ANNUAL FINANCIAL REPORT 2016

El. En. Group

EL.EN. S.p.A.

ANNUAL FINANCIAL REPORT
as of December 31st 2016

El.En. S.p.A.
Headquarters in Calenzano (Florence) – Via Baldanzese n. 17
Capital stock: underwritten and paid € 2.508.671,36
Company registered with the Registro delle Imprese di Firenze n. 03137680488

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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 2016

INTRODUCTION

With a net income for the Group of 40,4 million Euros and a consolidated sales volume of 253 million Euros in 2016 the El.En. Group obtained the best results in the history of the company.
After a highly successful year like 2015 the goal of improving on those results was not easy to achieve, in particular the EBIT which rose to the maximum ever recorded by the Company, 21,5 million Euros. The demand for our products remained lively and besides registering an annual growth in the sales volume of 16,1%, the Group as able to improve their EBITwhich rose to 27,6 million Euros, equal to 10,9% of the sales volume and exceeded the company benchmark of 10%, thus setting a new record for the Company.
We will have the opportunity to comment in this report the most significant determinants of such a positive trend.

As far as the non-operational management was concerned, the sale of the last set of Cynosure shares (acquired in 2002, quoted on Nasdaq in 2005 and then sold off in a series of transactions between 2007 and 2016) contributed to the result with a capital gains of about 23 million Euros. It should be noted that the Cynosure operation, which brought the Company exceptional benefits from a financial point of view, was equally beneficial from an operational point of view since Cynosure was one of the most important clients of the Group and was also a partner in a series of successful operations for the distribution of laser systems which created new segments in the American market for laser applications in medicine.

In presenting these results to our shareholders we cannot hide the fact that we are particularly proud of them because they are the result of choices and investments made over the past few years, even in periods of crisis, which are now materializing in a highly successful outcome which is also being recognized by the financial markets. Very recently, in fact, in early March 2017, the quotation for the El.En. shares reached a record level of 27 Euros per share (after the share split of 1:4 made in 2016).

As far as the macro-economic context in which the Group operated in 2016, it was, on the whole, favorable, especially due to the stability of the exchange rate between the Euro and the US dollar which stayed around 1,1 dollar per Euro and reached 1,05 US dollars per Euro in the last week of the year; this level deprives our competitors with costs in US dollars of the considerable advantage they had up until 2014 because of the weak dollar.
The Group was also able to take advantage of the opportunities offered by a slight recovery on the Italian market, thanks in part to the tax incentives for investments offered by the "stability law" of 2016 (super depreciation) and, above all, the gradual improvement in the granting of loans also in the manufacturing sector.
Their global presence exposes the Group to the fluctuations in the various markets and to the crises that they face periodically; among the countries in which the Group has been the most penalized by economic and political difficulties we may mention first of all, Brazil and Turkey, and, to a lesser degree, Russia.

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 2016 in compliance with the international accounting standards approved by the European Commission.
In conformity with Legislative Decree 38/2005, starting in the financial year 2006 the annual financial statements of the parent company, El.En. S.p.A. (separate financial statement) has been drawn up according to the international accounting standards (IFRS); when reporting data related to the parent company we will refer to the above mentioned standards.

SIGNIFICANT EVENTS WHICH OCCURRED DURING THE FINANCIAL YEAR 2016

In the month of April El.En. S.p.A. sold 998.628 shares of Cynosure Inc. (Nasdaq CYNO) on the stock market, at an average price of about 45,10 US dollars per share net of sales commissions, for a total amount of about 45 million US dollars; after this transaction, El.En. no longer detains any shares in Cynosure Inc. The gross consolidated capital gains registered in the income statement was about 23 million Euros.

This operation did not in any way effect the relationship of cooperation between the two companies which continue to have profitable business relations, in particular the important contract for the distribution of the Mona Lisa Touch laser system for the treatment of vaginal atrophy.
With the definitive sale of the Cynosure shares El.En. conclude a highly successful investment which was begun in 2002 right after the Company was first quoted on the stock market; this investment is emblematic of El.En.'s capacity to combine the successes in product strategy and sale with those of a financial nature. The financial accouting alone of this investment registers an initial payment of 16 million Euros and revenue from the sale of shares over time for a total amount of 108 million Euros (IRR = 32%). To this, one must add the significant economic benefits that the company has had, has now and will have in the future from their relations with Cynosure in terms of sales volume for goods sold by El.En. to Cynosure, as well as the information and skills that have enriched the Group and which, along with the financial resources that have been gained, place El.En. in an excellent position to initiate a new cycle of investments.

On May 12th 2016 the Shareholders' meeting of the Parent Company El.En. S.p.A. approved the financial statement for December 31st 2015 and voted to distribute the net income for the year, amounting to 6.307.307,00 Euros, as follows:

- 518.065,40 Euros as extraordinary reserve;

- for the shares in circulation on the date that coupon 14 came due, May 23rd 2016 – in compliance with art. 2357-ter, second sub-section of the Civil Code – a dividend for the amount of 1,20 Euros gross for each share in circulation on the date of the resolution, for a total amount of 5.789.241,60 Euros;

- to accrue in a special reserve of retained earnings the residual dividend destined for any treasury stock that may be held by the Company on the date the coupon came due.

The ordinary assembly also voted to approve the report on remuneration, including incentives, ex art. 123-ter T.U.F.; the appointment of the board of Auditors and the president for the three year period 2016, 2017 and 2018 and the establishment of the relative remuneration, the approval of a stock option plan 2016-2025 confines to the administrators, collaborators and employees of the company and its subsidiaries.

The extraordinary assembly also voted on the following:

- the authorization to the Board of Directors ex art. 2443, II co., c.c. to increase, even several separate times and for separate amounts, within five years of the date of the resolution, the share capital, up to a maximum amount of 104.000,00 nominal Euros by issuing new shares to be destined to the beneficiaries of the stock option plan 2016-2025;

- to authorize the splitting of the share capital (on that date consisting of 4.824.368 ordinary shares having a nominal value of 0,52 Euros each) in 19.297.472 ordinary shares having a nominal value of 0,13 each. This operation must be conducted subsequent to the payment of the dividend that has been approved and the consequent modification of art. 6 of the Company by-laws.

In order to carry out this resolution, starting on May 30th 2016, they started splitting the 4.824.368 ordinary shares of the Parent Company by cancelling the ordinary shares having a nominal value of 0,52 Euros and assigning the newly issued ordinary shares having a value of 0,13 Euros each.

The splitting took place on June 1st 2016 by assigning four new ordinary El.En. SpA shares for each old ordinary El.En. SpA.

The share capital, which remains unchanged at 2.508.671,36 nominal Euros, is therefore represented by 19.297.472 ordinary shares having a nominal value of 0,13 Euros each.

It should be recalled that in the month of June all of the equity in Quanta System Asia Pacific Co.LTD was sold by the subsidiary Quanta System S.p.A which owned 19%.

