar rights	548.933	86.382			13.771	-302.520	-3.641	342.925
Other intangible assets	13.961	97.100			48.200	-54.242		105.019
Intangible assets under construction and advance payments	451.728	185.921			-275.730			361.919
Total	4.833.808	376.544			-20.272	-698.695	-3.641	4.487.744

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 31/12/2020	Goodwill 31/12/2019
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 2020, 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 2021-2023. 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 simulating a situation of cash flow over a mid- to long period considering a margin equal to that for the last year of explicit forecast and multiplying the cash flow actualized by the growth rate “g” of 1,5%..

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 were formulated by the management on the basis of at least a return to pre-Covid volumes, as well as the outlook for the markets in which they operate.

The Board of Directors considered the assumptions and the corresponding financials charts 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 7,21%; 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 8,21%.

Cutlite Penta S.r.l.: the recoverable amount was determined on the basis of the estimate made by the company on the sale by Otlat Srl of 100% of the equity in Cutlite Penta to Penta Laser Wenzhou which occurred in October of 2020.

The estimate of this value was made on the basis of the development plan organized by the management for the years 2020-2023 and applying two evaluation methods, the financial method and that of market multiples.

The WACC utilized for this period of explicit forecast of cash flow amounted to 7,56% while that for the regime period was 8,13%.

The results of this analysis show a recoverable value which is much greater than the goodwill that was entered into accounts.

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 2021 to 2023.

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 simulating a situation of cash flow over a mid- to long period considering a margin equal to that for the last year of explicit forecast and multiplying the cash flow actualized by the growth rate “g” of 1,5%..

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 were formulated by the management on the basis of at least a return to pre-Covid volumes, as well as the outlook for the markets in which they operate.

The Board of Directors considered the assumptions and the corresponding financials charts 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 7,21%; 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 8,21%.

The verification that the procedures of the impairment tests corresponded to the regulations of the international accounting standards was autonomously approved by the Board of Directors of the Parent Company.

Other intangible fixed assets

The entry of “development costs” includes the costs sustained by the Parent Company El.En and by the subsidiary Asa srl for the development of prototypes.

The “Patent and rights to use the patents of others” were related to the capitalization of the costs sustained for the purchase of patents by Quanta System and by the Parent Company 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, With Us, 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 Cutlite Penta and Deka M.E.L.A for the creation of software.

Tangible fixed assets (note 2)

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

Cost	31/12/2019	Increase	(Disposals)	Revaluation / Devaluation	Other movements	Translation adjustment	31/12/2020
Lands and buildings	49.795.790	1.605.436			5.503.483	-288.648	56.616.061
Plants & machinery	10.594.616	2.430.072	-285.524		1.077.254	-25.885	13.790.533
Industrial and commercial equipment	15.516.355	1.407.853	-999.058		-363	-92.991	15.831.796
Other assets	12.223.010	1.556.479	-403.356		176.231	-93.524	13.458.840
Tangible assets under construction and advance payments	10.145.125	4.724.400			-6.868.315	-192.884	7.808.326
<i>Total</i>	98.274.896	11.724.240	-1.687.938		-111.710	-693.932	107.505.556
Lands and buildings right of use	14.119.526	71.472	-21.546			-165.915	14.003.537
Plants & machinery right of use	29.947						29.947
Industrial and commercial equipment right of use	1.005.954	85.763			-2.150	-9.680	1.079.887
Other assets right of use	2.661.057	682.864	-278.258			-20.381	3.045.282
<i>Total</i>	17.816.484	840.099	-299.804		-2.150	-195.976	18.158.653

Total	116.091.380	12.564.339	-1.987.742		-113.860	-889.908	125.664.209
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Accumulated depreciation	31/12/2019	Depreciations	(Disposals)	Revaluation / Devaluation	Other movements	Translation adjustment	31/12/2020
Lands and buildings	7.347.425	1.323.042				-32.359	8.638.108
Plants & machinery	5.608.889	924.625	-37.669		-5.412	-18.918	6.471.515
Industrial and commercial equipment	11.050.460	1.391.336	-594.994		-56.065	-48.685	11.742.052
Other assets	7.182.402	1.452.808	-274.234		-49.861	-68.503	8.242.612
Tangible assets under construction and advance payments							
<i>Total</i>	31.189.176	5.091.811	-906.897		-111.338	-168.465	35.094.287
Lands and buildings right of use	1.533.363	1.189.578	-6.196			-58.467	2.658.278
Plants & machinery right of use	13.310	13.310					26.620
Industrial and commercial equipment right of use	563.325	121.841			-2.130	-6.134	676.902
Other assets right of use	979.578	783.923	-118.764		-2	-12.987	1.631.748
<i>Total</i>	3.089.576	2.108.652	-124.960		-2.132	-77.588	4.993.548

Total	34.278.752	7.200.463	-1.031.857		-113.470	-246.053	40.087.835
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Net value	31/12/2019	Increase	(Disposals)	Revaluation / Devaluation / Depreciations	Other movements	Translation adjustment	31/12/2020
Lands and buildings	42.448.365	1.605.436		-1.323.042	5.503.483	-256.289	47.977.953
Plants & machinery	4.985.727	2.430.072	-247.855	-924.625	1.082.666	-6.967	7.319.018
Industrial and commercial equipment	4.465.895	1.407.853	-404.064	-1.391.336	55.702	-44.306	4.089.744
Other assets	5.040.608	1.556.479	-129.122	-1.452.808	226.092	-25.021	5.216.228
Tangible assets under construction and advance payments	10.145.125	4.724.400			-6.868.315	-192.884	7.808.326
<i>Total</i>	67.085.720	11.724.240	-781.041	-5.091.811	-372	-525.467	72.411.269
Lands and buildings right of use	12.586.163	71.472	-15.350	-1.189.578		-107.448	11.345.259
Plants & machinery right of use	16.637			-13.310			3.327
Industrial and commercial equipment right of use	442.629	85.763		-121.841	-20	-3.546	402.985
Other assets right of use	1.681.479	682.864	-159.494	-783.923	2	-7.394	1.413.534
<i>Total</i>	14.726.908	840.099	-174.844	-2.108.652	-18	-118.388	13.165.105
Total	81.812.628	12.564.339	-955.885	-7.200.463	-390	-643.855	85.576.374

The heading of “Lands and buildings” and related right of use includes the building complex in 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 construction built in 2019 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 increase for the period refer mainly to the costs sustained for the buildings of the Parent Company El.En., of Asclepion, di Penta Laser Equipment Wenzhou and Penta Laser Technology (Shangdong) Co., Ltd.

The heading of “Plants and machinery” is related in particular to investments made by the Parent Company, El.En. S.p.A and the subsidiaries Asclepion GmbH, Quanta System S.p.A., Lasit S.r.l, Asa Srl, Cutlite Penta Srl, and Galli Giovanni & C. Srl. In reference to this latter in the year of acquisition, 2019, we proceeded to make a *Purchase Price Allocation* of the amount paid, about 400 thousand Euros in the category of “Plants and Machinery”.

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, Dekka M.E.L.A and Penta-Laser Equipment (Wenzhou). This heading also includes the 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” is due mainly to the purchase of new motor vehicles, also due to the application of standard IFRS 16 for furniture and electronic equipment.

In the category of “Tangible assets under construction and advance payments” we have entered, among other things, the costs sustained by the Parent Company El.En. for the improvements they are making on the existing buildings, by the subsidiaries Lasit, Quanta, Penta-Laser Equipment (Wenzhou) and Penta Laser Technology (Shangdong) for new buildings now under construction and/or being equipped.

Equity investments (note 3)

The analysis of the equity investments is as follows:

	31/12/2020	31/12/2019	Variation	Var. %
Equity investment in associated companies	955.564	1.367.332	-411.768	-30,11%
Other equity investments	1.035.420	1.035.420		0,00%
Total	1.990.984	2.402.752	-411.768	-17,14%

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 SpA, 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.:	thousand 255 euro
Actis S.r.l.:	thousand 1 euro
Elesta S.p.A.:	thousand 826 euro
Chutian (Tianjin) Lasertechnology Co: Ltd:	thousand (11) euro
Accure Inc.:	thousand (115) euro

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 (*)	465.337	114.413	-4.288	33.020	37.308
Elesta SpA	3.693.492	2.023.158	-694.641	1.787.326	2.481.967
Immobiliare Del.Co. Srl	805.874	750.960	13.195	184.622	171.427
Quanta Aesthetic Lasers USA, LLC Chutian (Tianjin) Lasertechnology Co. Ltd	54.344	7.235	-14.137	0	14.137
	862.768	889.759	-198.470	234.447	432.917
Accure Acne, Inc.	1.052.324	9.941.904	-3.483.095	86.899	3.569.995

(*) Data as of December 31st 2019

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)

<i>Other non-current assets</i>	31/12/2020	31/12/2019	Variation	Var. %
Financial receivables - third parties	309.773	322.723	-12.950	-4,01%
Deferred tax assets	9.296.749	6.641.048	2.655.701	39,99%
Other non-current assets	15.176.243	14.953.257	222.986	1,49%
Total	24.782.765	21.917.028	2.865.737	13,08%

The deferred tax assets amounted to about 9.297 thousand Euros and are mostly related to inventory obsolescence funds, to the variations of the inter-group profits on the inventory at the end of the period, to the devaluation fund for receivables exceeding those that are tax deductible as well as the deferred taxes calculated on the re-evaluation of some company assets operated by some of the Italian companies according to the laws now in force.

The category of “Other non-current assets” is related to the temporary use of cash by the Parent Company in previous years 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 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.

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory:

	31/12/2020	31/12/2019	Variation	Var. %
Raw materials, consumables and supplies	50.007.446	47.242.769	2.764.677	5,85%
Work in progress and semi finished products	28.814.289	24.809.867	4.004.422	16,14%
Finished products and goods	32.771.905	24.984.554	7.787.351	31,17%
Total	111.593.640	97.037.190	14.556.450	15,00%

The inventory amounted to about 111.594 thousand Euros, an increase of 15% with respect to the 97.037 thousand Euros registered on December 31st 2019. The production rate reached at the end of 2020, in fact, was greater than that registered at the end of 2019, and the forecasts for the beginning of the year are good. In particular in the sector of laser cutting in China the increase in the inventory reflects an increase in the business volume and the high number of plants that are now being installed for clients. In the medical sector, we are expecting an increased demand at the beginning of 2021 and in correspondence to a phase of decreased reactivity on the part of the supply chain which tends to prolong the times required for delivery we have organized stock amounts in the warehouses of raw materials and semi-finished goods which should be adequate to satisfy the delivery times that the client requires.

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

	31/12/2020	31/12/2019	Variation	Var. %
Gross amount of Inventory	126.652.714	110.008.469	16.644.245	15,13%
Devaluation provision	-15.059.074	-12.971.279	-2.087.795	16,10%
Total	111.593.640	97.037.190	14.556.450	15,00%

The obsolescence 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 2.088 thousand Euros with respect to December 31st 2019 and its incidence on the gross value of the inventory remained practically the same, increasing from 11,8% on December 31st 2019 to 11,9% on December 31st 2020.

Accounts receivable (note 6)

Receivables are composed as follows

	31/12/2020	31/12/2019	Variation	Var. %
Accounts receivable from third parties	93.159.079	91.210.947	1.948.132	2,14%
Accounts receivable from associated	849.451	815.140	34.311	4,21%
Total	94.008.530	92.026.087	1.982.443	2,15%

<i>Accounts receivable from third parties</i>	31/12/2020	31/12/2019	Variation	Var. %
Italy	39.096.567	39.588.758	-492.191	-1,24%
EEC	12.199.296	9.797.506	2.401.790	24,51%
ROW	48.498.304	47.247.184	1.251.120	2,65%
minus: bad debt reserve	-6.635.088	-5.422.501	-1.212.587	22,36%
Total	93.159.079	91.210.947	1.948.132	2,14%

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

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

	2020
At the beginning of the period	5.422.501
Provision	1.836.387
Amounts utilized and unused amounts reversed	-544.821
Other movements	
Translation adjustment	-78.979
At the end of the period	6.635.088

The incidence of the bad debt reserve on the total accounts receivable from third parties rose from 5,6% on December 31st 2019 to 6,6% on December 31st 2020 also due to an increase amount of caution in the calculation of the Expected Credit Loss (IFRS 9) considering the potential difficulty of cashing in the receivables caused by the Covid-19.

Breakdown of accounts receivable from third parties is shown below:

<i>Accounts receivable from third parties</i>	31/12/2020	31/12/2019
To expire	69.584.707	59.827.441
Overdue:		
0-30 days	9.644.667	18.734.002
31-60 days	3.316.061	4.156.028
61-90 days	1.657.023	1.991.971
91-180 days	2.640.035	3.667.690
Over 180 days	6.316.586	2.833.815
Total	93.159.079	91.210.947

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

Accounts receivable in:	31/12/2020	31/12/2019
Euros	59.927.161	63.586.666
USD	9.284.335	8.346.905
Other currencies	23.947.583	19.277.376
Total	93.159.079	91.210.947

The value in Euros shown in the chart for the receivables originally expressed in US dollars or other currency (mainly RMB and Yen) represents the amount in currency converted at the exchange rate in force on December 31st 2020 and December 31st 2019.

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:

	31/12/2020	31/12/2019	Variation	Var. %
<i>Tax receivables</i>				
VAT receivables	7.396.357	8.625.609	-1.229.252	-14,25%
Income tax receivables	3.635.414	4.062.936	-427.522	-10,52%
Total	11.031.771	12.688.545	-1.656.774	-13,06%
<i>Current financial receivables</i>				
Financial receivables - third parties	13.959	83.749	-69.790	-83,33%
Financial receivables - associated	322.685	128.326	194.359	151,46%
Total	336.644	212.075	124.569	58,74%
<i>Other current receivables</i>				
Security deposits	885.108	406.423	478.685	117,78%
Advance payments to suppliers	5.068.509	5.749.408	-680.899	-11,84%
Other receivables	6.866.422	7.084.737	-218.315	-3,08%
Total	12.820.039	13.240.568	-420.529	-3,18%
Total Current financial receivables e Other current receivables	13.156.683	13.452.643	-295.960	-2,20%

The financial year closed with a VAT credit of over 7,4 million Euros which was mostly a result of the intense export activity of the Group.

In the “income tax receivables” we have included for some of the companies of the Group, receivables derived from the difference between pre-existing tax credits/down payments and the tax debt that had matured at the date of this document. It also includes the receivables from the internal revenue service owed to the Parent Company and to some of the subsidiary companies for the amount of the reimbursement of the increased IRES taxes that were paid due to the failure to deduct the relative IRAP related to the expenses for employees and similar, in compliance 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 entry of “Other receivables” refers mainly to the pre-paid costs of various companies as well as the deposits for participation in tenders paid by the Chinese subsidiary Penta Laser Equipment Wenzhou.

Securities and other current financial assets (note 8)

	31/12/2020	31/12/2019	Variation	Var. %
<i>Securities and other current financial assets</i>				
Other current financial assets		2.126.791	-2.126.791	-100,00%
Total		2.126.791	-2.126.791	-100,00%

The amount entered under the heading of “Other current financial assets” as of December 31st 2019 was composed of mutual investment funds held by the Parent Company El.En. S.p.A. acquired during the previous years for a temporary use of cash. These mutual funds were sold in the first half of 2020.

Cash and cash equivalents (note 9)

Cash and cash equivalents are composed as follows:

	31/12/2020	31/12/2019	Variation	Var. %
Bank and postal current accounts	123.700.628	96.990.628	26.710.000	27,54%
Cash on hand	43.589	40.334	3.255	8,07%
Total	123.744.217	97.030.962	26.713.255	27,53%

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

It should also be noted that the amount of bank and postal deposits includes about 9 million Euros for the Chinese companies containing deposits which will become available upon the expiration of some payments to suppliers with the issuing of some bank bills.