On September 13th 2016, upon the advice of the Remuneration Committee, the Board of Directors deliberated about implementing a stock option plan for the years 2016-2025 ("*Piano di Stock Option* 2016-2025") in compliance with the mandate given them by the shareholders' meeting on May 12th 2016: consequently the Board identified the beneficiaries of the plan, the number of options to be assigned, the time limits and the price for underwriting the options.

The Board also proceeded to assign entirely and for the exclusive use of the plan, the faculty conferred on them by the assembly, in compliance with art. 2443, sub-section II, Civil Code, to increase, upon payment, even in tranches, and with the exclusion of the option right in compliance with art. 2441, sub-section V, Civil Code, the capital stock of 104.000,00 Euros by issuing 800.000 ordinary shares which can be underwritten by the Board members, collaborators and employees of El.En. s.p.a. and of its subsidiaries that are the recipients of the options in the above mentioned plan.
The options can be picked up in conformity with the terms and conditions of the Plan definitively approved on September 13th by the beneficiaries in two equal tranches: the first starting on September 14th 2019 until December 31st 2025 and the second from September 14th 2020 until December 31st 2025.
The Plan will end on December 31st 2025 and the options that have not been picked up by that date will lapse definitively, the capital stock will be considered definitively increased by the amount that was actually underwritten and released on that date.
According to the Plan, the following individuals will be assigned stock option rights: the President of the Board of Directors, Gabriele Clementi, the two managing directors Andrea Cangioli and Barbara Bazzocchi, a manager with strategic responsibilities, the El.En. s.p.a. executives that have positions as executive administrators of subsidiary companies, other El.En. s.p.a. executives that have significant roles, executive administrators of subsidiary companies that are considered of strategic importance for the development of the Group, persons belonging to the categories of employees who, for their professional and personal characteristics and loyalty to the company have an important role, or may have one in the future.
The Plan is defined particularly relevant in reference to articles 114-bis, sub-section 3 T.U.F. and 84-bis, sub-section 2, *Regolamento Emittenti Consob* since some recipients that have been identified are those indicated in the above mentioned articles. For the exact names and quantities that have been assigned, please refer to the table contained in the information sheet drawn up in conformity with art. 84-bis of the *Regolamento Emittenti Consob* 11971/1999, deposited at company headquarters and published on the site www.elengroup.com in the section *Investor Relations/Governance/Documenti societari/Piano di Stock Option 2016-2025* as well as the market storage site www.emarkestorage.com.
The price, including the share premium which must be paid by all those who are picking up the option in compliance with the Stock Option Plan 2016-2025, has been set at 12,72 Euros by the Board of Directors.
The price was calculated by the Board of Directors on the basis of the arithmetical average of the official prices registered by the shares on the market during the six months prior to September 13th 2016. The criteria for determining the price for the stock being issued for the Stock Option Plan was approved in compliance with articles 2441, sub-section VI of the Civil Code, and 158, sub-section II, T.U.F., issued by the Independent Auditors Deloitte & Touche s.p.a.. This favorable opinion was already published before the assembly and, in accordance with the law, is attached to the notary's statement, which is deposited with the Registry of Companies in Florence and can be consulted at company headquarters or at their site, www.elengroup.com in the section "*Investor Relations / Governance / Documenti Assembleari / 2016*" as well as on the authorized market storage site www.emarketstorage.com.
The Board of Directors also modified art. 6 of the relative by-law concerning capital stock to make it consistent with the described above resolutions.

On December 15th 2016 the Board of Directors of the Parent Company El.En. S.p.A. following a proposal by the president Gabriele Clementi, voted to appoint as General Manager of the company starting on January 1st 2017, Ing. Paolo Salvadeo, formerly Managing Director of Quanta System S.p.A..

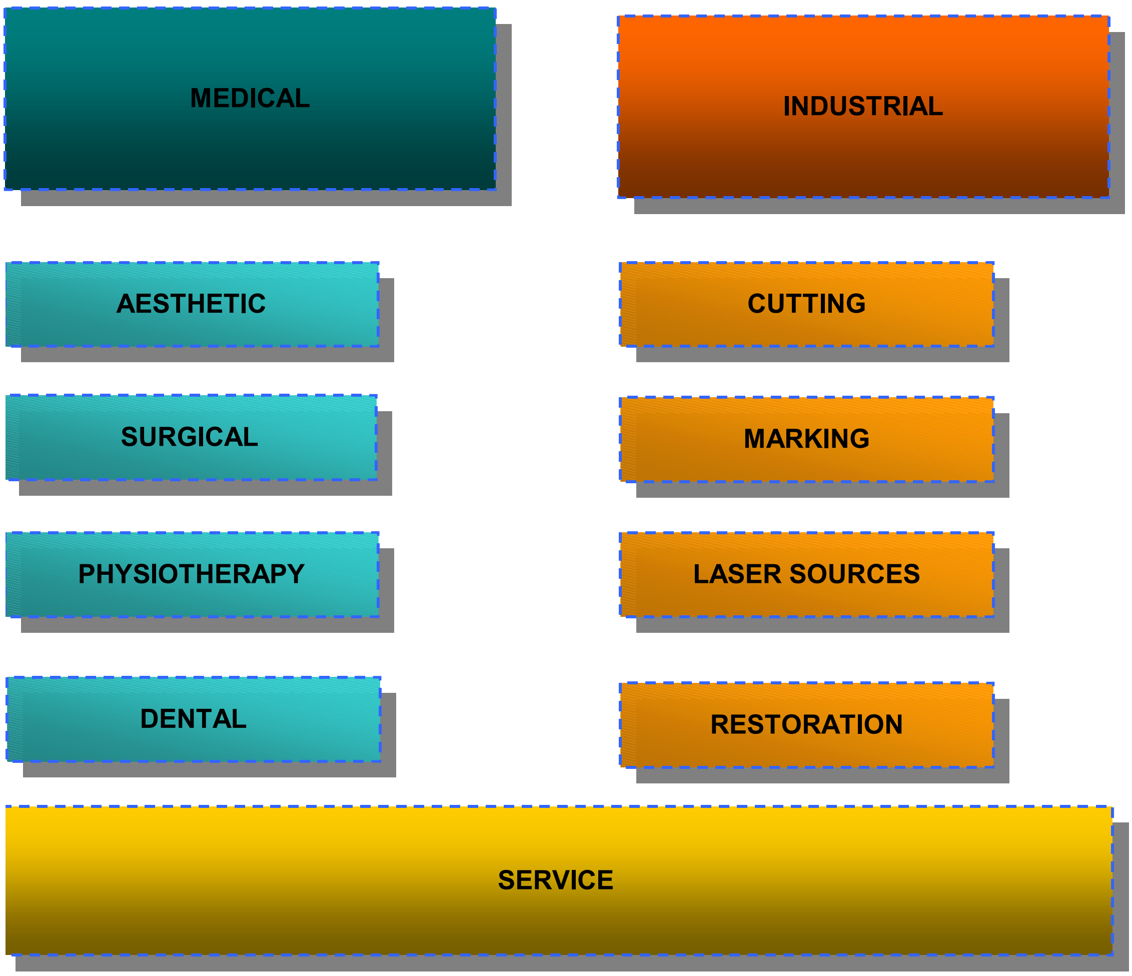
It should also be recalled that on December 23rd 2016 the entire equity in Smart Bleach International (SBI) SA was sold by the Parent Company El.En. SpA, which held 50%.