Net financial position as of December 31st 2020

The net financial position of the Group as of December 31st 2020 is shown on the chart below (data shown in thousands of Euros):

Net financial position	31/12/2020	31/12/2019
Cash and bank	123.744	97.031
Financial instruments	0	2.127
Cash and cash equivalents	123.744	99.158
Current financial receivables	14	84
Bank short term loan	(20.659)	(11.794)
Part of financial long term liabilities due within 12 months	(3.168)	(4.913)
Financial short term liabilities	(23.827)	(16.706)
Net current financial position	99.931	82.535
Bank long term loan	(23.366)	(11.802)
Other long term financial liabilities - non current part	(7.398)	(9.314)
Financial long term liabilities	(30.763)	(21.116)
Net financial position	69.168	61.419

At the end of the year the operating activities of the Group continued to generate cash and improved the net financial position which, despite the significant investments made during the year, on December 31st 2020 rose to 69 million, an amount greater than that registered at the beginning of the year, 61 million.

During the year about 20 million was invested in the purchase of an important minority share of Penta Laser Wenzhou, which became the parent company of all of our operations in China in the industrial sector and is part of a broad investment plan aimed at further expansion of the production capacity and product development to better serve the local market for which we expect a growth in demand. The balance of the amount due for the purchase of the shares was paid right at the beginning of the Chinese New Year which was also the beginning of an extremely troubled period both for China and the rest of the world, caused by the Covid 19 pandemic. Our confidence in the outlook for this business unit remains unchanged and, as confirmed by the positive results shown in the last few months of the year, we are convinced that the difficulties caused by the pandemic will be overcome and we will be able to return to the growth plan which our market and our potential allow us to pursue.

At the end of the year the working capital that was registered in the first quarters was reabsorbed, which was a consequence of the sudden and unexpected drop in the sales and production volumes which occurred in the months between March and June with the consequent rise in the amount of inventory.

The amount of gross investments was still significant in 2020, and amounted to about 12,9 million but it showed a decrease with respect to the same period in 2019. The investments in the expansion of the manufacturing structures were in fact of a lesser entity than in preceding years since most of the new structures had been completed or were about to be completed. In 2020 we sustained costs mainly at Jena, Lin Yi, Wenzhou, Calenzano and Torre Annunziata. The second factory at Wenzhou was inaugurated in the month of December at a ceremony which was attended by the

local authorities and hundreds of clients, thanks to the conditions of free circulation and assembly which in China are now normal. At the factory of El.En. in Calenzano we have installed systems which will increase the speed of production of small series of prototype electronic boards and for the rapid prototyping of mechanical parts, and we have also completed the equipping of a new production line for mid-powered sealed laser sources for applications in the manufacturing sector; all of these investments benefitted from the ex *Industria 4.0* facilitations.

The payment of a dividend to the shareholders of El.En. Spa, which had initially been approved by the Board of Directors for the amount of 0,40 Euros per share was later suspended by a vote of the Shareholders' meeting which recognized the continuation of the fall in demand due to the Covid pandemic.

It should also be recalled that the amount of 11,5 million Euros in cash was invested by the Parent Company El.En. in the preceding years in an insurance type of financial instruments which, due to their particular nature, must be entered among the non-current financial assets and last year, by the subsidiary Quanta System for the amount of 2,5 million Euros in similar financial instruments. Although they represent a use of cash, these amounts are not part of the net financial position. At the end of the year the total fair value of these investments amounted to 15,2 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 2020, 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	2.549.589

Nominal value of each share - Euros

0,13

<i>Category</i>	31/12/2019	Increase	Decrease	31/12/2020
No. of Ordinary Shares	19.522.810	89.412	0	19.612.222
<i>Total</i>	19.522.810	89.412	0	19.612.222

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, for which the first window opened on September 14th 2019, during 2020 the Parent Company issued 89.412 ordinary shares for a nominal amount of 11.623,56 Euros and received 1.137 thousand Euros as an increase in capital with share premium.

It should also be noted that the market capitalization of the Company in any case is now greater with respect to the values implicit in the consolidated shareholders' equity shown on December 31st 2020.

Additional paid in capital (note 11)

On December 31st 2020 the share premium reserve, coinciding with that of the Parent Company, amounted to 42.556 thousand Euros, an increase with respect to the 41.431 on December 31st 2019 because of the stock options that were picked up this year, as discussed in the previous Note.

Other reserves (note 12)

	31/12/2020	31/12/2019	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	88.310.254	82.477.079	5.833.175	7,07%
Cumulative translation adjustment	-183.995	303.727	-487.722	-160,58%
Stock option/ stock based compensation reserve	4.753.358	4.505.417	247.941	5,50%
Special reserve for grants received	426.657	426.657		0,00%
Other reserves	-175.781	-144.854	-30.927	21,35%
Total	93.667.795	88.105.328	5.562.467	6,31%

On December 31st 2020 the "Extraordinary reserve" amounted to 88.310 thousand Euro; the increase which took place with respect to December 31st 2019 is related to the allocation of the result for 2019 as voted by the Shareholders' meeting of the Parent company on June 4th 2020.

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

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 2020 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 2019.

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 for the year which ended on December 31st 2019.

As of the date of this report, El.En. S.p.A. does not own any treasury stock and the above mentioned authorization expired definitively in the month of July 2020 .

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.

31/12/2019	Provision	(Utilization)	Payment to complementary pension forms, to INPS fund and other movements	31/12/2020
4.737.530	2.006.659	-651.905	-945.210	5.147.074

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 2020 amounts to 5.161 thousand Euros.

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

Financial hypotheses	Year 2019	Year 2020
Annual implementation rate	0,77%	0,3355%
Annual inflation rate	1,0%-1,2%-1,4% (*)	1,00%
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 0,3355%, 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:

	31/12/2019	Provision	(Utilization)	Other movements	Translation adjustment	31/12/2020
Deferred tax assets on inventory devaluation	2.226.806	466.551	(34.015)	1	(7.853)	2.651.490
Deferred tax assets on warranty reserve	428.586	117.193	(49.554)	-	(5.966)	490.259
Deferred tax assets on bad debt reserve	612.238	181.297	20.539	1	(5.652)	808.423
Deferred tax assets on losses carryforwards	50.998	3.832	(34.810)	(1)	27	20.046
Deferred tax assets on intercompany profits and consolidation adjust.	1.026.588	261.236	-	1	(2.472)	1.285.353
Other deferred tax assets and on IAS adjust.	2.295.832	2.065.801	(328.822)	55.159	(46.792)	4.041.178
Total	6.641.048	3.095.910	(426.662)	55.161	(68.708)	9.296.749
Deferred tax liability on advance depreciations	124.469	-	-	-	-	124.469
Deferred tax liability on grants on capital account	100.091	-	(65.732)	-	-	34.359
Other deferred tax liabilities and on IAS adjust.	1.807.028	283.300	(10.738)	-	(27.938)	2.051.652
Total	2.031.588	283.300	(76.470)	-	(27.938)	2.210.480
Net	4.609.460	2.812.610	(350.192)	55.161	(40.770)	7.086.269

Deferred tax assets amounted to about 9.297 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 the internal inter-Group profits as well as the deferred taxes calculated on the re-evaluation of some company assets operated by some of the Italian companies according to the regulations now in force.

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 2.210 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 changes 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:

	31/12/2019	Provision	(Utilization)	Other movements	Translation adjustment	31/12/2020
Reserve for pension costs and similar	1.509.928	259.615	-40.313	-30.527		1.698.703
Warranty reserve on the products	2.508.655	596.424	-286.067		-43.595	2.775.417
Reserve for risks and charges	509.649	733.000				1.242.649
Total	4.528.232	1.589.039	-326.380	-30.527	-43.595	5.716.769

The clients' agents' indemnity fund which is included under the heading of "Reserve for pension funds and similar" on December 31st 2020, amounted to 1.466 thousand Euros as opposed to the 1.267 thousand Euros on December 31st 2019. 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 2019	Year 2020
Annual implementation rate	0,77%	0,3355%
Annual inflation rate	1,0%-1,2%-1,4% (*)	1,00%

(*) 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

After the start of the Covid-19 epidemic all of the prodromal activities of the suit were suspended until 2021. 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)

<i>Financial m/l term debts</i>	31/12/2020	31/12/2019	Variation	Var. %
Amounts owed to banks	23.365.743	11.801.558	11.564.185	97,99%
Amounts owed to leasing companies	6.515.884	8.435.630	-1.919.746	-22,76%
Amounts owed to other financiers	881.703	878.569	3.134	0,36%
Other non-current liabilities	5.000.000		5.000.000	
Total	35.763.330	21.115.757	14.647.573	69,37%

The mid- to long-term debts owed to banks as of December 31st 2020 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 by Intesa San Paolo to ASA Srl after the start of the Covid-19 emergency so that they can pay their suppliers and their employees for a total of 3 million Euros to be reimbursed in quarterly installments for six years starting on September 24th 2022, at the fixed rate of 1,02%; last installment June 24th 2026. The financing is sustained by a guarantee of Mediocredito Centrale for 90% of the amount issued;
- d) bank financing granted to With Us as shown below:
 - 5.000 thousand yen falling due on 28/Feb/2022 at the annual rate of 0,60%;
 - 94.672 thousand yen falling due on 05/Apr/2035 at the annual rate of 1,17%;
 - 150.000 thousand yen falling due on 26/Jul/2030 at the annual rate of 0,949% on only 50.000 thousand yen;
- e) bank financing issued to Penta-Laser Equipment Wenzhou Co. Ltd as follows:
 - 6.970 thousand Rmb falling due on 20/Sep/2021 at the annual rate of the Central Bank of China (PBC) diminished by 0,45%;
 - 5.861 thousand Rmb falling due on 20/Jun/2022 at the annual rate of the Central Bank of China (PBC) diminished by 0,45%;
- f) bank financing issued 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 30/apr/2022;
- g) 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 18/Jul/2022;
- h) bank financing granted to Cutlite Penta Srl by Intesa San Paolo, for a total of 4 million Euros to be reimbursed in quarterly installments for three years starting on 19/Sep/2020, at the fixed rate of 0,50%; last installment 19/Mar/2023;
- i) bank financing granted to Cutlite Penta Srl by Intesa San Paolo after the Covid-19 emergency in order to pay suppliers, employees and utilities, for an overall amount of 5 million Euros to be reimbursed in quarterly installments for six years starting on 28/May/2022, at the fixed rate of 1,02%; last installment 28/May/2026. The financing is sustained by a guarantee of Mediocredito Centrale amounting to 90% of the amount issued;
- j) bank financing guaranteed by Intesa San Paolo and Esthelogue Srl after the Covid-19 emergency for the payments to suppliers, employees and utilities for a total amount of 1,5 million Euros to be reimbursed in quarterly installments for six years starting on 28/Aug/2022, at the fixed rate of 1,3%; last installment 28/May/2028. The financing is sustained by a guarantee of Mediocredito Centrale for 90% of the amount issued.

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 2020 amounted to about 394 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 2020 amounted to about 4,7 million Euros. The other amounts shown under the heading of "amounts owed to leasing companies" is due to the application of IFRS 16 which occurred for the first time in 2019.

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 2020 of 357 thousand Euros to be paid back in installments, last installment on June 15th 2025;
- 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 210 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.

The other non-current liabilities includes the amount owed to the ex minority shareholder of Penta Laser Wenzhou for 40 million Renminbi (about 5 million Euros), which will have to be paid in compliance with the earn-out clause of the contract which states that this amount must be paid if they proceed to an IPO of Penta Wenzhou within 5 years of the date of acquisition.

It should be noted that due to the slowdown in business caused by Covid-19, some of the companies of the Group have taken advantage of the possibility of requesting a moratorium on some the financing obtained by the banking system or by leasing companies. The amounts deferred are not of a significant entity.

Current liabilities

Financial debts (note 19)

The chart below shows a breakdown of the short-term financial debts:

<i>Financial short term debts</i>	31/12/2020	31/12/2019	Variation	Var. %
Amounts owed to banks	20.658.631	11.793.503	8.865.128	75,17%
Amounts owed to leasing companies	2.597.157	2.643.406	-46.249	-1,75%
Amounts owed to other financiers	571.307	2.265.991	-1.694.684	-74,79%
Total	23.827.095	16.702.900	7.124.195	42,65%

	31/12/2020	31/12/2019	Variation	Var. %
Current liabilities for derivative financial instruments		3.535	-3.535	-100,00%
Total		3.535	-3.535	-100,00%

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 5,1 million Euros (corresponding to 40,7 million Yuan) falling due for 6,8 million Yuan in the month of November 2021, at the annual rate of 4,05% , for 20 million Yuan falling due in the month of March 2021 at the annual PBC (Central Bank of China) rate decreased by 2%, for 4,1 million Yuan falling due in the month of March 2021, at the annual rate of 1,86% and for 9,8 million Yuan falling due in the month of August 2021 at the annual rate of 1,76%.
- Financing granted to the subsidiary Quanta System SpA by Credem for a total of 5.000.000 Euros for operational needs, of which 2 million at the annual rate of 0,04% and 3 million at the annual rate of 0,05%.

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

“Amounts owed to other financiers” includes the short-term financing described in the previous Note.

The heading of “Current liabilities for derivative financial instruments” on December 31st 2019 included 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 expired in April 2020.

Accounts payable (note 20)

	31/12/2020	31/12/2019	Variation	Var. %
Accounts payable	94.909.844	78.372.780	16.537.064	21,10%
Amounts owed to associated companies	13.600	18.000	-4.400	-24,44%
Total	94.923.444	78.390.780	16.532.664	21,09%

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

Accounts payable in:	31/12/2020	31/12/2019
Euros	52.655.546	47.606.098
USD	3.224.237	2.963.882
Other currencies	39.030.061	27.802.800
Total	94.909.844	78.372.780

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 2020 and December 31st 2019.

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 2020 amounted to 2.945 thousand Euros and are entered net of the down payments and deductions.

The subdivision of the other debts is as follows:

	31/12/2020	31/12/2019	Variation	Var. %
<i>Social security debts</i>				
Debts to INPS	3.231.361	3.413.111	-181.750	-5,33%
Debts to INAIL	212.149	235.541	-23.392	-9,93%
Debts to other Social Security Institutions	596.839	575.331	21.508	3,74%
Total	4.040.349	4.223.983	-183.634	-4,35%
<i>Other debts</i>				
Debts to the tax authorities for VAT	654.738	770.164	-115.426	-14,99%
Debts to the tax authorities for withholding	2.254.448	2.702.440	-447.992	-16,58%
Other tax liabilities	509.238	493.918	15.320	3,10%
Debts to staff for wages and salaries	12.949.798	12.997.162	-47.364	-0,36%
Down payments	25.648.350	17.478.384	8.169.966	46,74%
Other debts to associated companies		70.781	-70.781	-100,00%
Other debts	13.118.552	14.940.639	-1.822.087	-12,20%
Total	55.135.124	49.453.488	5.681.636	11,49%
Total Social security debts e Other debts	59.175.473	53.677.471	5.498.002	10,24%

The amounts owed to staff include, among other things, the debts for deferred salaries of personnel employed as of December 31st 2020.

The entry of “Down payments” consists of down payments received from clients for orders received; the increase refers in particular to the Chinese subsidiary Penta-Laser Equipment Wenzhou Co., Ltd and Penta Laser Technology (Shandong) 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

	31/12/2020			31/12/2019		
	<= 1 year	>1 year <= 5 years	> 5 years	<= 1 year	>1 year <= 5 years	> 5 years
Amounts owed to banks	20.658.631	16.808.389	6.557.354	11.793.503	8.891.480	2.910.078
Amounts owed to leasing companies	2.597.157	4.077.241	2.438.643	2.643.406	3.777.610	4.658.020
Current liabilities for derivative financial instruments	-	-	-	3.535	-	-
Amounts owed to other financiers	571.307	881.703	-	2.265.991	844.173	34.396
Accounts payable	94.909.844			78.372.780		
Amounts owed to associated companies	13.600	-	-	88.781	-	-
Income tax payables	2.944.543			3.507.179		
Social security debts	4.040.349			4.223.983		
Other debts	55.135.124	5.000.000	-	49.382.707		
Total	180.870.555	26.767.333	8.995.997	152.281.865	13.513.263	7.602.494

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.