DESCRIPTION OF THE ACTIVITIES OF THE GROUP

El.En. SpA controls a group of companies operating in the field of manufacture, research and development, distribution and sales of laser systems. The structure of the Group has been created over the years as a result of the founding of new companies and the acquisition of the control of others. Each company has a specific role in the general activities of the Group which may be determined by the geographical area it covers, or by its particular merchandise niche, or even by a broader range of activities including different technologies, applications and geographical markets. The activities of all of the companies are coordinated by the Parent Company with an aim to improve coverage of the selling markets by optimizing the dynamism and flexibility of the single business units without losing the advantages of a unified management of the technical, managerial commercial and financial resources.

The Group conducts its activities in two major sectors: that of laser systems for medicine and aesthetics, and that of laser systems for manufacturing uses. In each of these two sectors the activities can be subdivided into segments which differ according to the specific application required from the system and consequently for the underlying technology and the kinds of users. Within the activity sector of the Group, which is generally defined as the manufacture of laser sources and systems, the range of clients varies considerably, especially if one considers the global presence of the Group and therefore, the necessity of dealing with the special requirements which every region in the world has in the application of our technologies.

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



A transversal and 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.

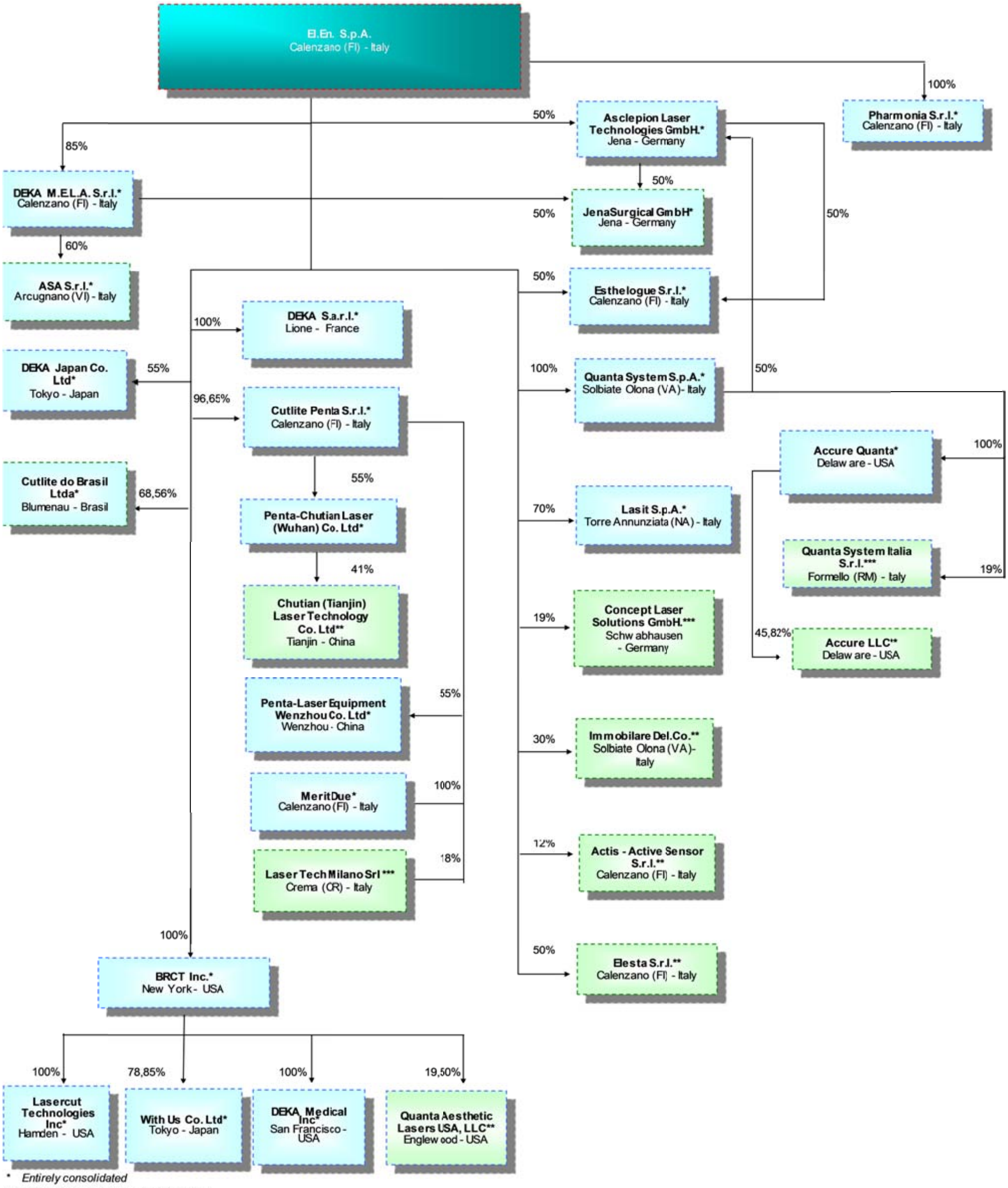
At the base of the constant growth that has been registered by the Group in the past few years and the promising outlook for development in which we have great faith, there are the forecasts and the expectations for a tendency toward growth in our two main markets. In the medical sector there is a growing demand for aesthetic and medical treatments by a population which on the average is growing older and increasingly desires to reduce the effects of aging; there is also a growing request for technologies capable of reducing the time required for some surgical operations or increase effectiveness by reducing the impact on the patient (minimal invasiveness) and reducing overall costs.
In the industrial sector laser systems represent an increasingly indispensable instrument in manufacturing by providing flexible and innovative technologies for manufacturers competing on the international market who wish to raise their qualitative standards. Although they remain within the traditional manufacturing market, laser systems represent a high-tech component which, thanks to the continuous innovation of the laser product and of the processes that lasers make possible, show a very significant outlook for growth.

The division of the Group into multiple companies also reflects the strategy for the distribution of their products and the coordinating of the various research and development and marketing activities. In fact, particularly in the medical sector, the various companies which through acquisitions have gradually become part of the Group (DEKA, Asclepion, Quanta System, Cynosure which left the Group at the end of 2012 and Asa) have always maintained their own special characteristics as far as the product typology and segment and their own distribution network which is independent from those of the other companies in the Group. At the same time, each one has been able to benefit from the cross-fertilization which the research teams have had on each other, thus creating centres of excellence for certain specific technologies which were made available also 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.