31/12/2020	Total	Medical	Industrial	Other	
Revenues	409.790	229.061	179.282	1.447	
Intersectorial revenues	(1.707)		(260)	(1.447)	
Net Revenues	408.083	229.061	179.023		
Other revenues and income	5.734	1.758	3.912	64	
Gross Margin	141.637	93.932	47.641	64	
	<i>Inc. %</i>	34%	41%	26%	100%
Margin	46.181	33.490	12.628	64	
	<i>Inc. %</i>	11%	15%	7%	100%
Not assigned charges	16.069				
EBIT	30.111				
Net financial income (charges)	(1.762)				
Share of profit of associated companies	(425)	(347)	(81)	4	
Other Income (expense) net	(0)				
Income (loss) before taxes	27.924				
Income taxes	5.382				
Income (loss) before minority interest	22.542				
Minority interest	2.287				
Net income (loss)	20.255				

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	
	<i>Inc. %</i>	39%	45%	29%	100%
Margin	53.212	40.907	12.209	97	
	<i>Inc. %</i>	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				

31/12/2020	Total	Medical	Industrial	Other
Assets assigned	394.541	191.779	202.762	
Equity investments	1.736	1.624	112	
Assets not assigned	74.096			
Total assets	470.373	193.403	202.874	0
Liabilities assigned	180.178	52.141	128.037	
Liabilities not assigned	49.530			
Total liabilities	229.708	52.141	128.037	0

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

31/12/2020	Total	Medical	Industrial	Other
Changes in fixed assets:				
- assigned	6.188	1.691	4.498	
- not assigned	(2.771)			
Total	3.418	1.691	4.498	0

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

Information according to the geographical area

31/12/2020	Total	Italy	Europe	Row
Revenues	408.083	72.557	73.918	261.608

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

31/12/2020	Total	Italy	Europe	Row
Assets assigned	468.382	303.188	39.969	125.225
Equity investments	1.991	2.002	0	(11)
Total assets	470.373	305.190	39.969	125.214

Liabilities assigned	229.708	124.678	18.622	86.408
Total liabilities	229.708	124.678	18.622	86.408

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

31/12/2020	Total	Italy	Europe	Row
Changes in fixed assets:				
- assigned	3.418	1.419	(292)	2.290
Total	3.418	1.419	(292)	2.290

31/12/2019	Totale	Italia	Europa	Row
Changes in fixed assets:				
- assigned	21.143	7.001	4.313	9.828
Total	21.143	7.001	4.313	9.828

Information on the consolidated Income Statement

Revenue (note 22)

The chart below shows the sub-division of the sales volume for 2020 among the activity sectors of the Group compared with the same data for last year. The overall growth came close to 2% with the medical sector decreasing by 5,4% and the industrial sector growing by 12,9%.

	31/12/2020	31/12/2019	Variation	Var. %
Medical	229.060.551	242.183.714	-13.123.163	-5,42%
Industrial	179.022.741	158.576.975	20.445.766	12,89%
<i>Total revenue</i>	408.083.292	400.760.689	7.322.603	1,83%

Breakdown of the revenue by geographical areas

	31/12/2020	31/12/2019	Variation	Var. %
Italy	72.557.335	74.272.009	-1.714.674	-2,31%
Europe	73.917.726	78.845.425	-4.927.699	-6,25%
ROW	261.608.231	247.643.255	13.964.976	5,64%
Total revenue	408.083.292	400.760.689	7.322.603	1,83%

At the end of the year the Company registered a small increase in sales volume. The countries that mainly contributed to this result were the non-European ones, in particular Japan, where the impact of the Covid epidemic was less incisive and our subsidiary, With Us showed a record sales volume, and in China where the activities in the sheet metal cutting sector maintained record rates in the second half, and in the USA where the distributors in the medical sector were able to resist the very adverse conditions for most of the year. The slight decreases registered in Italy and the rest of Europe should be considered excellent results in light of the extended periods of lockdown and the numerous restrictions.

Other income (note 23)

The analysis of the other income is as follows:

	31/12/2020	31/12/2019	Variation	Var. %
Other income due to Insurance refunds	224.825	18.168	206.657	1137,48%
Recovery of expenses	1.004.610	1.317.489	-312.879	-23,75%
Capital gains on disposal of fixed assets	132.082	212.429	-80.347	-37,82%
Other income	4.372.817	1.925.550	2.447.267	127,09%
<i>Total</i>	5.734.334	3.473.636	2.260.698	65,08%

The heading of “Recovery of expenses” refers mainly to reimbursements for shipping costs.

The entry “Other income” consists mainly of government grants related both to the new factory as well as to research projects for an amount of about 3.133 thousand Euros entered by the Chinese subsidiary Penta Laser Equipment Wenzhou Co. Ltd and the new Penta Laser Technology (Shangdong) Co., Ltd.

Costs for the purchase of goods (note 24)

The analysis is shown on the following chart:

	31/12/2020	31/12/2019	Variation	Var. %
Purchases of raw materials and finished products	250.103.215	219.690.870	30.412.345	13,84%
Packaging	1.396.955	1.723.901	-326.946	-18,97%
Shipping charges on purchases	1.583.602	1.357.345	226.257	16,67%
Other purchase expenses	1.035.072	1.257.358	-222.286	-17,68%
Other purchases	1.091.796	1.204.020	-112.224	-9,32%
<i>Total</i>	255.210.640	225.233.494	29.977.146	13,31%

The costs for the purchase of goods and other purchase expenses as of December 31st 2020 amounted to 255.211 thousand Euros as opposed to the 225.233 thousand Euros registered last year, with an increase of about 13,3%. Net of the variations in the inventory, the incidence of these costs was 58,6% as opposed to 53,2% for last year.

Direct services/ Operating services and charges (note 25)

Breakdown of this category is shown on the chart below:

	31/12/2020	31/12/2019	Variation	Var. %
Direct services				
Outsourced processing	12.651.359	13.360.997	-709.638	-5,31%
Technical services on products	1.223.476	1.686.807	-463.331	-27,47%
Shipment charges on sales	3.970.299	3.988.512	-18.213	-0,46%
Sale commissions	12.723.994	13.141.231	-417.237	-3,18%
Royalties	124.800	216.000	-91.200	-42,22%
Travel expenses for technical assistance	1.371.623	1.322.816	48.807	3,69%
Other direct services	811.928	1.437.144	-625.216	-43,50%
<i>Total</i>	32.877.479	35.153.507	-2.276.028	-6,47%
Other operating services and charges				
Maintenance and technical assistance on equipment	723.928	986.871	-262.943	-26,64%
Commercial services and consulting	2.126.125	2.549.648	-423.523	-16,61%
Legal and administrative services and consulting	1.243.110	1.314.601	-71.491	-5,44%
Audit fees	388.743	397.323	-8.580	-2,16%
Insurances (no staff cost)	787.604	813.600	-25.996	-3,20%
Travel and accommodation expenses	2.204.430	4.450.011	-2.245.581	-50,46%
Trade shows	1.069.032	3.911.134	-2.842.102	-72,67%
Promotional and advertising fees	4.992.998	6.553.643	-1.560.645	-23,81%
Expenses related to real estate	2.796.220	2.779.038	17.182	0,62%
Other taxes	833.750	802.689	31.061	3,87%
Vehicles maintenance expenses	1.543.088	1.705.421	-162.333	-9,52%
Office supplies	566.878	661.760	-94.882	-14,34%
Hardware and Software assistance	1.209.166	807.536	401.630	49,74%
Bank charges	323.697	346.300	-22.603	-6,53%
Leases and rentals	1.384.845	1.641.631	-256.786	-15,64%
Salaries and indemnity to the Board of Directors and Board of Auditors	2.778.488	2.463.172	315.316	12,80%
Temporary employment	946.452	1.091.942	-145.490	-13,32%
Other services and charges	8.212.450	10.348.139	-2.135.689	-20,64%
<i>Total</i>	34.131.004	43.624.459	-9.493.455	-21,76%

Operating services and charges were 34.131 thousand Euros showing a decrease with respect to the 43.624 thousand Euros on December 31st 2019.

Because of the Covid-19 pandemic, the savings are mainly due to the cancellation of all international travel and of all the trade fairs and symposiums, as well as to the decrease in the costs related to the logistics of moving from one factory to the other which was caused by the drop in the business volume.

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, while the entry of “Other services and charges” consist mainly of the expenses related to technical and scientific consulting fees amounting to 2.042 thousand Euros and studies and research for an amount of about 1.843 thousand Euros.

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

Staff costs (note 26)

The chart below shows the costs for staff:

	31/12/2020	31/12/2019	Variation	Var. %
Wages and salaries	50.578.972	51.235.505	-656.533	-1,28%
Social security contributions	11.385.531	12.149.764	-764.233	-6,29%
Severance indemnity	1.970.325	1.676.017	294.308	17,56%
Staff costs for stock options/stock based compensation	2.310.548	571.181	1.739.367	304,52%
Other costs	446.990	452.220	-5.230	-1,16%
<i>Total</i>	66.692.366	66.084.687	607.679	0,92%

The costs for personnel amounted to 66.692 thousand Euros and is substantially unchanged with respect to the 66.085 thousand Euros shown last year.

The slight increase is due to the net effect of an increase in the number of employees which rose from 1.498 people on December 31st 2019 to 1.626 on December 31st 2020, by the increase in the costs for stock options and stock based compensation, a cost component which had a significant effect in the fourth quarter due to a specific operation conducted on the capital of Penta Laser Wenzhou, net of the decrease in costs on account of the effect of the CIG (Cassa Integrazione Guadagni, (for the definition, please consult the Management Report), which they made use of in varying degrees, all of the companies located in Italy, France and Germany. In this period the variable components of the salaries and the hours of overtime also decreased, however, many employees used accumulated vacation time in order to avoid the salary reductions comported by the CIG.

The entry of “Staff costs for stock options/stock based compensation” includes the figurative costs for the stock options and stock based compensations assigned by El.En. and by Penta Laser Equipment Wenzhou to some employees.

Depreciation, amortization and other accruals (note 27)

The table below shows the breakdown for this category:

	31/12/2020	31/12/2019	Variation	Var. %
Amortization of intangible assets	698.695	671.569	27.126	4,04%
Depreciation of tangible assets	5.091.811	4.233.775	858.036	20,27%
Depreciation of tangible assets right of use	2.108.652	1.980.721	127.931	6,46%
Devaluation (Rival.) of fixed assets		27.007	-27.007	-100,00%
Accrual for bad debts	1.744.660	411.076	1.333.584	324,41%
Accrual for risks and charges	1.058.857	789.430	269.427	34,13%
<i>Total</i>	10.702.675	8.113.578	2.589.097	31,91%

The amortizations and depreciations increased due to some of the significant investments made in 2019 and completed in 2020.

The accruals for bad debts are greater than usual in order to represent in the most balanced way possible the potential deterioration of some of our receivables, also in compliance with the ESMA recommendations in this sense.

The accrual for risks and charges is mainly due to the entry by the Parent Company of charges for the employees which, at this time, we are not able to quantify with precision.

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

The breakdown of the category is as follows:

	31/12/2020	31/12/2019	Variation	Var. %
<i>Financial income</i>				
Interests income on bank and postal deposits	389.307	354.276	35.031	9,89%
Dividends from other investments	9.678		9.678	
Financial income from associated companies	4.305	4.376	-71	-1,62%
Interests income from current securities and financial assets	193.866	194.984	-1.118	-0,57%
Capital gain and other income from current securities and financial assets	40.843	179.237	-138.394	-77,21%
Other financial income	207.277	227.585	-20.308	-8,92%
<i>Total</i>	845.276	960.458	-115.182	-11,99%
<i>Financial charges</i>				
Interests on bank debts and on short term loans	118.544	275.442	-156.898	-56,96%
Interests on bank debts and on other m/l term loans	83.995	25.105	58.890	234,57%
Other financial charges	440.038	457.113	-17.075	-3,74%
<i>Total</i>	642.577	757.660	-115.083	-15,19%
<i>Exchange gain (loss)</i>				
Exchange gains	964.072	1.433.330	-469.258	-32,74%
Exchange losses	-2.932.510	-1.159.385	-1.773.125	152,94%
Financial income fair value of on exchange rate derivatives	3.537		3.537	
Financial charges fair value on exchange rate derivatives		-8.472	8.472	-100,00%
Other exchange gains (losses)	-1		-1	
<i>Total</i>	-1.964.902	265.473	-2.230.375	-840,15%

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 36 thousand Euros for the interests charges deriving from the application of the IAS 19 accounting standard and 85 thousand Euros for the entry of interest for leases derived from the application of the IFRS 16 standard.

Share profits/losses of associated companies (note 29)

The loss of 425 thousand Euros was due mainly to the performance of Elesta which felt the devastating effects of Covid-19 and in particular the great difficulty in obtaining access to the hospitals..

Income taxes (note 30)

	31/12/2020	31/12/2019	Variation	Var. %
IRES and other foreign income taxes	8.810.361	9.968.783	-1.158.422	-11,62%
Income taxes - IRAP	743.016	1.438.371	-695.355	-48,34%
Deferred income taxes - IRES and for foreign companies	-2.282.855	159.665	-2.442.520	-1529,78%
Deferred income taxes - IRAP	-179.564	1.612	-181.176	-11239,21%
Income tax receivable	-579.812	-500.612	-79.200	15,82%
Other income tax	149.574	-7.987	157.561	-1972,72%
Previous years tax	-1.278.679	-1.191.417	-87.262	7,32%
<i>Total</i>	5.382.041	9.868.415	-4.486.374	-45,46%

The costs for current and deferred taxes this year amounted to 5.382 thousand Euros; the overall tax rate was 19,3 % less than in the past in part due to the fiscal facilitations provided in Italy by the decrees issue in 2020 to counter the effects of the pandemic, the application of the so-called *patent box* on one of the subsidiaries and the tax credits for research, development and innovation and for those which replace the benefits offered in previous years in the form of *iper* and super amortizations. Moreover, in compliance with current regulations, some of the Italian companies have decided to re-evaluate some of the company assets with the consequent application of a fiscal benefit.

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.

	2020	2019
Profit/loss before taxes	27.924.396	38.643.707
Theoretical IRES Aliquot	24,00%	24,00%
Theoretical IRES	6.701.855	9.274.490
Higher (lower) fiscal incidence of the foreign companies with respect to the theoretical aliquot	905.019	393.443
One time income tax charges	(367.013)	32.661
Tax credits	(579.812)	(500.612)
Tax credit on patents (Patent Box)	(458.022)	(1.155.866)
Value adjustments	(1.380.071)	
Higher (lower) fiscal incidence of Italian companies with respect to the theoretical aliquot	92.083	(802.079)
Higher (lower) fiscal incidence due to the effects of consolidation	(95.449)	1.186.395
Actual IRES	4.818.589	8.428.432
Actual IRES aliquot	17,26%	21,81%

Earnings per share (note 31)

The average weighted number of shares in circulation this year amounted to 19.584.012 ordinary shares, after the pick up of the stock option. The profits per share on December 31st 2020 therefore amounted to 1,03 Euros. The diluted profit per share, which takes into consideration also the stock option assigned last year, was 1.01 Euros.

Dividends distributed (note 32)

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.

The shareholders' meeting of El.En S.p.A held on June 4th 2020 voted to not distribute any dividend.

Other components of the statement of comprehensive income (note 33)

With reference to December 31st 2020 we wish to state that 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 have given important information about the related parties.

The Members of the Board of Directors and the Board of Statutory Auditors and 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 7.000 Euros, besides the incentive bonus of 58.593 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 60.000 Euros and, as a member of the Board of Directors of With Us Co. Ltd he received the amount of 1.500 thousand yen. As part of the stock option plan for 2016-2025, he received the options that were granted to him when the plan was set up, as per the information report issued in compliance with art. 84-bis *Regolamento Emittenti Consob*, 9000 of which exercised during this year.

Subsidiary companies

Normally the operations and reciprocal payments among the 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.