In conclusion, it should be pointed out that, in the presence of the excellent prospects for growth on our markets, the Group has been successful in acquiring new portions of the market and create new market niches thanks to their ability to innovate; in fact, the ability to continually innovate and place innovative products on the market which enable new applications, is the principal factor in the success achieved on our markets and has been our main competitive edge since the foundation of El.En. in 1981.

DESCRIPTION OF THE GROUP

On December 31st 2016 the structure of the Group was a follows:



* Entirely consolidated
** Consolidated using the equity method
*** Kept at fair value

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.

	31/12/2016	31/12/2015
Profitability ratios:		
ROE	28,6%	9,2%
(Net income / Share Capital and Reserves)		
ROI	9,2%	7,6%
(EBIT / Total assets)		
ROS	10,9%	9,9%
(EBIT/ Revenues)		
Structure ratios:		
Financial flexibility	0,78	0,65
(Current assets / Total assets)		
Leverage	1,08	1,11
((Shareholders' Equity + Financial liabilities) / Shareholders' Equity)		
Current Ratio	2,49	2,07
(Current assets / Current liabilities)		
Acid ratio	1,84	1,41
((Current receivables + Cash and cash equivalents+ Securities)/ Current liabilities)		
Quick ratio	1,03	0,55
((Cash and cash equivalents + Investments) / Current liabilities)		

In order to facilitate comprehension of the chart above and, in consideration of the regulations concerning alternative performance indicators, below we are giving the definitions of some terms used in the charts of the financial statement:

- Own Capital = Shareholders' equity of the Group – Net income (loss)

ALTERNATIVE NON-GAAP MEASURES

In compliance with the CESR/05-178b recommendations on alternative performance indicators, as part of the Management Report, besides the main financial figures required by IFRS, the Group is presenting some figures derived from these latter although they are not strictly required by the IFRS (non – GAAP measures). These figures are presented for the purpose of allowing for a better evaluation of the performance of the Group and should not be considered as alternatives to those required by the IFRS.
The Group uses the following alternative non-GAAP measures to evaluate the economic performance:

- The **earnings before interests and income taxes** or EBIT represents an indicator of operating performance and is determined by adding to the Net income (loss) for the period: the income tax, the other net income and charges, the quota of the earnings of the associated companies, the financial income/charges;

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

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

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

The alternative performance indicators are measures used by El.En SpA to monitor and evaluate the performance of the Group and are not defined as accounting measures either among the Italian Accounting Standards or in the IAS/IFRS. Therefore, the determining criteria applied by the Group may not be the same as that adopted by other operators and/or groups and for this reason may not be comparable.

GROUP FINANCIAL HIGHLIGHTS

The financial year 2016 ended with a consolidated sales volume of 253 million Euros, a growth of about 16,1% over 2015, and with an EBIT of 27,6 million Euros, an increase of 28% over last year and with an incidence on the sales volume of 10,9%.
Thanks to the exceptionally good trend in the fourth quarter, the Company was able not only to exceed the forecasts that had been made at the start of the year, but even the update of the guidance that was given later on. The updated guidance in fact forecast an annual growth in the sales volume of over 10% and a growth in the EBIT of 15%, while the final results showed 16% and 28% respectively.
The successful phase that the Company has been experiencing since the second quarter of 2014 continues and is stronger than ever with results that continue to improve.

The non-operative management contributed to the excellent results thanks to the capital gains generated by the sale of the last block of Cynosure Inc. shares held by the Parent Company El.En. S.p.A., which received 45 million US dollars from the operation which was conducted in April and earned a capital gains of about 23 million Euros at the consolidated level and 36,5 million Euros for the separate financial statement of El.En S.p.A. (the difference is due to the different accounting standards used for drawing up the financial statements; that of El.En. S.p.A. which, in the past did not register any increase in the value of the equity which, however, was registered in the consolidated financial statements).

Thanks to the contribution of the revenue from the ordinary operations and the significant amount of the capital gains, the net result of the Group for 2016 is over 40 million Euros.

At the base of the significant improvement that the Group has shown in the ordinary operations in the past few years, there is the simultaneous positive trend in most of the numerous activities in which the Group is involved: in fact, most of the merchandise and geographic segments in which the Group is active on a global level have registered growing sales volumes and profits, some of which are of an exceptional entity.
The Chinese Joint Ventures of Wuhan and Wenzhou, which are involved in the manufacture of laser systems for flat cutting of sheet metal for the domestic Chinese market, have recovered with increasing speed from the Chinese crisis of the Summer of 2015: the overall growth in local currency was 38%, 31% in Euros due to the weakness of the Chinese renminbi. The factory inaugurated in Wenzhou in the Summer of 2016 is now working at full capacity and is able to satisfy the growing volume of demand generated by the excellent mix of systems offered and a dense and efficient sales network. At this time, the Group is one of the most significant players in China in this segment. The rapid growth in the sales volume has made it possible to obtain a level in which the operating leverage begins to be felt and, consequently, also the revenue results become significant and with them, further prospects for growth on a market which still seems able to offer considerable room for growth.

Three years after its launching, the Mona Lisa Touch system (MLT) by Deka for the treatment of vaginal atrophy is still one of the main products of the Group, both for sales volume and representativeness. Although this product is now entering a phase of maturity, sales volumes for this year were still high. El.En. and Deka are financing important research studies in order to confirm and broaden the scope of gynecological applications of the system. In early 2017 Cynosure Inc., our MLT distributor in the United States, was acquired by Hologic Inc., a company with headquarters in Massachusetts, which is the world leader in the field of equipment for diagnostics and women’s health. It is still to early to evaluate the effects that this acquisition may have on the distribution of MLT in the United States; in any case, the statements made by the management of this giant American company (2,8 billion US dollars in sales volume in 2016) would seem to imply a particular attention towards this product.

Like the Chinese companies, Quanta System was also involved in a change of headquarters in 2016, but they easily overcame all of the logistic difficulties that the move comported to the new and expended operating offices in Samarate. The results for the fourth quarter were exceptional thanks also to the margins registered by products like Discovery Pico which, with an ingenious technological solution has allowed us to enter the pico-second laser system segment for the removal of tattoos and pigmented lesions; this is a segment in which only the most prestigious of our competitors are able to compete. The innovations continue with Discovery Pico Plus joining Discovery Pico; this device integrates a ruby laser source in order to satisfy the requirements for the removal of multi-color tattoos.

The German company Asclepion registered records in both sales volume and EBIT and net income. Their Mediostar system for hair removal is a reliable device with high performance which have made it a technological point of reference on numerous markets at a global level, mainly that of professional aesthetics in Italy where Esthelogue operates, and distributes Mediostar in Italy along with other systems produced by the Group.

Lasit and Cutlite Penta, our companies that have most of their clientele in the manufacturing sector, are now going through a positive phase and have recovered from the profound crisis which hit all of this sector in Italy. For both companies, 2016 was a record year both for sales volume and operating results. The custom marking systems produced by Lasit are able to satisfy the most varied requirements for product identification systems. Cutlite Penta strengthened their leadership in the segment of cutting of plastic materials and showed significant spurts of growth in the sector of flat cutting of sheet metal.