Associated companies

All of the relations of receivables and payables, all of the costs and revenue, financing and guarantees granted to associated companies during 2020 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 differ 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		Accounts receivable	
	< 1 year	> 1 year	< 1 year	> 1 year
Actis Srl	30.000		1.928	
Immobiliare Del.Co. Srl	31.565			
Elesta SpA	200.000		562.900	
Chutian (Tianjin) Laser Technology Co. Ltd			35.525	
Quanta Aesthetic Lasers USA, LLC			2.769	
Accure Inc.	61.120		246.330	
Total	322.685	-	849.451	-

Associated companies:	Financial Payables		Other payables		Accounts Payable	
	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Elesta SpA					1.600	
Actis Srl					12.000	
Total	-	-	-	-	13.600	-

Associated companies:	Sales	Service	Total
Elesta SpA	413.455	100.125	513.580
Accure Inc	450.367	450	450.817
Total	863.822	100.575	964.397

Associated companies:	Other revenues
Elesta SpA	19.509
Actis Srl	1.395
Accure Inc.	105.004
Total	125.909

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl		12.000		12.000
Total	-	12.000	-	12.000

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	1.990.984	955.564	47,99%
Receivables LT	309.773	-	0,00%
Accounts receivable	94.008.530	849.451	0,90%
Other current receivables	13.156.683	322.685	2,45%
Non current financial liabilities	30.763.330	-	0,00%
Current financial liabilities	23.827.095	-	0,00%
Accounts payable	94.923.444	13.600	0,01%
Other current payables	59.175.473	-	0,00%
Impact of related parties transactions on the income statement			
Revenues	408.083.292	964.397	0,24%
Other revenues and income	5.734.334	125.909	2,20%
Purchase of raw materials	255.210.640	-	0,00%
Direct services	32.877.479	-	0,00%
Other operating services and charges	34.131.004	12.000	0,04%
Financial charges	642.577	-	0,00%
Financial income	845.276	4.305	0,51%
Income taxes	5.382.041		0,00%

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

Operating risks

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

The main financial instruments of the Group include checking accounts and short-term deposits, short and long-term financial liabilities, leasing, financial instruments and hedging derivatives contracts.

Besides these, the Group also has payables and receivables derived from its activity.

The main financial risks to which the Group is exposed are those related to currency exchange, credit, cash and interest rates.

Currency risk

The Group is exposed to the risk caused by fluctuations in the Exchange rates of the currencies used for some of the commercial and financial transactions. These risks are monitored by the management which takes all the necessary measures to reduce them.

Since the Parent Company prepares its consolidated financial statements in Euros, the fluctuations in the exchange rates used to convert the data in the statements of the subsidiaries originally expressed in foreign currency may negatively influence the results of the Group, the consolidated financial position and the consolidated shareholders' equity as expressed in Euros in the consolidated 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. This contract expired in April 2020.

Credit risks

As far as the commercial transactions are concerned, the Group operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance. There are no significant concentrations of credit risks within the Group. The devaluation provision which is accrued at the end of the year represents about 7% of the total accounts receivable from third parties. For an analysis of the overdue receivables from third parties, please consult the relative paragraph in the consolidated financial statement.

As far as guarantees granted to third parties are concerned:

With the conclusion of the acquisition of the minority share of Penta Laser Wenzhou by Ot-las S.r.l., El.En. S.p.A. granted a guarantee in favor of the selling partner for the payment described in the earn-out clause for 40 million Renminbi (about 5 million Euros) in the case that they proceeded with an IPO of Penta Wenzhou within 5 years from the acquisition.

In the month of July 2020 Esthelogue Srl obtained a guarantee from Mediocredito Centrale on the financing of 1,5 million Euros issued by Intesa San Paolo. The amount of the guarantee was 1,35 million Euros.

In the month of July 2020 Cutlite Penta Srl obtained a guarantee from Mediocredito Centrale on the financing of 5 million Euros issued by Intesa San Paolo. The amount guaranteed was 4,5 million Euros.

The Chinese subsidiary Penta-Laser Equipment (Wenzhou) in previous years obtained financing for the construction of a new factory and the necessary equipment by taking out a mortgage for a total value of 41 million RMB. For the same reason, in 2020 mortgages for 100 million RMB were added.

Also the new Chinese subsidiary Penta Laser Technology (Shangdong) in 2019 obtained financing for the construction and equipping of a new factory by taking out mortgages for an overall amount of about 6,8 million RMB. During 2020 they took out other mortgages reaching a total amount of 20 million RMB.

The subsidiary ASA S.r.l. underwrote a loan contract to be used for the construction of the new factory by taking out a mortgage for a total amount of 4,8 million Euros. Also in 2018 ASA underwrote a bank guarantee issued by CREDEM to the supplier ENI Spa for 8.000 Euros with expiration date on December 31st 2021, a guarantee for the issuing of thirteen "MULTICARD ENI" cards after underwriting a contract for the supplying 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. This policy was not renewed when it expired. In the month of June 2020 ASA obtained a guarantee from Mediocredito Centrale on the financing of 3 million Euros obtained from Intesa San Paolo. The amount guaranteed was 2,7 million Euros.

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	Book value	Fair value	Fair value
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Financial assets				
Equities in other companies	1.035.420	1.035.420	1.035.420	1.035.420
Non current financial receivables	309.773	322.723	309.773	322.723
Current financial receivables	336.644	212.075	336.644	212.075
Securities and other non-current financial assets	15.172.111	14.952.687	15.172.111	14.952.687
Securities and other current financial assets	-	2.126.791	-	2.126.791
Cash and cash equivalents	123.744.217	97.030.962	123.744.217	97.030.962
Financial debts and liabilities				
Non current financial liabilities	30.763.330	21.115.757	30.763.330	21.115.757
Current financial liabilities	23.827.095	16.706.435	23.827.095	16.706.435

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 2020, the Group holds the following securities evaluated at fair value:

	Level 1	Level 2	Level 3	Total
Investment contracts		15.172.111		15.172.111
Total	0	15.172.111	0	15.172.111

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:

El.En. spa

Institution	Type of facilitation	Description	Amount
Consortium CALEF	Paid position	Conduction of Research and Development activities related to the ELIOS project for the part done by the consortium member El.En. Spa (approved for financing in the form of contribution to the costs by MUR)	56.352

Moreover, the Company received facilitated financing for applied research (MILORD project), issued by FidiToscana in 2017 for an overall amount of 488.285 Euros to be reimbursed in 6 half-yearly installments starting in April 2020, last installment on October 31st 2022. During this year the company paid back an amount of 162.762 Euros.

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.	227.337

Moreover, the company received financing in the form of facilitated credit for the amount of 806.300 Euros in the tax year 2012 from the Ministry of Education, University and Research for the development of a femtosecond laser. The company has paid back the amount of 48.383 during this year.

Ot-las srl

Institution	Type of facilitation	Tax and social security breaks and grants	Amount
Financial administration	Tax credit for research and development	L. 190 23/12/2014	48.549

Cutlite Penta srl

Institution	Type of facilitation	Tax and social security breaks and grants	Amount
Financial administration	Tax credit for research and development	L. 190 23/12/2014	74.686

ASA srl

Institution	Type of facilitation	Tax and social security breaks and grants	Amount
Financial administration	Tax credit for research and development	DL 145/2013 ss.mm.	104.206

Date	Contract no.	Company name	Subject of the contract	Amount
21/Mar/2007 - renewal 20/Feb/2018	AGR 00549	Department of Biomedical, experimental and clinical Sciences of the University of Florence	With the contract dated March 21 st 2007, a joint laboratory was created by the Department of Biomedical, experimental and clinical Sciences of the University of Florence and ASA Srl which is called: <i>ASACAMPUS JOINT RESEARCH LABORATORY</i> . The objective of the laboratory is to study the effects of physical stress, in particular gravitational, mechanical, photonic, photo-mechanical and magnetic fields at a cellular and molecular level. The laboratory has rooms and equipment put at their disposal by the University of Florence; ASA srl company has placed at their disposal their personnel and the equipment listed in the contract.	Value of the benefits cannot be quantified

Lasit spa

Institution	Type of facilitation	Tax and social security breaks and grants	Amount
Internal Revenue Service	Purchase of new equipment in compliance with Art. 1 commi 98,99 e 101 Legge 28 dicembre 2015	Tax credit of 25% on the cost of the equipment purchased	44.870

Institution	Type of facilitation	Description	Amount
Consortium CALEF	Paid position	Conduction of R&D activities related to the STEP FAR project for the part to be done by the consortium member Lasit Spa (approved for financing in the form of contributions to the expenses paid by MUR)	109.572
Consortium CALEF	Paid position	Conduction of R&D activities related to the ELIOS project for the part to be done by the consortium member Lasit Spa (approved for financing in the form of contributions to the expenses paid by MUR)	105.676

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	2020 fees (Euros)
Audit	Deloitte & Touche SpA	Parent Company		61.234
	Deloitte & Touche SpA	Italian subsidiaries		71.870
	Deloitte & Touche SpA	Foreign subsidiaries		18.508
	Deloitte network	Foreign subsidiaries		88.494
Certification services	Deloitte & Touche SpA	Parent Company	(1)	16.680
		Italian subsidiaries	(2)	14.500
Other services	Deloitte & Touche SpA	Parent Company		-
				271.287

(1) Revision of the Non-Financial Statement

(2) Certification services for R&D tax credit

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	31/12/2020	Average of previous period	31/12/2019	Variation	Var. %
Total	1.562	1.626	1.433	1.498	128	8,54%

SUBSEQUENT EVENTS

In the month of January Cutlite Penta formalized the purchase of the industrial building adjacent to its headquarters with an investment of about 5 million Euros which was sustained by means of leasing. In this way they were able to expand the area available for their rapidly growing operations in a way that was logistically ideal.

COVID-19 emergency

The Group was severely impacted by the spread of the Covid virus and the restrictions which were imposed in an attempt to stop the spread of the pandemic. When the pandemic first began to appear in January, our companies in Wuhan, Wenzhou and Lin yi were forced to close and all of their activities were interrupted until the end of March for Wenzhou and Lin yi, while at Wuhan they had to wait until April to start production again. Once the production had restarted the demand for products required several months before it returned to the levels expected for 2020 which, however, it did finally reach in the last quarter of the year.

In Italy also the government imposed measures in March 2020 and later blocked all of the sales in Italy while, even in very difficult conditions, where possible and permitted and with the maximum consideration for the health and safety of the employees, production continued in order to fill the orders which came from abroad. At the end of March there was a sudden and anomalous change in demand with request by many clients to suspend delivery which, in April forced us to slow down or halt all the production activities in most of the factories in Italy and, later also in Germany and in Brazil. Afterwards, the demand both in Italy and abroad slowly began to resume, although there were differences which depended on local restrictions or sectors, liked the forced closure of the aesthetic centers. Amazingly, the segment of sheet metal cutting was even more favorable than it had been in 2019 and also in Japan for aesthetic devices, while for other sectors of application and geographical areas by the end of the year they had registered drops in the volume of business between 10% and 25%.

Besides the limitations which had been directly imposed as the closure of the factories, and the impossibility of travelling and participating in trade fairs and symposiums, the pandemic had a negative impact on demand because of the climate of uncertainty which it cast on all of the economic activities. Only thanks to an intense work of maintaining contact with the clients via web and the development of new innovations made available on the market the Group was able to limit the negative impact of the pandemic and achieve the results described in this report.

CURRENT OUTLOOK

The outlook for 2021 is related to the potential for growth that the pandemic had slowed down but not halted. Considering the strength of the operating structures which have been consolidated over time in an organization aimed at the mid-term sustainability of the success of the Group, for 2021 the Company expects a growth of over 10% with an improvement in the EBIT and, hopefully, in the operating profitability.

For the Board of Directors

Managing Director– Ing. Andrea Cangioli

Declaration of the consolidated financial statement in conformity with art. 81-ter CONSOB regulation n. 11971 of May 14th 1999 and later modifications and additions

1. We the undersigned, Andrea Cangioli as managing director, and Enrico Romagnoli as executive officer responsible for the preparation of the financial statements of El.En. S.p.A., in conformity with art. 154-bis, sub-section 3 and 4, of Legislative Decree no. 58 of February 24th 1998, declare:

- the conformity in relation to the characteristics of the company and
- the actual application of the administrative and accounting procedures used in drawing up the separate financial statement, during 2020.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the consolidated financial statement dated December 31st 2020:

- 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 15th, 2021

Managing Director

Executive officer responsible for the preparation of the financial statements

Ing. Andrea Cangioli

Dott. Enrico Romagnoli

**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, 2020, and the consolidated statement of income, 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, 2020, 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 consolidated balance sheet of the El.En. Group as at December 31, 2020 includes inventory for an amount of Euro 111,594 thousand, net of a provision for inventory writedowns of Euro 15,059 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, if it is lower than cost, 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;
- development of an accurate, independent estimate, processing and analyzing the data, in order to assess whether the estimate made by Management is reasonable.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the EL.EN Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the EL.EN 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, 2020 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, 2020 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, 2020 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

The Directors of EL.EN. S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Neri Bandini
Partner

Florence, Italy
March 31, 2021

This report has been translated into the English language solely for the convenience of international readers

EL.EN. SpA
SEPARATE FINANCIAL STATEMENT
AS OF DECEMBER 31st 2020

ACCOUNTING CHARTS AND NOTES

Statement of financial position

Assets	Note	31/12/2020	31/12/2019
Intangible assets	1	291.736	428.146
Tangible assets	2	19.196.881	17.495.979
Equity investments	3		
- in subsidiary companies		16.374.006	16.028.680
- in associated companies		819.379	819.379
- other		1.024.498	1.024.498
Total Equity investments		18.217.883	17.872.557
Deferred tax assets	4	2.527.424	2.290.184
Other non-current assets	4	40.141.170	21.952.114
Total non current assets		80.375.094	60.038.980
Inventories	5	28.126.708	25.377.629
Accounts receivable	6		
- third parties		6.490.829	7.269.124
- subsidiary companies		24.867.577	25.798.187
- associated companies		483.684	684.941
Total Accounts receivable		31.842.090	33.752.252
Tax receivables	7	3.462.686	3.903.199
Other receivables	7		
- third parties		782.592	698.476
- subsidiary companies		6.769.264	7.107.523
- associated companies		261.565	61.565
Total Other receivables		7.813.421	7.867.564
Securities and other current financial assets	8	-	2.126.791
Cash and cash equivalents	9	17.649.208	29.449.845
Total current assets		88.894.113	102.477.280
Total Assets		169.269.207	162.516.260

Liabilities	Note	31/12/2020		31/12/2019
Share capital	10		2.549.589	2.537.965
Additional paid in capital	11		42.556.321	41.430.624
Other reserves	12		93.851.798	87.801.601
Treasury stock	13		-	-
Retained earnings / (accumulated deficit)	14		(984.283)	(984.283)
Net income / (loss)			238.265	5.833.175
Total shareholders' equity			138.211.690	136.619.082
Severance indemnity	15		848.236	853.700
Deferred tax liabilities	16		265.139	329.257
Other accruals	17		2.125.164	1.402.769
Financial debts and liabilities	18			
- third parties		370.479		573.179
Total Financial debts and liabilities			370.479	573.179
Total non current liabilities			3.609.018	3.158.905
Financial liabilities	19			
- third parties		4.317.532		4.317.848
Total Financial liabilities			4.317.532	4.317.848
Accounts payable	20			
- third parties		16.841.135		11.603.263
- subsidiary companies		471.371		1.093.885
- associated companies		12.000		18.000
Total Accounts payable			17.324.506	12.715.148
Income tax payables	21		4.752	24.741
Other current payables	21			
- third parties		5.779.595		5.668.856
- subsidiary companies		22.114		11.680
Total Other current payables			5.801.709	5.680.536
Total current liabilities			27.448.499	22.738.273
Total Liabilities and Shareholders' equity			169.269.207	162.516.260