The ability to develop a constant growth in sales volume without significantly modifying the structure of overhead of the various activities of the Group has made it possible in only two years to reach and exceed the threshold of 10% on the sales volume for the EBIT, which for years was considered a benchmark for the activities of the Group. The incidence of the investments in start up and turn around activities on the total of the Group is now negligible, unlike that which was registered right after the 2008 crisis when we created the base for the recovery of the Company by sustaining expenses and investments which reduced our profitability.

In the section dedicated to the research and development activities, we will examine the main themes and point out the central role that our strategy has played in this area which is the prime and most critical factor in our success. The presence of various currents of research and development of new products and applications represents the foundation of our most important competitive weapon. Radical innovations in the past have made it possible to open new markets with a rapid increase in sales volume along with the high profits that usually go along with highly innovative products. Incremental innovations which improve the performance, function, ergonomics and aesthetics of certain systems, on the other hand, make it possible to maintain the competitive position in certain specific application sectors which represent a stable market. We also wish to call attention to the multi-disciplinary aspect of our research activity, on the product to the extent in which we improve our systems technologically, and on the process to the extent that the innovative technologies and meticulous applicative studies make it possible to implement new medical applications or manufacturing processes.

The chart below shows the subdivision of the sales volume among the various sectors of activity in which the Group operates for 2016 compared with that for 2015.

	31/12/2016	**Inc %**	**31/12/2015**	**Inc %**	**Var. %**
Medical	166.056	65,73%	147.102	67,58%	12,89%
Industrial	86.590	34,27%	70.568	32,42%	22,70%
Total revenue	**252.646**	**100,00%**	**217.670**	**100,00%**	**16,07%**

Both sectors grow to“double-digit”. Growth in the industrial sector is over 22%, while in the medical sector is about 13%.

The chart below shows the trend in sales volume divided according to the geographic area:

	31/12/2016	**Inc %**	**31/12/2015**	**Inc %**	**Var. %**
Italy	46.983	18,60%	38.475	17,68%	22,11%
Europe	43.832	17,35%	39.229	18,02%	11,73%
ROW	161.831	64,05%	139.966	64,30%	15,62%
Total revenue	**252.646**	**100,00%**	**217.670**	**100,00%**	**16,07%**

By taking advantage of the slight recovery on the domestic market, the Group showed the most significant growth on the Italian market, about 22%: the direct distribution network that operates in Italy both in the industrial and medical sectors was able to count on a range of products that was adequate for the requirements of the clientele, investments targeted towards the expansion of their presence on the market and conditions that had greatly improved with respect to the past from the point of view of the clients' ability to find financing for their technological investments.

Growth on the European markets is over 11% and on the non-European markets, 15%. Foreign markets represent overall more than 81% of the sales volume of the Group, thus highlighting the global dimension of our activity.

In the medical and aesthetic sector which represents 65% of the sales of the Group, the results of the sales in the various segments is shown on the following chart:

	31/12/2016	Inc %	31/12/2015	Inc %	Var. %
Aesthetic	83.984	50,58%	73.349	49,86%	14,50%
Surgical	37.233	22,42%	36.490	24,81%	2,04%
Physiotherapy	8.491	5,11%	7.656	5,20%	10,91%
Dental	346	0,21%	478	0,32%	-27,56%
Others	306	0,18%	92	0,06%	231,75%
Total medical systems	**130.361**	**78,50%**	**118.065**	**80,26%**	**10,41%**
Medical service	35.696	21,50%	29.037	19,74%	22,93%
Total medical revenue	**166.056**	**100,00%**	**147.102**	**100,00%**	**12,89%**

Thanks to an exceptional fourth quarter, the growth of the aesthetic sector, the most important segment of the medical sector, almost reached 15%.

The most significant applications and products for the Group i the aesthetic sector are for hair removal, removal of tattoos and pigmented lesions and skin rejuvenation. Hair removal is the most important and consolidated; this market is in gradual expansion thanks to the ability of manufacturers of systems to develop technologies that have improved the effectiveness and the economy of the treatments, thus broadening the range of potentially interested clients.

The Group has an excellent range of products for hair removal: the Motus AX was placed on the market in 2016 by Deka; it has an Alexandrite laser emission system which makes hair removal more accessible and less painful; the Mediostar (produced by Asclepion in the Next, Pro and Light versions) has become the point of reference in Italy in the professional aesthetics sector and has gained increasing success also on the international markets. The Repla:y by Deka and the Duetto Evo by Quanta complete the range alongside the Alexandrite hair removal systems with the functionality of Nd:YAG lasers, which are highly efficient for vascular treatments. Also for applications for the removal of tattoos and pigmented lesions, the products of the Group have an excellent position: the traditional nano-second systems offered by Quanta System, Q-Plus C and Asset, by Deka, the QS4 and by Asclepion, the Tattoo-Star, were joined in 2016 by the Discovery Pico developed by Quanta System with pico-second technology and characterized by a very high sales margin guaranteed by its innovative features. The erbium systems for ablation applications with CO_2 for skin rejuvenation complete the range offered in this segment along with the various technologies for body shaping.

The sales volume for the surgical segment remained stable and showed a slight increase of 2%. During 2015 there was an explosion in the sales of Mona Lisa Touch systems for the treatment of vaginal atrophy and these sales have remained significant but stable. The leadership of Deka in this segment is evident, thanks also to its position on the American market where the system is distributed by Cynosure Inc., which has a multi-year contract for exclusive distribution. The trend in the urology sector was also positive; in this sector the Quanta System systems for lithotripsy represent a point of reference which covers a large portion of the market. Sales of systems for the treatment of BPH (benign hyperplasy of the prostate), in which Quanta System and Jena Surgical are distinguished for their capacity to offer high powered systems with Tullium and Olmium technology, were also good.

The physical therapy sector showed a growth of over 10%. Asa of Vicenza leads the activities of the Group in this sector: thanks to their ability to develop highly effective systems and to supply clinical and marketing support along with them, making them very attractive and at the same time clinically proven, Asa has built a solid market position and has sustained progressive growth.

Growth of after-sales service and sales of consumables was 23% and greater than that registered for the systems. Usually there is a natural growth in this sector which is directly related to the number of systems installed, but in 2016 there was a major contribution from the sales of optical fibers, usually mono-use, which are employed in urological surgical operations. There was also an intense activity of upgrading of previously installed systems, in particular those for aesthetic hair removal applications.