Income Statement

Income Statement	Note	31/12/2020	31/12/2019
Revenues	22		
- third parties		26.237.101	24.232.455
- subsidiary companies		37.642.610	42.524.079
- associated companies		336.564	980.664
Total Revenues		64.216.275	67.737.198
Other revenues and income	23		
- third parties		399.844	283.077
- subsidiary companies		356.431	599.021
- associated companies		20.905	20.192
Total Other revenues and income		777.180	902.290
Revenues and income from operating activity		64.993.455	68.639.488
Purchase of raw materials	24		
- third parties		31.932.825	31.536.507
- subsidiary companies		944.865	1.180.640
Total Purchase of raw materials		32.877.690	32.717.147
Changes in inventory of finished goods		(730.078)	(388.902)
Change in inventory of raw material		(2.019.001)	(815.478)
Direct services	25		
- third parties		10.084.709	10.058.648
- subsidiary companies		37.494	53.519
Total Direct services		10.122.203	10.112.167
Other operating services and charges	25		
- third parties		5.915.047	7.381.711
- subsidiary companies		62.791	138.624
- associated companies		12.000	18.000
Total Other operating services and charges		5.989.838	7.538.335
Staff cost	26	15.433.487	16.247.058
Depreciation, amortization and other accruals	27	2.517.986	1.572.595
EBIT		801.330	1.656.566
Financial charges	28		
- third parties		(21.904)	(17.745)
- subsidiary companies		(17.047)	(34.432)
Total Financial charges		(38.951)	(52.177)
Financial income	28		
- third parties		233.951	595.548
- subsidiary companies		318.669	3.437.981
- associated companies		300	300
Total Financial income		552.920	4.033.829
Exchange gain (loss)	28	(443.938)	259.649
Other charges	29	(717.709)	(651.260)
Other income	29	-	-
Income (loss) before taxes		153.652	5.246.607
Income taxes	30	(84.613)	(586.568)
Income (loss) for the financial period		238.265	5.833.175

Statement of comprehensive income

	31/12/2020	31/12/2019
Reported net (loss) income	238.265	5.833.175
<u>Other income/(loss) that will not be entered in income statement net of fiscal effects:</u>		
Measurement of defined-benefit plans	(30.919)	(38.394)
Total other income/(loss), net of fiscal effects (B)	(30.919)	(38.394)
Total comprehensive (loss) income	207.346	5.794.781

Cash flow statement

Cash flow statement	Note	31/12/20	related parties	31/12/19	related parties
Operating activity					
Income (loss) for the financial period		238.265		5.833.175	
Amortizations and depreciations	27	1.808.161		1.582.415	
Gain/Loss on financial investments and equity investments	29	0		0	
Write-downs for impairment losses	29	419.903	419.903	478.890	478.890
Stock Option		176.968		507.618	
Severance indemnity	15	(46.148)		(48.648)	
Provisions for risks and charges	17	722.394		178.649	
Bad debt reserve	6	(253.218)	(279.558)	(47.356)	83.999
Deferred income tax assets	4	(227.478)		(51.672)	
Deferred income tax liabilities	16	(64.118)		(81.080)	
Inventories	5	(2.749.080)		(868.055)	
Accounts receivable	6	2.163.380	1.411.425	7.010.692	8.539.070
Tax receivables	7	440.513		237.233	
Other receivables	7	(496.929)	(348.913)	(509.693)	(305.250)
Accounts payable	20	4.609.359	(628.513)	2.162.536	311.679
Income tax payables	21	(19.989)		24.741	
Other payables	21	121.173	10.434	1.056.214	(139.022)
Cash flow generated by operating activity		6.843.156		17.465.659	
Investment activity					
Tangible assets	2	(3.003.466)		(2.428.322)	
Intangible assets	1	(114.536)		(423.315)	
Equity investments, securities and other financial assets	3-4-8	1.243.479	(694.256)	(847.597)	(479.922)
Financial receivables	7	(17.448.920)	(17.512.828)	(9.244.773)	(9.236.371)
Cash flow generated by investment activity		(19.323.443)		(12.944.007)	
Financing activity					
Non current financial liabilities	18	(417.417)		(117.692)	
Current financial liabilities	19	(40.254)		3.703.807	(276.608)
Capital increases	10	1.137.321		2.866.299	
Dividends paid	31	0		(7.718.989)	
Cash flow generated by financing activity		679.650		(1.266.574)	
Increase/(decrease) in cash and cash equivalents		(11.800.637)		3.255.078	
Cash and cash equivalents at the beginning of the financial period		29.449.845		26.194.767	
Cash and cash equivalents at the end of the financial period		17.649.208		29.449.845	

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 400 thousand Euros, of which 183 thousand Euros from subsidiary companies.

Income taxes for this financial year were 565 thousand Euros.

Changes in the Shareholders' equity

<i>Total shareholders' equity</i>	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						
<i>Other reserves:</i>						
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
<i>Total shareholders' equity</i>	134.965.792		-7.718.989	3.577.498	5.794.781	136.619.082

<i>Total shareholders' equity</i>	31/12/2019	Net income allocation	Dividends distributed	Other movements	Comprehensive income (loss)	31/12/2020
Share capital	2.537.965			11.624		2.549.589
Additional paid in capital	41.430.624			1.125.697		42.556.321
Legal reserve	537.302					537.302
Treasury stock						
<i>Other reserves:</i>						
Extraordinary reserve	82.477.079	5.833.175				88.310.254
Special reserve for grants received	426.657					426.657
Cumulative translation adjustment						
Other reserves	4.360.563			247.941	-30.919	4.577.585
Retained earnings / (accumulated deficit)	-984.283					-984.283
Net income / (loss)	5.833.175	-5.833.175			238.265	238.265
<i>Total shareholders' equity</i>	136.619.082			1.385.262	207.346	138.211.690

NOTES TO THE FINANCIAL STATEMENT

INFORMATION ON THE COMPANY

El.En. SpA is a corporation which was founded and is registered in Italy. Headquarters of the company are in Calenzano (Florence), Via Baldanzese 17.

Ordinary stock of the company is quoted on the MTA which is managed by Borsa Italiana SpA.

The El.En. Financial Statement was examined and approved by the Board of Directors on March 15th 2021.

The amounts shown in this statement are in Euros unless otherwise indicated.

PRINCIPLES USED FOR DRAWING UP THE FINANCIAL STATEMENT AND ACCOUNTING STANDARDS

The financial statement for 2020 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 2020. The financial information on the other hand refers to the situations on December 31st 2020 and December 31st 2019.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The financial statement as of December 31st 2020 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 2019 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 2020" 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 have taken into consideration the uncertainties generated by the spread of the Coronavirus, which are described in detail in the paragraph called "Covid-19 Emergency" which is contained in the Management Report. In particular, the entries which, due to their nature require that the administrators make a greater

use of estimates and for which we have considered the effects now being felt and potential of the economic storm caused by the Corona virus are:

- **Bad debt reserve;** this fund represents the best estimation of the management on the potential loss in the portfolio of accounts receivable. 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:

<i>Description</i>	<i>Depreciation percentage</i>
<i>Buildings</i>	
- buildings	3.00%
<i>Plants and machinery</i>	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
- other plants and machinery	15.50%
<i>Industrial and commercial equipment</i>	
- miscellaneous and minute equipment	25.00%
- kitchen equipment	25.00%
<i>Other goods</i>	
- 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 reliably. When the fair value cannot be reliably estimated, the 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 is 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

Accounts payable, 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.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS APPLIED SINCE JANUARY 1st 2020

For the accounting standards, amendments and interpretations applied since January 1st 2020, please consult the consolidated financial statement.

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
		01/01/2020	01/01/2020 - 31/12/2020	01/01/2020 - 31/12/2020	01/01/2020 - 31/12/2020	01/01/2020 - 31/12/2020	31/12/2020	31/12/2020	
Plan 2016-2025	31-dic-25	574.662			89.412		485.250	485.250	€ 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 2020 the average price registered for the El.En. S.p.A. stock was about 23,1 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:

	31/12/2019	Increase	Decrease	Revaluation / Devaluation	Other movements	Depreciation	31/12/2020
Development costs	242.819				-4.642	-153.314	84.863
Patents and rights to use patents of others	16.666					-3.334	13.332
Concessions, licenses, trade marks and similar rights	79.508	22.577			10.801	-53.882	59.004
Other intangible assets	653	71.100			48.200	-40.416	79.537
Intangible assets under construction and advance payments	88.500	30.000			-63.500		55.000
Total	428.146	123.677			-9.141	-250.946	291.736

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	31/12/2019	Increase	(Disposals)	Revaluation / Devaluation	Other movements	31/12/2020
Lands and buildings	17.125.406	423.535			218.992	17.767.933
Plants & machinery	3.493.210	1.626.244			886.147	6.005.601
Industrial and commercial equipment	6.127.697	583.977	-87.997		-364	6.623.313
Other assets	2.897.567	441.046	-91		56.997	3.395.519
Tangible assets under construction and advance payments	1.239.309	78.127			-1.268.259	49.177
Total	30.883.189	3.152.929	-88.088		-106.487	33.841.543
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	65.041				-2.149	62.892
Other assets right of use	402.937	111.850				514.787
Total	535.543	111.850			-2.149	645.244

Total	31.418.732	3.264.779	-88.088		-108.636	34.486.787
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Accumulated depreciation	31/12/2019	Depreciations	(Disposals)	Revaluation / Devaluation	Other movements	31/12/2020
Lands and buildings	4.325.492	434.123				4.759.615
Plants & machinery	2.331.767	292.367			-5.412	2.618.722
Industrial and commercial equipment	5.255.719	417.322	-81.449		-56.065	5.535.527
Other assets	1.866.950	256.153			-45.009	2.078.094
Tangible assets under construction and advance payments						
Total	13.779.928	1.399.965	-81.449		-106.486	14.991.958
Lands and buildings right of use	5.210	6.272			1	11.483
Plants & machinery right of use	13.310	13.310				26.620
Industrial and commercial equipment right of use	11.239	11.850			-2.130	20.959
Other assets right of use	113.066	125.820				238.886
Total	142.825	157.252			-2.129	297.948

Total	13.922.753	1.557.217	-81.449		-108.615	15.289.906
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Net value	31/12/2019	Increase	(Disposals)	Revaluation / Devaluation / Depreciations	Other movements	31/12/2020
Lands and buildings	12.799.914	423.535		-434.123	218.992	13.008.318
Plants & machinery	1.161.443	1.626.244		-292.367	891.559	3.386.879
Industrial and commercial equipment	871.978	583.977	-6.548	-417.322	55.701	1.087.786
Other assets	1.030.617	441.046	-91	-256.153	102.006	1.317.425
Tangible assets under construction and advance payments	1.239.309	78.127			-1.268.259	49.177
Total	17.103.261	3.152.929	-6.639	-1.399.965	-1	18.849.585
Lands and buildings right of use	32.408			-6.272	-1	26.135
Plants & machinery right of use	16.637			-13.310		3.327
Industrial and commercial equipment right of use	53.802			-11.850	-19	41.933
Other assets right of use	289.871	111.850		-125.820		275.901
Total	392.718	111.850		-157.252	-20	347.296

Total	17.495.979	3.264.779	-6.639	-1.557.217	-21	19.196.881
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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., Esthologue S.r.l., Pharmonia S.r.l. and Merit Due S.r.l. and its associated Elesta SpA 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 in the heading of “Lands and Buildings” is due to the purchase of a new building also in via Baldanzese and the remodeling conducted on the basis of the incentives of *Industria 4.0*.

The increase registered in the category of Plants and Machinery and Equipment are also related to the modernization work conducted as part of the *Industria 4.0* incentives.

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

In the column of “Other movements” of the various categories, we have registered the reclassification made to the respective categories of the assets under construction at the moment they were completed.

Equity investments (note 3)

Equities in subsidiary companies

Company name	Headquarters	Percentage held	Book value	Equity 31/12/2020	Result 31/12/2020	Share of equity	Difference
Ot-Las S.r.l.	Calenzano (ITA)	98,89%	3.224.616	23.309.148	15.431.806	23.050.416	19.825.800
Deka Mela S.r.l.	Calenzano (ITA)	85,00%	1.533.341	16.564.111	1.923.341	14.079.494	12.546.153
Esthelogue S.r.l.	Calenzano (ITA)	50,00%	50.000	-394.973	-419.548	-197.487	-247.487
Deka Sarl	Lione (FRA)	100,00%	0	-168.611	-347.358	-168.611	-168.611
Lasit S.p.A.	Torre Annunziata (ITA)	70,00%	1.117.166	9.987.497	1.840.018	6.991.248	5.874.082
Quanta System S.p.A.	Milano (ITA)	100,00%	8.053.031	48.784.845	11.175.200	48.784.845	40.731.814
Asclepion GmbH	Jena (GER)	50,00%	1.174.821	24.028.969	3.016.738	12.014.485	10.839.664
BRCT Inc.	New York (USA)	100,00%	1.128.446	-65.539	6.177	-65.539	-1.193.985
Deka Japan Co., Ltd	Tokyo (JAP)	55,00%	42.586	1.266.170	152.151	696.394	653.808
Cutlite do Brasil Ltda	Blumenau (BRASIL)	98,27%	0	-1.460.287	-558.680	-1.435.024	-1.435.024
Pharmonia S.r.l.	Calenzano (ITA)	100,00%	50.000	280.363	-3.788	280.363	230.363
<i>Total</i>			16.374.006	122.131.693	32.216.057	104.030.584	87.656.577

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).

The difference between the cost of the equity and the corresponding share of the shareholders' equity in Esthelogue Srl is not considered long-term loss in value since it refers to the temporary deferment of revenue already booked by the subsidiary.

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 31/12/2020	Result 31/12/2020	Share of equity	Difference
Actis S.r.l. (*)	Calenzano (ITA)	12,00%	1.240	350.924	-4.288	42.111	40.871
Elesta S.p.A.	Calenzano (ITA)	50,00%	543.939	1.651.885	-694.641	825.943	282.004
Immobiliare Del.Co. S.r.l.	Solbiate Olona (ITA)	30,00%	274.200	54.914	13.195	16.474	-257.726
<i>Total</i>			819.379	2.057.723	-685.734	884.528	65.149

(*) Data on December 31st 2019

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 (*)	465.337	114.413	-4.288	33.020	37.308
Elesta SpA	3.693.492	2.023.158	-694.641	1.787.326	2.481.967
Immobiliare Del.Co. Srl	805.874	750.960	13.195	184.622	171.427

(*)Data on December 31st 2019

Equities

Equity investments	31/12/2019			Movements of the period			31/12/2020		
	Cost	Reval./(Deval.)	Balance 31/12/2019	Changes	Reval./(Deval.)	Other movements	Balance 31/12/2020	Reval./(Deval.)	Cost
- in subsidiary companies									
Deka Mela S.r.l.	1.524.198		1.524.198	9.143			1.533.341		1.533.341
Ot-Las S.r.l.	2.988.634	-309.746	2.678.888	545.727			3.224.616	-309.746	3.534.362
Esthelogue S.r.l.	1.863.260	-1.574.583	288.677	2.479	-241.156		50.000	-1.815.739	1.865.739
Deka Sarl	3.345.358	-3.345.358		393.362	-178.747	-214.615		-3.738.720	3.738.720
Lasit S.p.A.	1.110.967		1.110.967	6.199			1.117.166		1.117.166
Quanta System S.p.A.	8.042.648		8.042.648	10.383			8.053.031		8.053.031
BRCT Inc.	1.128.446		1.128.446				1.128.446		1.128.446
Asclepion GmbH	1.162.269		1.162.269	12.552			1.174.821		1.174.821
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
<i>Total</i>	24.643.285	-8.614.606	16.028.680	979.845	-419.903	-214.615	16.374.006	-9.249.124	25.623.131

The main changes are related to the following equities: Otlas, where the company purchased minority shares; Deka Sarl, in which a recapitalization was made and subsequently an adaption of the value of the investment, considering that the shareholders’ equity was in part diminished by the losses they had suffered; Esthelogue, on which they adapted the value of the investment to the corresponding share of the shareholders’ equity which was in part already diminished by the losses suffered. For further details, please consult note 29.