For the industrial sector, the chart below shows the break-down of the sales by the market segments in which the Group operates:

	31/12/2016	Inc %	31/12/2015	Inc %	Var. %
Cutting	61.677	71,23%	47.665	67,55%	29,40%
Marking	13.548	15,65%	11.914	16,88%	13,72%
Laser sources	2.712	3,13%	2.631	3,73%	3,10%
Conservation	383	0,44%	522	0,74%	-26,76%
Total industrial systems	**78.320**	**90,45%**	**62.732**	**88,90%**	**24,85%**
Industrial service	8.270	9,55%	7.836	11,10%	5,54%
Total industrial revenue	**86.590**	**100,00%**	**70.568**	**100,00%**	**22,70%**

The growth rate remains high and allows us once again to comment with great satisfaction on the rapid development of the sales volume in this sector.

The cutting sector grew about 30% thanks to the excellent performance in China of the joint ventures of Wuhan and Wenzhou, specialized in systems for cutting sheet metal. The new factory of Wenzhou, which makes a much more efficient production possible, represented the stimulus for the improvement of all the activities which in 2016 saw a rise in quality in the perception of the client.

The growth was also due to the development of Cutlite Penta during the year, both in Italy and the rest of Europe; the benefits of the complete re-organization of operations which was conducted in recent years finally bore their fruits in 2016 with a significant increase in sales volume, in particular in the segment of plastic cutting but also in the segment of marking of large surfaces. Lasit of Torre Annunziata (Naples) also showed a positive trend; this company offers clients customized solutions that are capable of satisfying the most diverse requirements for serialization and identification of products and sub-assemblies of complex products.
The slight growth in sales volume in the segment of laser sources hides a result of much greater significance: the sales for 2016 exceeded the volume of those in 2015, although these latter had benefitted from a very large order; this fact demonstrates the capacity to rapidly amplify the clientele thanks to the attractiveness of our mid-powered RF sources. This segment in fact represents a good opportunity for growth for El.En., which, for this reason, is sustaining investments in the production lines, in the development of improvements in the product and in the support structure for sales.

The restoration sector must always be interpreted as a participation of the Group in the preservation of the artistic heritage at a global level and a homage to our location in one of the cradles of artistic production, to which we dedicate our technologies and in this way acquire a prestigious visibility as well as a modest economic return.

CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 31st 2016

The chart below shows the consolidated income statement for the year ending December 31st 2016 compared with that for 2015.

Income Statement	31/12/2016	Inc %	31/12/2015	Inc %	Var. %
Revenues	252.646	100,0%	217.670	100,0%	16,07%
Change in inventory of finished goods and WIP	3.401	1,3%	1.569	0,7%	116,74%
Other revenues and income	3.224	1,3%	2.326	1,1%	38,59%
Value of production	**259.272**	**102,6%**	**221.566**	**101,8%**	**17,02%**
Purchase of raw materials	129.636	51,3%	114.201	52,5%	13,52%
Change in inventory of raw material	(1.587)	-0,6%	(6.177)	-2,8%	-74,31%
Other direct services	20.689	8,2%	17.224	7,9%	20,12%
Gross margin	**110.533**	**43,8%**	**96.318**	**44,2%**	**14,76%**
Other operating services and charges	32.030	12,7%	28.515	13,1%	12,33%
Added value	**78.503**	**31,1%**	**67.803**	**31,1%**	**15,78%**
Staff cost	46.116	18,3%	42.136	19,4%	9,44%
EBITDA	**32.388**	**12,8%**	**25.666**	**11,8%**	**26,19%**
Depreciation, amortization and other accruals	4.794	1,9%	4.167	1,9%	15,03%
EBIT	**27.594**	**10,9%**	**21.499**	**9,9%**	**28,35%**
Net financial income (charges)	1.933	0,8%	1.346	0,6%	43,65%
Share of profit of associated companies	186	0,1%	278	0,1%	-33,18%
Other net income (charges)	23.009	9,1%	(10)	0,0%	
Income (loss) before taxes	**52.721**	**20,9%**	**23.113**	**10,6%**	**128,10%**
Income taxes	9.728	3,9%	7.064	3,2%	37,72%
Income (loss) for the financial period	**42.993**	**17,0%**	**16.049**	**7,4%**	**167,88%**
Net profit (loss) of minority interest	2.586	1,0%	1.678	0,8%	54,06%
Net income (loss)	**40.408**	**16,0%**	**14.371**	**6,6%**	**181,18%**

The gross margin was 110.533 thousand Euros, an increase of 14,8% with respect to the 96.318 thousand Euros for the same period last year; there was a slight drop in the margins on the sales which decreased to 43,8% from 44,2% for last year due to the variation in the mix of products in which the impact of the sales in the industrial sector in China increase and which is able to guarantee a good profitability but with sales margins that are below the average registered by The Group in other activities.

Again in 2016, as in previous years, some of sales were financed by the clientele with operating leasing. Although the Group received the price for the sale of the goods, in conformity with IAS/IFRS principles they are considered as income from multi-year rentals. In any case, the phenomenon had a minimum effect on the consolidated results for the period, and it is related only to the Italian market.

The costs for operating services and chares was 32.030 thousand Euros, an increase of 12,3% with respect to the 28.515 thousand Euros for 2015. The incidence on the sales volume decreased from 13,1% for last year to 12,7%: the constant control of the operating costs represents an important contribution to reaching the high levels of profitability shown for this period.

Similarly, the cost for personnel which amounted to 46.116 thousand Euros, registered an increase of 9,4% with respect to the 42.136 thousand Euros for last year, with an incidence on the sales volume which decreased from 19,4% in 2015 to 18,3% in 2016.

As of December 31st 2016 there were 1.093 employees in the Group, an increase of over 100 people with respect the 965 registered on December 31st 2015. Most of the new hiring was done by the Chinese subsidiary Penta Laser Equipment (Wenzhou) which started production this year.

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.

The grants that had been received by December 31st 2016 amounted to 1.257 thousand Euros, an increase with respect to the 397 thousand Euros registered for last year, with a consequent benefit for the gross margin. After the assignment of the stock options to employees and collaborators, among the personnel expenses are registers the figurative costs calculated for the stock option plan: for 2016 the cost was 207 thousand Euros.

The EBITDA amounted to 32.388 thousand Euros showing an increase of 26,2% with respect to the 25.666 thousand Euros for 2015.

The cost for amortizations, depreciations and accruals was 4.794 thousand Euros, a slight increase with respect to 4.167 thousand Euros registered on December 31st 2015.

The EBIT, therefore, amounted to 27.594 thousand Euros, a significant increase with respect to the 21.499 thousand Euros shown on December 31st 2015. The incidence on the sales volume was 10,9% , showing an increase with respect to the 9,9% for last year and represents an extremely important result for the Group.

The financial income amounted to 1.933 thousand Euros with respect to the 346 thousand Euros registered for last year. The weakness of the Euro registered particularly in the fourth quarter was the cause of a revaluation of some receivables in foreign currency, in particular those in dollars, and the consequent positive exchange difference which represents the majority of the financial income. Moreover, besides the significant effects on the receivables in foreign currency, it should be recalled that a strong US dollar is a significant element in determining our ability to compete on the International markets, where we must face competitors who operate in dollars or have the US dollar as their currency of reference.

In addition to the excellent results obtained by the operating activities, the category of “Other net income and charges” registered an amount of 23.009 thousand Euros on December 31st 2016; this consisted of the capital gains earned from the sale by El.En. S.p.A., in the month of April of 998.628 shares of Cynosure Inc. (Nasdaq CYNO), at an average price of about 45,10 US dollars per share, net of sales commissions, for a total amount of about 45 million US dollars.

The pre-tax income was 52.721 thousand Euros, compared with the 23.113 thousand Euros for 2015.

The costs for income current and deferred taxes this year was 9.728 thousand Euros: the overall tax rate was 18%. For details concerning taxes and tax rates, please consult the relative chart in the Explanatory Notes. It should be recalled that the capital gains entered in the financial statement for the sale of the Cynosure shares is influenced in part by the fiscal exemption known by the name of PEX.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL POSITION AS OF DECEMBER 31st 2016

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

Statement of financial position	31/12/2016	31/12/2015	Variation
Intangible assets	3.896	3.858	38
Tangible assets	39.616	32.621	6.995
Equity investments	3.818	44.556	-40.739
Deferred tax assets	6.526	6.085	441
Other non current assets	10.881	10.646	235
Total non current assets	**64.737**	**97.766**	**-33.029**
Inventories	62.138	58.061	4.077
Accounts receivable	62.446	61.327	1.119
Tax receivables	5.213	7.826	-2.613
Other receivables	8.564	7.262	1.302
Financial instruments	0	1.965	-1.965
Cash and cash equivalents	97.589	46.990	50.600
Total current assets	**235.950**	**183.431**	**52.519**
Total Assets	**300.687**	**281.197**	**19.491**
Share capital	2.509	2.509	
Additional paid in capital	38.594	38.594	
Other reserves	64.137	86.875	-22.738
Retained earnings / (accumulated deficit)	36.188	28.117	8.070
Net income / (loss)	40.408	14.371	26.037
Group shareholders' equity	**181.835**	**170.466**	**11.369**
Minority interest	10.864	9.073	1.791
Total shareholders' equity	**192.699**	**179.539**	**13.160**
Severance indemnity	3.861	3.376	485
Deferred tax liabilities	1.607	1.638	-31
Reserve for risks and charges	3.514	2.890	625
Financial debts and liabilities	4.342	4.998	-656
Total non current liabilities	**13.324**	**12.902**	**422**
Financial liabilities	10.613	14.363	-3.750
Accounts payable	44.694	42.065	2.629
Income tax payables	4.285	3.842	443
Other current payables	35.072	28.487	6.586
Total current liabilities	**94.664**	**88.756**	**5.908**
Total Liabilities and Shareholders' equity	**300.687**	**281.197**	**19.491**

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 2016 is the following:

Net financial position	**31/12/2016**	**31/12/2015**
Cash and bank	97.589	46.990
Financial instruments	0	1.965
Cash and cash equivalents	**97.589**	**48.954**
Current financial receivables	**150**	**222**
Bank short term loan	(7.991)	(11.593)
Part of financial long term liabilities due within 12 months	(2.621)	(2.770)
Financial short term liabilities	**(10.613)**	**(14.363)**
Net current financial position	**87.127**	**34.813**
Bank long term loan	(1.231)	(1.831)
Other long term financial liabilities	(3.111)	(3.167)
Financial long term liabilities	**(4.342)**	**(4.998)**
Net financial position	**82.784**	**29.815**

The net financial position of the Group increased by about 53 million Euros with respect to the end of 2015, thanks mainly to the sale of the Cynosure Inc. (Nasdaq CYNO) shares which took place in the month of April for a total amount of 45 million US dollars but also the cash generated by the ordinary operations. It should also be recalled that during the year dividends were paid to third parties by the Parent Company El.En. S.p.A. for about 5,8 million Euros and by the subsidiary Deka Mela S.r.l., Lasit S.p.A. and ASA S.r.l. for an overall amount of 0,6 million Euros.

Concerning the financial impact of the investment activities, those related to the acquisition and building or renovation of new factories involved the sites at Wenzhou, Samarate and Calenzano during 2016 comported a payment of over 7 million Euros.

It should also be remembered that 10,5 million Euros in cash was used for temporary financial investments, the nature of which require that be entered among the non-current assets and, consequently, excluded from the net financial position.

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

	31/12/16 Capital and reserves	**31/12/16 Income statement**	**31/12/15 Capital and reserves**	**31/12/15 Income statement**
Balance per parent company statement	**145.817**	**41.511**	**146.986**	**6.307**
Elimination of investments in subsidiary companies:				
- share of profit (loss) of subsidiary companies		12.747		9.172
- share of profit (loss) of associated companies		183		278
- elimination of rectification of value of equities		425		680
- elimination of dividends		(1.472)		(1.218)
- value adjustment of the Cynosure equity and rectification of the capital gains		(13.493)		0
- other (charges) income		250		(626)
Total contribution of subsidiary companies	38.659	(1.360)	26.390	8.286
Elimination of intercompany profits on inventory	(2.298)	160	(2.458)	(152)
Elimination of intercompany profits from sales of fixed assets	(343)	97	(451)	(70)
Balance as per consolidated statement – Group quota	**181.835**	**40.408**	**170.466**	**14.371**
Balance as per consolidated statement – Third party quota	**10.864**	**2.586**	**9.073**	**1.678**
Balance as per consolidated statement	**192.699**	**42.993**	**179.539**	**16.049**

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 and 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.

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.

	31/12/2016	Inc %	31/12/2015	Inc %	Var. %
Medical	46.936	81,92%	51.578	82,95%	-9,00%
Industrial	10.356	18,08%	10.604	17,05%	-2,34%
Total revenue	**57.291**	**100,00%**	**62.182**	**100,00%**	**-7,86%**

The Company registered a sales volume of 57 million Euros, a decrease of 7,9% with respect to the record sales volume of 2015.
The reduction of about 5 million Euros in sales volume during this year can be attributed to two well defined factors: an extremely import non-repeatable order in the industrial sector completed in the early months of 2015 and the substantial end of production of a line of products in the final phase of their life cycle but which had contributed significantly to the sales volume in 2015. If we exclude these two phenomena, the activity registered an improvement in almost all of its segments but was unable to offset the effects of the drop in sales volume.