Equity investments	31/12/2019			Movements of the period			31/12/2020		
	Cost	Reval.//(Deval.)	Balance 31/12/2019	Changes	Reval.//(Deval.)	Other movements	Balance 31/12/2020	Reval.//(Deval.)	Cost
- in associated companies									
Actis S.r.l.	1.240		1.240				1.240		1.240
Elesta S.p.A.	1.172.687	-628.747	543.940				543.939	-628.747	1.172.687
Immobiliare Del.Co. S.r.l.	274.200		274.200				274.200		274.200
<i>Total</i>	1.448.127	-628.747	819.379	0	0	0	819.379	-628.747	1.448.127

Equity investments	31/12/2019			Movements of the period			31/12/2020		
	Cost	Reval.//(Deval.)	Balance 31/12/2019	Changes	Reval.//(Deval.)	Other movements	Balance 31/12/2020	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				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
<i>Total</i>	1.389.184	-364.686	1.024.498	0	0	0	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)

<i>Other non-current assets</i>	31/12/2020	31/12/2019	Variation	Var. %
Financial receivables - subsidiaries	27.500.000	9.500.000	18.000.000	189,47%
Deferred tax assets	2.527.424	2.290.184	237.240	10,36%
Other non-current assets	12.641.170	12.452.114	189.056	1,52%
<i>Total</i>	42.668.594	24.242.298	18.426.296	76,01%

The financial receivables from subsidiary companies refer to:

- the mid- to long-term part of the financing issued in 2019 to the subsidiary 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).
- to the financing issued during 2020 to the subsidiary Otlas Srl for a total of 19 million Euros, to be paid back in deferred half-yearly installments starting on January 1st 2022, at the annual BCE + 0,25% rate as specified in note (7). This financing was issued for the purpose of acquiring the minority share in the subsidiary Penta Laser Equipment Wenzhou.

The heading of “Other non-current assets” refers 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:

	31/12/2020	31/12/2019	Variation	Var. %
Raw materials, consumables and supplies	14.630.478	12.611.477	2.019.001	16,01%
Work in progress and semi finished products	10.179.305	9.527.645	651.660	6,84%
Finished products and goods	3.316.925	3.238.507	78.418	2,42%
Total	28.126.708	25.377.629	2.749.079	10,83%

An analysis of the final inventory shows an increase in stock of 10,8%, which is due to a series of factors: the significant increase in the production volume in the last few months of the year, the need to offer our clients an excellent service in terms of delivery times and consequently to maintain an adequate level of stock, the difficulties encountered in the supply chain for making a rapid delivery of certain components whose slow delivery has forced us to increase the level of stock.

It should also be noted that the amounts shown above are net of the devaluation fund, as shown on the chart below.

	31/12/2020	31/12/2019	Variation	Var. %
Gross amount of Inventory	33.751.014	30.401.674	3.349.340	11,02%
Devaluation provision	-5.624.306	-5.024.045	-600.261	11,95%
Total	28.126.708	25.377.629	2.749.079	10,83%

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 600 thousand Euros with respect to December 31st 2019, while the incidence on the gross value of the inventory remained unchanged at about 17%.

Accounts receivable (note 6)

Receivables are composed as follows:

	31/12/2020	31/12/2019	Variation	Var. %
Accounts receivable from third parties	6.490.829	7.269.124	-778.295	-10,71%
Accounts receivable from subsidiaries	24.867.577	25.798.187	-930.610	-3,61%
Accounts receivable from associated	483.684	684.941	-201.257	-29,38%
Total	31.842.090	33.752.252	-1.910.162	-5,66%

<i>Accounts receivable from third parties</i>	31/12/2020	31/12/2019	Variation	Var. %
Italy	1.913.782	2.737.753	-823.971	-30,10%
EEC	2.217.214	1.019.275	1.197.939	117,53%
ROW	2.729.783	3.855.706	-1.125.923	-29,20%
minus: bad debt reserve	-369.950	-343.610	-26.340	7,67%
Total	6.490.829	7.269.124	-778.295	-10,71%

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.

	2020
At the beginning of the period	343.610
Provision	75.000
Amounts utilized and unused amounts reversed	-48.660
At the end of the period	369.950

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

Accounts receivable in:	31/12/2020	31/12/2019
Euros	3.315.463	4.588.153
USD	3.175.366	2.680.971
Total	6.490.829	7.269.124

The amount in Euros shown in the chart of the receivables originally expressed in US dollars or other currencies represents the amount in currency converted at the exchange rate in force on December 31st 2020 and December 31st 2019.

The chart below shows the analysis of the accounts receivable from third parties and from subsidiary companies for 2019 and for 2020:

<i>Accounts receivable from third parties</i>	31/12/2020	31/12/2019
To expire	4.188.455	4.689.734
Overdue:		
0-30 days	692.438	1.054.800
31-60 days	127.320	750.727
61-90 days	142.562	180.599
91-180 days	213.254	266.398
Over 180 days	1.126.800	326.866
Total	6.490.829	7.269.124

<i>Accounts receivable from subsidiaries</i>	31/12/2020	31/12/2019
To expire	10.759.522	9.578.699
Overdue:		
0-30 days	347.000	788.036
31-60 days	562.392	430.694
61-90 days	426.221	466.599
91-180 days	1.161.950	397.545
Over 180 days	11.610.492	14.136.614
Total	24.867.577	25.798.187

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:

	31/12/2020	31/12/2019	Variation	Var. %
Tax receivables				
VAT receivables	1.612.794	1.440.935	171.859	11,93%
Income tax receivables	1.849.892	2.462.264	-612.372	-24,87%
Total	3.462.686	3.903.199	-440.513	-11,29%
Current financial receivables				
Financial receivables - third parties	7.499	71.407	-63.908	-89,50%
Financial receivables - subsidiaries	5.901.461	6.588.633	-687.172	-10,43%
Financial receivables - associated	261.565	61.565	200.000	324,86%
Total	6.170.525	6.721.605	-551.080	-8,20%
Other current receivables				
Security deposits	78.183	130.178	-51.995	-39,94%
Advance payments to suppliers	242.559	221.779	20.780	9,37%
Other receivables	454.351	275.112	179.239	65,15%
Other receivables from subsidiary companies	867.803	518.890	348.913	67,24%
Total	1.642.896	1.145.959	496.937	43,36%
Total Current financial receivables e Other current receivables	7.813.421	7.867.564	-54.143	-0,69%

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, they include the tax credits which were recognized for research, development and innovation activities and those that replace benefits that were recognized in previous years in the form of iper and super amortizations.

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 including those mentioned in Note (4) are the following:

Group companies	m/l term amount (/1000)	Short term amount (/1000)	Currency	Annual rate
Asclepion Laser Technologies GmbH	-	985	Eur	BCE + 1% BCE + 1% on 500.000
Cutlite Penta S.r.l.	8.500	1.500	Eur	BCE + 0,5% on 9.500.000
Otlas Srl	19.000	-	Eur	BCE + 0,25% BCE + 1% (up to 1.065 thousand Euros) 4% (over 1.065 thousand Euros)
Esthelogue S.r.l.	-	1.298	Eur	BCE + 1%
Lasit S.p.A.	-	1.338	Eur	BCE + 1%
BRCT Inc.	-	519	USD	2,50%
Deka Medical Inc.	-	261	USD	2,50%

For further details on the financial receivables from subsidiaries and associated companies, please see the chapter, regarding “related parties”.

The entry of “Other receivables from subsidiary companies” entered in the section “Other current receivables” is related to the receivable from Ot-las and Deka Mela 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)

	31/12/2020	31/12/2019	Variation	Var. %
<i>Securities and other current financial assets</i>				
Other current financial assets		2.126.791	-2.126.791	-100,00%
Total		2.126.791	-2.126.791	-100,00%

The amount entered under the heading of “Securities and other current financial assets” on December 31st 2019 was made up of mutual funds that had been acquired by the Company for the purpose of a temporary use of cash. These securities were sold during the first half of 2020.

Cash and cash equivalents (note 9)

Cash and cash equivalents is composed as follows:

	31/12/2020	31/12/2019	Variation	Var. %
Bank and postal current accounts	17.642.248	29.444.053	-11.801.805	-40,08%
Cash on hand	6.960	5.792	1.168	20,17%
Total	17.649.208	29.449.845	-11.800.637	-40,07%

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 2020

The net financial position as of December 31st 2020 is composed as follows (in thousands of Euros).

Net financial position	31/12/2020	31/12/2019
Cash and bank	17.649	29.450
Financial instruments	0	2.127
Cash and cash equivalents	17.649	31.577
Current financial receivables	7	71
Bank short term loan	(4.003)	(4.001)
Part of financial long term liabilities due within 12 months	(314)	(317)
Financial short term liabilities	(4.318)	(4.318)
Net current financial position	13.339	27.330
Other long term financial liabilities - non current part	(370)	(573)
Financial long term liabilities	(370)	(573)
Net financial position	12.969	26.757

The net financial position showed a reduction of about 13,8 million Euros this year which was the effect of the mid- to long-term financing for the amount of 19 million Euros issued to the subsidiary Ot-las in order to sustain an extraordinary operation, the increase in the net working capital due to the sudden drop in demand and the investments now in progress for the re-organization of some the areas in the buildings in Calenzano. The distribution of a dividend to the shareholders which had been initially approved by the Board of Directors for the amount of 0,40 Euros per share was later suspended by the vote of the shareholders’ meeting which acknowledged the long-lasting nature of the fall in demand.

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 12,6 million Euros.

Financial receivables from subsidiaries and associated companies for an amount of 33.663 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 2020, the capital stock of El.En. was as follows:

Authorized (to stock option plan service)	Euros	2.612.671
Underwritten and deposited	Euros	2.549.589

Nominal value of each share - Euros

0,13

Category	31/12/2019	Increase	Decrease	31/12/2020
No. of Ordinary Shares	19.522.810	89.412	0	19.612.222
Total	19.522.810	89.412	0	19.612.222

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, c.c., 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, during 2020 the Parent Company issued 89.412 ordinary shares for the nominal amount of 11.623,56 Euros and cashed in 1.137 thousand Euros as an increase in capital with share premium.

It should also be noted that, the value of capitalization of the Company is currently greater with respect to the implicit values of the shareholders' equity on December 31st 2020.

Additional paid in capital (note 11)

On December 31st 2020 the share premium reserve amounted to 42.556 thousand Euros, an increase with respect to the 41.431 on December 31st 2019 due to the stock options which were picked up during the year, as described in the preceding note.

Other reserves (note 12)

	31/12/2020	31/12/2019	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	88.310.254	82.477.079	5.833.175	7,07%
Stock option/ stock based compensation reserve	4.753.358	4.505.417	247.941	5,50%
Special reserve for grants received	426.657	426.657		0,00%
Other reserves	-175.773	-144.854	-30.919	21,34%
Total	93.851.798	87.801.601	6.050.197	6,89%

On December 31st 2020 the “extraordinary reserve” amounted to 88.310 thousand Euros; the increase with respect to December 31st 2019 is due to the allocation of net income for 2019, in accordance with the resolution of the shareholders' meeting held on June 4th 2020.

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 which matured on December 31st 2020 of the stock option plan 2016-2025 described above.

The reserve for contributions in capital account must be considered a reserve of profits and is unchanged with respect to December 31st 2019.

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 of Management Report for 2019. On the date of this report, El.En. S.p.A. does not own any treasury stock and the above mentioned authorization expired definitively in July 2020.

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

<i>SHAREHOLDERS' EQUITY:</i>	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	2.549.589				
Additional paid in capital	42.556.321	ABC	42.556.321		
Legal reserve	537.302	B	537.302		
Reserve for treasury stock					
<i>Other reserves:</i>					
Extraordinary reserve	88.310.254	ABC	88.310.254		12.582.792
Reserve for contribution on capital account	426.657	ABC	426.657		
Retained earnings	-984.283	ABC	-984.283		
Other reserves	4.577.586	AB	13.392		
			130.859.643	0	12.582.792
Portion not distributable					
Portion distributable			130.859.643		

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.

31/12/2019	Provision	(Utilization)	Payment to complementary pension forms, to INPS fund and other movements	31/12/2020
853.700	726.968	-127.016	-605.416	848.236

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 2020 was 883 thousand Euros.

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

Financial hypotheses	Year 2019	Year 2020
Annual implementation rate	0,77%	0,3355%
Annual inflation rate	1,0%-1,2%-1,4% (*)	1,00%
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 0,3355%, 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.

	31/12/2019	Provision	(Utilization)	Other movements	31/12/2020
Deferred tax assets on inventory devaluation	1.203.567	147.078	-	-	1.350.645
Deferred tax assets on warranty reserve	97.680	4.320	-	-	102.000
Deferred tax assets on bad debt reserve	859.957	-	(91.847)	(1)	768.109
Deferred tax assets on losses carryforwards	3	-	(2)	(1)	-
Other deferred tax assets and on IAS adjust.	128.977	167.930	-	9.763	306.670
Total	2.290.184	319.328	(91.849)	9.761	2.527.424
Deferred tax liability on advance depreciations	124.470	-	-	-	124.470
Deferred tax liability on grants on capital account	78.762	-	(58.220)	-	20.542
Other deferred tax liabilities and on IAS adjust.	126.025	-	(5.898)	-	120.127
Total	329.257	-	(64.118)	-	265.139
Net	1.960.927	319.328	(27.731)	9.761	2.262.285

Deferred tax assets amounted to about 2,5 million Euros. The main variations this year are due to the decrease in deferred tax assets calculated on inventory devaluation and on the deferred payments included in the credits for other deferred taxes as well as the decrease in receivables associated with the bad debt fund that are not tax deductible.

Deferred tax liabilities amounted to 265 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.

	31/12/2019	Provision	(Utilization)	Other movements	Translation adjustment	31/12/2020
Reserve for pension costs and similar	80.106	22.703		-19.499		83.310
Warranty reserve on the products	407.001	18.000				425.001
Reserve for risks and charges		618.000				618.000
Other accruals	915.662	297.806	-214.615			998.853
Total	1.402.769	956.509	-214.615	-19.499		2.125.164

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 reserve for risks and charges is related to the costs of personnel for which, at the time of this report, we are not yet able to quantify precisely.

The accrual under the heading of “Other accruals” refers to the reserve for losses on equity in Cutlite Do Brasil and Dekka 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 2019	Year 2020
Annual implementation rate	0,77%	0,3355%
Annual inflation rate	1,0%-1,2%-1,4% (*)	1,00%

(*) 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:

<i>Financial m/l term debts</i>	31/12/2020	31/12/2019	Variation	Var. %
Amounts owed to leasing companies	207.717	247.655	-39.938	-16,13%
Amounts owed to other financiers	162.762	325.524	-162.762	-50,00%
Total	370.479	573.179	-202.700	-35,36%

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

The amount entered under the heading of “Amounts owed to other financiers” 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)

<i>Financial short term debts</i>	31/12/2020	31/12/2019	Variation	Var. %
Amounts owed to banks	4.003.418	4.000.815	2.603	0,07%
Amounts owed to leasing companies	145.641	148.560	-2.919	-1,96%
Amounts owed to other financiers	168.473	168.473		0,00%
Total	4.317.532	4.317.848	-316	-0,01%

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

Accounts Payable (note 20)

	31/12/2020	31/12/2019	Variation	Var. %
Accounts payable	16.841.135	11.603.263	5.237.872	45,14%
Amounts owed to subsidiary companies	471.371	1.093.885	-622.514	-56,91%
Amounts owed to associated companies	12.000	18.000	-6.000	-33,33%
Total	17.324.506	12.715.148	4.609.358	36,25%

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.

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

Accounts payable in:	31/12/2020	31/12/2019
Euros	14.918.371	10.139.122
USD	1.885.863	1.422.536
Other currencies	36.901	41.605
Total	16.841.135	11.603.263

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 2020 and on December 31st 2019.

Income tax payables /Other current payables (note 21)

The debts for income taxes on December 31st 2020 amounted to 5 thousand Euros and were entered net of the relative down payments and sums withheld.

The breakdown of the other current payables is the following:

	31/12/2020	31/12/2019	Variation	Var. %
<i>Social security debts</i>				
Debts to INPS	1.204.101	1.089.790	114.311	10,49%
Debts to INAIL	86.390	77.693	8.697	11,19%
Debts to other Social Security Institutions	164.261	149.681	14.580	9,74%
Total	1.454.752	1.317.164	137.588	10,45%
<i>Other debts</i>				
Debts to the tax authorities for withholding	866.799	1.090.271	-223.472	-20,50%
Other tax liabilities	857	857	857	
Debts to staff for wages and salaries	2.198.569	2.224.700	-26.131	-1,17%
Down payments	268.308	374.908	-106.600	-28,43%
Other debts to subsidiary companies	22.114	11.680	10.434	89,33%
Other debts	990.310	661.813	328.497	49,64%
Total	4.346.957	4.363.372	-16.415	-0,38%
Total Social security debts e Other debts	5.801.709	5.680.536	121.173	2,13%

The “Debts to staff for wages and salaries” includes, among other things, the debts for deferred salaries matured by employees as of December 31st 2020.

Analysis of debts according to due date

	31/12/2020			31/12/2019		
	<= 1 year	>1 year <= 5 years	> 5 years	<= 1 year	>1 year <= 5 years	> 5 years
Amounts owed to banks	4.003.418	-	-	4.000.815	-	-
Amounts owed to leasing companies	145.641	207.717	-	148.560	244.213	3.442
Amounts owed to other financiers	168.473	162.762	-	168.473	325.524	-
Accounts payable	16.841.135	-	-	11.603.263	-	-
Amounts owed to subsidiary companies	493.485	-	-	1.105.565	-	-
Amounts owed to associated companies	12.000	-	-	18.000	-	-
Income tax payables	4.752	-	-	24.741	-	-
Social security debts	1.454.752	-	-	1.317.164	-	-
Other debts	4.324.843	-	-	4.351.692	-	-
Total	27.448.499	370.479	-	22.738.273	569.737	3.442

Information on the Income Statement

Revenue (note 22)

	31/12/2020	31/12/2019	Variation	Var. %
Medical	53.564.534	55.426.245	-1.861.711	-3,36%
Industrial	10.651.741	12.310.953	-1.659.212	-13,48%
<i>Total revenue</i>	64.216.275	67.737.198	-3.520.923	-5,20%

The Company registered a sales volume of over 64 million Euros, a decrease of 5% with respect to 2019 but strongly accelerating at the end of the year.

Subdivision of revenue by geographical area

	31/12/2020	31/12/2019	Variation	Var. %
Italy	39.715.326	45.329.157	-5.613.831	-12,38%
Europe	11.185.565	10.451.584	733.981	7,02%
ROW	13.315.384	11.956.457	1.358.927	11,37%
Total revenue	64.216.275	67.737.198	-3.520.923	-5,20%

The effects of the pandemic were felt above all in Italy where there was a decrease in the revenue from technical assistance due to the reduction in activity by our clients and where the sales for systems registered a slight drop in particular the volume of direct sales by Deka due to the reduction in their exports and consequently the purchases from El.En. On the other hand, this year a growth in exports was registered, particularly in the United States and by the end of the year they were increasing rapidly thanks to the excellent work conducted by our distributors in the USA who were able to overcome the difficulties caused by the pandemic.

Other income (note 23)

Analysis of the other income is as follows:

	31/12/2020	31/12/2019	Variation	Var. %
Other income due to Insurance refunds	208.489		208.489	
Recovery of expenses	128.475	152.263	-23.788	-15,62%
Capital gains on disposal of fixed assets	23.937	6.303	17.634	279,77%
Other income	416.279	743.724	-327.445	-44,03%
<i>Total</i>	777.180	902.290	-125.110	-13,87%

The insurance refunds refer to an accident that occurred this year.

Costs for the purchase of goods (note 24)

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

	31/12/2020	31/12/2019	Variation	Var. %
Purchases of raw materials and finished products	31.830.610	31.544.902	285.708	0,91%
Packaging	458.381	513.313	-54.932	-10,70%
Shipping charges on purchases	292.782	320.186	-27.404	-8,56%
Other purchase expenses	290.939	320.770	-29.831	-9,30%
Other purchases	4.978	17.976	-12.998	-72,31%
<i>Total</i>	32.877.690	32.717.147	160.543	0,49%

The costs for purchases in 2020 were the same as that for 2019.

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

Breakdown of this category is shown on the chart below:

	31/12/2020	31/12/2019	Variation	Var. %
Direct services				
Outsourced processing	9.368.845	9.022.075	346.770	3,84%
Technical services on products	143.429	151.673	-8.244	-5,44%
Shipment charges on sales	241.478	265.686	-24.208	-9,11%
Sale commissions	13.005	66.988	-53.983	-80,59%
Royalties	122.400		122.400	
Travel expenses for technical assistance	55.796	142.994	-87.198	-60,98%
Other direct services	177.250	462.751	-285.501	-61,70%
<i>Total</i>	10.122.203	10.112.167	10.036	0,10%
Other operating services and charges				
Maintenance and technical assistance on equipment	370.080	431.270	-61.190	-14,19%
Commercial services and consulting	101.270	189.071	-87.801	-46,44%
Legal and administrative services and consulting	311.786	357.059	-45.273	-12,68%
Audit fees	119.416	112.828	6.588	5,84%
Insurances (no staff cost)	175.596	170.084	5.512	3,24%
Travel and accommodation expenses	97.998	527.658	-429.660	-81,43%
Trade shows	40.507	200.868	-160.361	-79,83%
Promotional and advertising fees	64.253	205.120	-140.867	-68,68%
Expenses related to real estate	885.544	893.304	-7.760	-0,87%
Other taxes	98.300	95.609	2.691	2,81%
Vehicles maintenance expenses	218.923	282.690	-63.767	-22,56%
Office supplies	52.023	48.351	3.672	7,59%
Hardware and Software assistance	323.988	266.228	57.760	21,70%
Bank charges	16.904	40.550	-23.646	-58,31%
Leases and rentals	190.276	191.935	-1.659	-0,86%
Salaries and indemnity to the Board of Directors and Board of Auditors	849.325	818.307	31.018	3,79%
Temporary employment	184.524	177.128	7.396	4,18%
Other services and charges	1.889.125	2.530.275	-641.150	-25,34%
<i>Total</i>	5.989.838	7.538.335	-1.548.497	-20,54%

The most significant decrease in the category of “direct services” is related to the commissions and travel for technical assistance which was caused by the slowdown in activities and the restrictions imposed as a consequence of the pandemic.

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 301 thousand Euros. For the costs related to research and development activities, please consult the description contained in the consolidated management report.

The forced reduction of the costs for travel and accommodations and trade fairs and symposiums represented the main source of savings in 2020 with respect to 2019.

Staff costs (note 26)

The chart below shows the costs for staff:

	31/12/2020	31/12/2019	Variation	Var. %
Wages and salaries	11.017.929	11.770.665	-752.736	-6,40%
Social security contributions	3.556.614	3.428.257	128.357	3,74%
Severance indemnity	720.407	650.754	69.653	10,70%
Staff costs for stock options/stock based compensation	138.537	397.382	-258.845	-65,14%
<i>Total</i>	15.433.487	16.247.058	-813.571	-5,01%

The decrease is due to the use of “Cassa Integrazione Guadagni” (CIG) to pay the employees which involved a large portion of the staff in the months of April and May and then gradually decreased until it was finally interrupted in August.

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:

	31/12/2020	31/12/2019	Variation	Var. %
Amortization of intangible assets	250.946	262.315	-11.369	-4,33%
Depreciation of tangible assets	1.399.965	1.177.276	222.689	18,92%
Depreciation of tangible assets right of use	157.252	142.825	14.427	10,10%
Accrual for bad debts	73.823	-9.821	83.644	-851,69%
Accrual for risks and charges	636.000		636.000	
<i>Total</i>	2.517.986	1.572.595	945.391	60,12%

The increase was caused by the depreciations due to the increase in investments made this year and the increase in the reserve accrued for risks.

In reference to the accruals for risks and charges, please consult Note 17.

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

The breakdown of the category is as follows:

	31/12/2020	31/12/2019	Variation	Var. %
Financial income				
Interests income on bank and postal deposits	10.185	227.873	-217.688	-95,53%
Dividends	135.579	3.275.000	-3.139.421	-95,86%
Dividends from other investments	9.678		9.678	
Financial income from subsidiary companies	183.090	162.981	20.109	12,34%
Financial income from associated companies	300	300		0,00%
Interests income from current securities and financial assets	189.056	192.120	-3.064	-1,59%
Capital gain and other income from current securities and financial assets	7.325	175.555	-168.230	-95,83%
Other financial income	17.707		17.707	
<i>Total</i>	552.920	4.033.829	-3.480.909	-86,29%
Financial charges				
Interests on bank debts and on short term loans	4.023		4.023	
Financial charges - subsidiary companies	17.047	34.432	-17.385	-50,49%
Other financial charges	17.881	17.745	136	0,77%
<i>Total</i>	38.951	52.177	-13.226	-25,35%
Exchange gain (loss)				
Exchange gains	205.338	407.167	-201.829	-49,57%
Exchange losses	-927.657	-85.510	-842.147	984,85%
Other exchange gains (losses)	278.381	-62.008	340.389	-548,94%
<i>Total</i>	-443.938	259.649	-703.587	-270,98%

During the year dividends from subsidiaries for an amount of 136 thousand Euros were distributed by the subsidiary Deka Japan.

The interest from securities and financial assets are related to investments of cash.

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 7 thousand Euros.

Other net income and charges (note 29)

	31/12/2020	31/12/2019	Variation	Var. %
Other charges				
Accrual for losses in group companies	297.806	172.370	125.436	72,77%
Devaluation of equity investment	419.903	478.890	-58.987	-12,32%
<i>Total</i>	717.709	651.260	66.449	10,20%

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 conducted directly on the value of the equity held in Deka Sarl and in Esthologue

As of December 31st 2020 there was no other income entered into accounts.

Income taxes (note 30)

	31/12/2020	31/12/2019	Variation	Var. %
IRES income taxes	453.338	647.055	-193.717	-29,94%
Income taxes - IRAP	81.908	128.194	-46.286	-36,11%
Deferred IRES income taxes	-275.235	-133.885	-141.350	105,58%
Deferred income taxes - IRAP	-16.361	1.133	-17.494	-1544,04%
Income tax receivable	-286.555		-286.555	
Charges (Income) for IRES from tax consolidation	17.166		17.166	
Other income tax	7.893	-4.987	12.880	-258,27%
Previous years tax	-66.767	-1.224.078	1.157.311	-94,55%
<i>Total</i>	-84.613	-586.568	501.955	-85,57%

Income taxes for this year were -85 thousand Euros as opposed to the -587 thousand Euros for last year.

The amount of income taxes this year was positively influenced by the credit based on the present regulations for the payment of IRAP 2019 and the first installment of IRAP 2020 and the tax credits for the research, development and innovation activities, as well as the tax credits replacing the benefits recognized in the preceding years in the form of iper and super amortizations.

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

	2020	2019
Profit/loss before taxes	153.652	5.246.607
Theoretical IRES Aliquot	24,00%	24,00%
Theoretical IRES	36.876	1.259.186
One time income tax charges	(46.342)	
Tax credit	(286.555)	
Charges (income) for IRES from fiscal consolidation	17.166	
Tax credit on patents (Patent Box)		(1.155.866)
Higher (lower) fiscal incidence with respect to the theoretical aliquot	128.694	(819.215)
Actual IRES	(150.161)	(715.895)
Actual IRES aliquot	-97,73%	-13,64%

The tax rate this year was effectively negative because of the strong impact of the tax credits as well as the partial tax refund received after the request submitted to the internal revenue agency for a refund of the IRES paid on the costs of the stock options which was not said at the time.

The break-down of the deferred tax assets and liabilities is shown in the chart for the preceding note (16). The amount of income taxes includes the balance related to this financial year.

Dividends distributed (note 31)

The shareholders' meeting of El.En. SpA which was held on May 15th 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

The shareholders' meeting of El.En. SpA held on June 4th 2020 voted to not distribute any dividends.

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

For the year 2020 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 7.000 Euros, besides the incentive bonus of 58.593 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 60.000 Euros and, as a member of the Board of Directors of With Us Co. Ltd he received the amount of 1.500 thousand yen. As part of the stock option plan for 2016-2025, he received the options that were granted to him when the plan was set up, as per the information report issued in compliance with art. 84-bis *Regolamento Emittenti Consob* for the amount of 9.000 Euros for this year.

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 CO₂ 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 differ slightly in accordance with the commercial policies of the company.

It should be mentioned that in October of 2002 El. En. SpA acquired, free of charge, from Deka Mela Srl a license for the use of the same brand name for marketing the laser equipment produced by El. En. for the dental-medical and aesthetic sector in some European and non-European countries.

The charts below show an analysis of the transactions which have taken place with the subsidiary and associated companies both for sales, purchases, accounts and financial payables and receivables.

Subsidiary companies:	Financial receivables		Other receivables		Accounts receivable	
	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Asclepion Laser Technologies GmbH	984.966				868.810	
Deka MELA Srl			601.024		7.118.472	
Otlas Srl		19.000.000	266.779		2.546.901	
Cutlite Penta Srl	1.500.000	8.500.000			6.059.557	
Esthelogue Srl	1.298.333				3.156.671	
Deka Sarl					2.167.789	
BRCT Inc.	519.078				3.262	
Lasit Spa	1.338.307				62.474	
Quanta System SpA					151.906	
ASA Srl					95.940	
Cutlite do Brasil Ltda					283.959	
Penta-Chutian Laser (Wuhan) Co. Ltd					3.251.004	
Deka Medical Inc	260.777				2.753.797	
Pharmonia Srl					1.220	
- Bad debt reserve					-3.654.184	
Total	5.901.461	27.500.000	867.803	-	24.867.577	-

Associated companies:	Financial Receivables		Accounts Receivable	
	< 1 year	> 1 year	< 1 year	> 1 year
Actis Srl	30.000		1.928	
Immobiliare Del.Co. Srl	31.565			
Elesta SpA	200.000		481.756	
Total	261.565	-	483.684	-

Subsidiary companies:	Financial payables		Other payables		Accounts Payable	
	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Asclepion Laser Technologies GmbH					81.211	
Deka MELA Srl					25.502	
Otlas Srl			4.942			
Cutlite Penta Srl					6.150	
Esthelogue Srl			17.172		41	
Deka Sarl					11.421	
Lasit Spa					209.608	
Quanta System SpA					106.894	
ASA Srl					153	
Penta-Chutian Laser (Wuhan) Co. Ltd					23.516	
Penta-Laser Equipment (Wenzhou) Co. Ltd					6.876	
Total			22.114		471.371	

Associated companies:	Financial payables		Other payables		Accounts Payable	
	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Actis Srl					12.000	
Total	-	-	-	-	12.000	-

Subsidiary companies:	Purchase raw materials	Services	Other	Total
Deka MELA Srl	25.900	59.517		85.417
Otlas Srl	22.269			22.269
Cutlite Penta Srl	7.902	3.692		11.594
Esthelogue Srl	34			34
Deka Sarl	15.421			15.421
Lasit Spa	454.657	180		454.837
Quanta System SpA	238.133	30.305		268.437
Asclepion Laser Technologies GmbH	166.826	3.316		170.143
ASA Srl	125			125
With Us Co Ltd	6.722			6.722
Deka Japan Ltd		3.274		3.274
Penta-Laser Equipment Wenzhou Co. Ltd	6.876			6.876
Total	944.865	100.285	-	1.045.150

Associated companies:	Purchase raw materials	Services	Other	Total
Actis Srl		12.000		12.000
Total	-	12.000	-	12.000

Subsidiary companies:	Sales	Services	Total
Deka MELA Srl	28.157.390	1.184.300	29.341.690
Otlas Srl	1.151.402	36.754	1.188.157
Cutlite Penta Srl	1.246.580	382.657	1.629.237
Esthelogue Srl	1.303.252	99.732	1.402.983
Deka Sarl	1.289.320	21.542	1.310.862
Lasit Spa	38.546	1.630	40.176
Asclepion Laser Technologies GmbH	1.358.244	266.255	1.624.499
Quanta System SpA	369.248	105.752	475.000
ASA Srl	482.871	1.529	484.400
Penta-Laser Equipment (Wenzhou) Co. Ltd	99.909		99.909
Cutlite do Brasil Ltda	43.946		43.946
Pharmonia Srl		1.750	1.750
Total	35.540.709	2.101.901	37.642.610

Associated companies:	Sales	Services	Total
Elesta SpA	236.439	100.125	336.564
Total	236.439	100.125	336.564

Subsidiary companies:	Other revenues
Deka MELA Srl	185.336
Otlas Srl	2.868
Cutlite Penta Srl	13.534
Esthelogue Srl	47.054
Deka Sarl	1.785
Lasit Spa	105.525
Quanta System SpA	304
ASA Srl	25
Total	356.431

Associated companies:	Other revenues
Elesta SpA	19.509
Actis Srl	1.395
Total	20.905

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. 183 thousand Euros in interest earned on the financing granted to subsidiary companies.

Among the “Other receivables” we have entered receivables from the fiscally consolidated companies Ot-las S.r.l. and Deka M.E.L.A for an amount of 868 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	18.217.883	17.193.385	94,38%
Receivables LT	27.500.000	27.500.000	100,00%
Accounts receivable	31.842.090	25.351.261	79,62%
Other current receivables	7.813.421	7.030.829	89,98%
Non current financial liabilities	370.479	-	0,00%
Current financial liabilities	4.317.532	-	0,00%
Accounts payable	17.324.506	483.371	2,79%
Other current payables	5.801.709	22.114	0,38%
Impact of related parties transactions on the income statement			
Revenues	64.216.275	37.979.174	59,14%
Other revenues and income	777.180	377.336	48,55%
Purchase of raw materials	32.877.690	944.865	2,87%
Direct services	10.122.203	37.494	0,37%
Other operating services and charges	5.989.838	74.791	1,25%
Financial charges	38.951	17.047	43,77%
Financial income	552.920	318.969	57,69%
Income taxes	(84.613)		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.

With the conclusion of the acquisition of the minority share of Penta Laser Wenzhou by Ot-las S.r.l., El.En. S.p.A. granted a guarantee in favor of the selling partner for the payment described in the earn-out clause for 40 million Renminbi (about 5 million Euros) in the case that they proceeded with an IPO of Penta Wenzhou within 5 years from the acquisition.

Cash and interest rate risks

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

Management of the capital

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

Financial Instruments (note 35)

Fair value

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

	Book value	Book value	Fair value	Fair value
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Financial assets				
Equities in other companies	1.024.498	1.024.498	1.024.498	1.024.498
Non current financial receivables	27.500.000	9.500.000	27.500.000	9.500.000
Current financial receivables	6.170.525	6.721.605	6.170.525	6.721.605
Securities and other non-current financial assets	12.638.062	12.449.006	12.638.062	12.449.006
Securities and other current financial assets	-	2.126.791	-	2.126.791
Cash and cash equivalents	17.649.208	29.449.845	17.649.208	29.449.845
Financial debts and liabilities				
Non current financial liabilities	370.479	573.179	370.479	573.179
Current financial liabilities	4.317.532	4.317.848	4.317.532	4.317.848

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 2020 the Company possesses the following securities evaluated at fair value:

	Level 1	Level 2	Level 3	Total
Investment contracts		12.638.062		12.638.062
Total	0	12.638.062	0	12.638.062

Other information (note 36)

Remuneration of directors and statutory auditors

	31/12/2020	31/12/2019	Variation	Var. %
Remuneration of directors	757.006	725.983	31.023	4,27%
Remuneration of statutory auditors	72.800	72.800	0	0,00%
Total	829.806	798.783	31.023	3,88%

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 shows the information requested for this type of public financing.

El.En. spa

Institution	Type of facilitatione	Description	Amount
Consortium CALEF	Paid position	Conduction of R&D activities related to the ELIOS project for the part to be done by the consortium member El.En. Spa (approved for financing in the form of contributions to expenses by MUR)	56.352

It should also be noted that the Company received facilitated financing for applied research (MILORD project), issued by FidiToscana during 2017 for the amount of 488.285 Euros to be paid back in 6 half-yearly installments starting in April 2020, last installment on October 31st 2022. During this year the Company paid back 162.762 Euros.

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 2020 related to auditing services.

	Company providing the service	Receiver	note	2020 fees (Euros)
Audit	Deloitte & Touche SpA	El.En. SpA		61.234
Certification services	Deloitte & Touche SpA	El.En. SpA	(1)	16.680
Other services	Deloitte & Touche SpA	El.En. SpA		-
				77.914

(1) Revision of the Non-Financial Statement

The honorariums shown are net of reimbursements for the expenses sustained and the contributions for supervision of the Consob.

Average number of employees subdivided by category

Personnel	Average of the period		Average of previous period		Variation	Var. %
	31/12/2020	31/12/2019	31/12/2020	31/12/2019		
Executives	15	15	15	15	0	0,00%
Middle managers	14	15	13	12	3	25,00%
White collar workers	130	135	124	125	10	8,00%
Blue collar workers	101	104	96	97	7	7,22%
Total	259	269	247	249	20	8,03%

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 2020.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the separate financial statement dated December 31st 2020:

- 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 15th 2021

Managing Director

Executive officer responsible for the
preparation of the financial statements

Ing. Andrea Cangioli

Dott. Enrico Romagnoli

**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, 2020, and the statement of income, 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, 2020, 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 balance sheet of El.En. S.p.A. as at December 31, 2020 includes inventory for an amount of Euro 28,127 thousand, net of a provision for inventory writedowns of Euro 5,624 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, if it is lower than cost, taking into account obsolete and slow-moving inventories.

The Company's valuation process for the provision is complex, and is based on assumptions developed in order to estimate the possible inventories excess 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 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;
- development of an accurate, independent estimate, processing and analyzing the data, in order to assess whether the estimate made by Management is reasonable.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of EL.EN. S.p.A. has appointed us on May 15, 2012 as auditors of the Company for the years from December 31, 2012 to December 31, 2020.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of EL.EN. S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of EL.EN. S.p.A. as at December 31, 2020, 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, 2020 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, 2020 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Neri Bandini
Partner

Florence, Italy
March 31, 2021

This report has been translated into the English language solely for the convenience of international readers

El. En. S.p.A.

Headquarters in Via Baldanzese, 17 Calenzano (Florence)

Registry of companies in Florence: n. 03137680488

Report of the Board of Statutory Auditors

(in compliance with art. 2429 c.c. and art. 153 del 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 draft of financial statement as of December 31st 2020 which was consigned to the Board of Statutory Auditors on March 15th 2021.

During the financial year 2020 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 and th recommendations contained in the Self-disciplining Code for companies quoted on the stock market approved by the Commission for Corporate Governance of the Borsa Italiana to which the Company belongs.

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 controlling the accounts in the separate and consolidation 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 Statutory Auditors

The Board of Statutory 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 financial statement related to the year 2021, in the persons of Vincenzo Pilla (President), Paolo Caselli and Rita Pelagotti (Acting auditors).

During 2020 the Board of Auditors conducted the activities assigned to them by holding 9 meetings and has participated with one or more of their members in all of the meetings to which it has been called and precisely: 1 shareholders’ meeting, 8 Board meetings, 4 meetings of the Risks and Controls Commission, 1 meeting of the Nominations Committee and 5 meetings of the Remuneration Committee.

2. Activities supervising the observance of the law and the company statutes

The Board of Statutory Auditors has periodically obtained from the board members, 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 2020 and are described by the BOD in the Management Report for 2020, the Board of Auditors wishes to call attention to the following in consideration of their relevance:

- In the first place, we wish to mention that, due to the effects of the emergency caused by the Covid-19 pandemic, the Board maintained constant exchanges of information with the authorities in charge of the respect of the safety regulations in the workplaces of the Company and the Group and constantly monitored the potential effects of this extraordinary event on the economic and financial situation of the Company and the Group. For more information please consult the relative chapter in this report.

- On January 3rd 2020 they registered the new business license for Penta Laser Wenzhou at the Chamber of Commerce in Wenzhou and consequently recognized the acquisition by Ot-las of an additional 29,6% share in the company for an amount of 20 million Euros. An earn-out of 5 million Euros must be paid in the case of an IPO of Penta Laser Wenzhou within 5 years of the agreement. Thanks to this transaction, which expands the presence of the Group in the control of the Chinese subsidiaries, the Group will be increasingly able to grasp the opportunities for development and growth in China, as demonstrated by the excellent results shown in the second half of 2020.
- On April 24th the Board of Directors of the Parent Company voted to suspend payment of the dividend and this proposal was approved by the Shareholders' meeting on June 20th 2020. In this regard, it should also be noted that the board meeting held on March 15th 2021 voted to propose to the Shareholders' meeting to distribute the amount of 0,40 Euros per share by drawing on the extraordinary reserve created with net income which had not been distributed in the years preceding December 31st 2017 for the corresponding amount of 7.858.528,80.
- Starting in mid-March, in order to limit the costs after the sudden drop in demand, all of the companies of the Group located in Italy made use of the CIG (*cassa interazione guadagni*) in compliance with the cash decree.
- On the 4th of September 2020 the subsidiary Cutlite Penta Srl stipulated a preliminary contract for the purchase of a building adjacent to the site in Prato where they now conduct their activities and which they considered necessary in order to meet the requirement for additional space for their growing production. This purchase was then concluded in early 2021 for an amount of about 4.6 million Euros.
- Starting in the month of November 2020, the new lockdowns imposed in Italy and the rest of Europe had a direct impact on the activities of the aesthetic and medical centers, and on all of the economic activities due to the restrictions in mobility. These new restrictions which, in fact, have continued up until now, have had a lesser effect than those which were imposed in the Spring of 2020.
- In the month of December the new "green factory" was inaugurated in Wenzhou with about 25.000 mq in buildings constructed with innovative techniques and areas available for production, research and development showrooms and application laboratories.

The Board of Statutory Auditors also wishes to call attention to the fact that:

- They have formulated their own proposal to the shareholders' meeting of El.En. S.p.a. for the assignment of the position of Independent Auditors in compliance with art. 13 e 17 of D.Lgs. 27th January 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 Statutory Auditors (or single auditors) of the subsidiaries Quanta System S.p.a., Lasit S.p.a., Ot-las S.r.l., Cutlite Penta S.r.l., Deka MELA S.r.l. and Esthologue 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 Statutory 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 updated in 2019 regarding 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 Statutory 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 Statutory 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 13th 2020.

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 Statutory 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 and in the Management Report.

The Board of Statutory 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 most 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 2020 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 Statutory 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 Statutory 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 15th 2021.

The Board of Statutory Auditors has verified the correct application by the Board of Directors of the criteria and the procedures adopted to evaluate the independence the independent administrators in compliance with. 3.C.5 of the Self-Disciplining Code.

The Board of Statutory Auditors confirms that during 2020 the Company started the activities aimed at implementing the variations necessary for a complete adoption of the new Corporate Governance Code issued by Borsa Italiana which entered into force in 2021.

8. Supervision activity of the auditing of accounts

In compliance with art. 19 del D.Lgs. 39/2010 the Board of Statutory 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 Statutory Auditors met with Deloitte on January 31st 2020 and examined Deloitte's annual Auditing Plan of El.En. S.p.a. 2020 which had been formulated by the latter and found it adequate; with the same auditing company periodic exchanges of information were held concerning the conduction of their respective activities. . The auditing company issued a report on the auditing of the consolidated half-yearly financial statement without finding any defects.

The draft of financial statement for the financial year ending on December 31st 2020, including the Management Report drawn up by the board members, as well as the declaration of the Managing Director and the Executive officer responsible for the preparation of the financial statements, was brought in for the approval of the Board of Directors at a meeting held on March 15th 2021 and was entirely placed at the disposal of the Board of Statutory Auditors.

On March 31st 2021 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 2020.

As far as the opinions and attestations are concerned, the Independent Auditors in their report on the auditing of the separate and consolidated financial statement:

- Issued an opinion stating that the separate financial statement of El.En. S.p.a. and the consolidated financial statement give a true and correct representation of the statement of financial position as of December 31st 2020, 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 2020 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 Statutory Auditors, in compliance with art. 6 of the Regulations (EU) n. 537/2014, from which it emerged that there were no significant defects in the system of internal controls and risk management, with attached the declaration in compliance with the above regulations from which it emerged that there were no situations which might compromise their independence.

The Independent Auditor, Deloitte, was also charged with the following tasks during 2020, 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 2020 (thousand of Euros)
Audit	Deloitte & Touche SpA	El.En. SpA		61,234
Certification services	Deloitte & Touche SpA	El.En. SpA	(1)	16,680
Other services	Deloitte & Touche SpA	El.En. SpA	(2)	0
Totale				77,914

(1) Revision of the non-financial statement

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

9. Remuneration policies

The Board of Statutory Auditors verified the company processes which have led to the definition of the remuneration policies of the company, in particular in relation to the Managing Director, the General Director and the managers with strategic responsibilities. The Nominations committee and the Remuneration committee reported to the Board of Directors meeting held on March 15th 2021.

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

During the financial year 2020 the Board of Statutory 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 with the exception of the favorable opinion (exclusion in compliance with Consob Regulation 17221/2010 and the Regulations for Disciplining the Operations with Related Parties opted by the Company) related to the transaction involving the subsidiaries Ot-las S.r.l., Penta Laser Wenzhou e Cutlite Penta S.r.l.

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 often refer to the effects the emergency caused by the spread of the Corona virus Covid-19 has had and will have on the activities of the Group and recall that besides the effects caused by the physical interruption of the production activities for several weeks, The main impact on the sales volume was indirect and was derived from the general reduction in demand caused by the limitations in circulation, assembly, social meeting, and the consequent fall in demand. This decrease in demand with respect to last year continued for the whole year in the medical sector and in the minor segments of the industrial sector, while for the segment of sheet metal cutting in the industrial sector the recovery was very rapid and by the end of the year registered rapid growth and acceleration.

We did not find any other circumstances which in this period determined a reduction in sales volume for the Company and for the Group except for those generated by the pandemic. As far as the short to mid-term outlook is concerned, despite the effects of the pandemic the board members predict a growth of over 10% for 2021.

12. Monitoring of the respect of the regulations as per D.Lgs. 30th December 2016 n. 254 – Consolidated Non-financial Statement.

In compliance with art. 3, sub-section 7 of D.Lgs. 254/2016, art. 2403 c.c. and art. 149 TUF, the Board of Auditors monitored the observance of the regulations established in the same decree in relation to the Consolidated Non-financial

Statement (NFS) prepared by the company with reference to the companies belonging to the industrial Group founded by El.En. S.p.a. and its subsidiaries.

The Board of Statutory Auditors consequently monitored the adequacy of the procedures, the processes and the structures involved in the production, reporting, calculation and representation of the results and of the information of a non-financial nature as well as the adequacy of the organizational, administrative and reporting and control systems organized by the Company for the purpose of formulating a correct and complete representation in the NFS of the activities of the Company, its results, and its impact in relation to the non-financial issues mentioned in art. 3, subsection 1, of D.Lgs. 254/2016.

The NFS was drawn up in conformity with the “GRI Sustainability Reporting Standards” published by the Global Reporting Initiative (GRI), which represent a universally recognized model for the reporting of economic, environmental and social performance of an organization, according to the “Core” option, i.e. using the universally applicable indicators which are considered important for most organizations.

The Independent Auditors charged with this task, Deloitte & Touche S.p.A., issued its opinion on Consolidated Non-financial Statement in compliance with art. 3, C.10, D.Lgs. 254/2016 and art. 5 Consob Regulation n. 20267 and concluded that no elements had been brought to their attention that indicated that the NFD of the Group was not drawn up, in all of its main aspects, in conformity with articles 3 and 4 of D.Lgs. 254/2016 and the GRI Standards.

No facts worthy of mention emerged from the monitoring activity of the Board in relation to this report.

13. Conclusions

Bearing in mind the situation described above, the Board of Statutory Auditors, in consideration of the contents of the reports issued by the Independent Auditors and the joint declarations 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 financial statement of El.En. S.p.a. as of December 31st 2020 and the allocation of the net income as restated by the Board of Directors on March 15th 2021.

Florence, March 31st 2021

The Board of Statutory Auditors

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

Dott. Paolo Caselli, acting auditor.

Dott.ssa Rita Pelagotti, acting auditor.