Income statement as of December 31st 2016

Income Statement	31/12/2016	Inc %	31/12/2015	Inc %	Var. %
Revenues	57.291	100,0%	62.182	100,0%	-7,86%
Change in inventory of finished goods and WIP	(451)	-0,8%	1.279	2,1%	
Other revenues and income	1.511	2,6%	688	1,1%	119,47%
Value of production	**58.351**	**101,9%**	**64.149**	**103,2%**	**-9,04%**
Purchase of raw materials	27.251	47,6%	35.274	56,7%	-22,74%
Change in inventory of raw material	2.193	3,8%	(3.721)	-6,0%	
Other direct services	4.239	7,4%	4.908	7,9%	-13,63%
Gross margin	**24.669**	**43,1%**	**27.688**	**44,5%**	**-10,90%**
Other operating services and charges	6.175	10,8%	6.223	10,0%	-0,78%
Added value	**18.494**	**32,3%**	**21.465**	**34,5%**	**-13,84%**
Staff cost	13.121	22,9%	12.216	19,6%	7,41%
EBITDA	**5.373**	**9,4%**	**9.249**	**14,9%**	**-41,90%**
Depreciation, amortization and other accruals	1.358	2,4%	1.406	2,3%	-3,44%
EBIT	**4.015**	**7,0%**	**7.842**	**12,6%**	**-48,80%**
Net financial income (charges)	3.899	6,8%	1.868	3,0%	108,73%
Other net income (charges)	36.079	63,0%	(697)	-1,1%	
Income (loss) before taxes	**43.993**	**76,8%**	**9.013**	**14,5%**	**388,10%**
Income taxes	2.482	4,3%	2.706	4,4%	-8,28%
Net income (loss)	**41.511**	**72,5%**	**6.307**	**10,1%**	**558,14%**

The gross margin was 24.669 thousand Euros, a decrease of 10,9% with respect to 27.688 thousand Euros for the same period last year; the incidence on the sales volume dropped to 43,1% from 44,5% on December 31st 2015 despite the increase in the amount of research grants: the drop in the sales of the above mentioned product in fact, was related to a product that had margins that were higher than average for other products and services we sell. Moreover, during the year, significant devaluations were made on raw materials and semi-finished products used for some types of laser sources which underwent a rapid process of obsolescence.

The cost for operating services and charges was 6.175 thousand Euros and showed a decrease with respect to the 6.223 thousand Euros for the same period last year and with an incidence on the sales volume which rose slightly from 10% on December 31st 2015 to 10,8% for this year.

The cost for personnel was 13.121 thousand Euros and showed an increase of 7,4% with respect to the 12.216 thousand Euros for last year with an incidence on the sales volume which rose from 19,6% for 2015 to 22,9% for this year. On December 31st 2016 the number of employees in the company was 215, an increase with respect to the 207 registered on December 31st 2015.

A large portion of the personnel expenses is directed towards research and development, for which El.En. S.p.A. receives grants and reimbursements in relation to specific contracts underwritten by the institutions created for this purpose. The grants entered into accounts as of December 31st 2016 amounted to 956 thousand Euros, whereas last year they amounted to 122 thousand Euros.

For the reasons explained above, the EBITDA was 5.373 thousand Euros, a decrease with respect to the 9.249 thousand Euros for the preceding year, with an incidence on the sales volume which decreased from 14,9% on December 31st 2015 to 9,4% for this year.

The costs for amortizations, depreciations and accruals were 1.358 thousand Euros, showing a slight drop with respect to the 1.406 thousand Euros registered on December 31st 2015.

The EBIT therefore dropped from 7.842 thousand Euros on December 31st 2015 to 4.015 thousand Euros for this year, a decrease which reflects the drop in sales volume and a worse mix of products sold in terms of sales margins while maintaining a high level of costs, in particular for research and development and marketing.

The financial income amounted to 3.899 thousand Euros, an increase with respect to the 1.868 thousand Euros for the year ending on December 31st 2015, thanks also to the positive exchange rate difference on the cash generated in US dollars by the sale of the residual shares in Cynosure Inc., which benefitted from the strong US dollar. The incidence on the sales volume rose from 3,0% on December 31st 2015 to 6,8% for this year.
The results of the financial management remain very good also because of the significant dividends received by the subsidiaries, Deka M.E.L.A. S.r.l. for 510 thousand Euros, Quanta System S.p.A. for 300 thousand Euros, Lasit S.p.A. for 140 thousand Euros, an indication of their capacity to generate cash by making it available to the shareholders.

The other net income included the capital gains of 36.507 thousand Euros as a result of the sale of 998.628 shares of Cynosure Inc. already described above. However, the devaluation made on the value of the equity held in Cutlite do Brasil and the capital losses registered on the sale of the quota held in SBI SA comported the entry of financial charges.

The pre-tax income therefore amounted to 43.992 thousand Euros, with respect to the 9.013 thousand Euros for last year. Despite the decrease in the EBIT, the financial income and the capital gains from the sale of the Cynosure stock determined the best net income in the history of El.En.

The income taxes were 2.482 thousand Euros as opposed to the 2.706 thousand Euros for last year.

The tax rate for the year dropped from 30,02% last year to 5,64% for the current year, because the capital gains earned during the year benefitted from the partial exemption called “PEX”.

STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL POSITION AS OF DECEMBER 31st 2016

Statement of financial position	31/12/2016	31/12/2015	Variation
Intangible assets	217	199	17
Tangible assets	12.679	13.011	-332
Equity investments	16.535	57.851	-41.316
Deferred tax assets	2.737	2.361	375
Other non current assets	10.849	10.646	203
Total non current assets	**43.017**	**84.069**	**-41.052**
Inventories	22.178	25.008	-2.830
Accounts receivable	33.592	34.939	-1.348
Tax receivables	2.489	4.617	-2.128
Other receivables	6.380	5.331	1.049
Financial instruments	0	1.965	-1.965
Cash and cash equivalents	57.213	12.583	44.630
Total current assets	**121.852**	**84.443**	**37.409**
Total Assets	**164.869**	**168.512**	**-3.643**
Share capital	2.509	2.509	
Additional paid in capital	38.594	38.594	
Other reserves	64.188	100.560	-36.372
Retained earnings / (accumulated deficit)	-984	-984	
Net income / (loss)	41.511	6.307	35.204
Total shareholders' equity	**145.817**	**146.986**	**-1.169**
Severance indemnity	945	895	50
Deferred tax liabilities	685	1.156	-471
Reserve for risks and charges	489	492	-3
Financial debts and liabilities	488	0	488
Total non current liabilities	**2.607**	**2.543**	**64**
Financial liabilities	0	1.510	-1.510
Accounts payable	11.750	12.159	-409
Income tax payables	649	1.320	-672
Other current payables	4.046	3.994	51
Total current liabilities	**16.445**	**18.984**	**-2.539**
Total Liabilities and Shareholders' equity	**164.869**	**168.512**	**-3.643**

Net financial position	31/12/2016	31/12/2015
Cash and bank	57.213	12.583
Financial instruments	0	1.965
Cash and cash equivalents	**57.213**	**14.548**
Current financial receivables	**63**	**124**
Bank short term loan	(0)	(1.510)
Financial short term liabilities	**(0)**	**(1.510)**
Net current financial position	**57.277**	**13.162**
Other long term financial liabilities	(488)	0
Financial long term liabilities	**(488)**	**0**
Net financial position	**56.788**	**13.162**

For the analysis of the net financial position, please consult the Notes in the separate financial statement of El.En. S.p.A

SUBSIDIARY RESULTS

El.En. SpA controls a Group of companies which operate in the same overall area of lasers, and to each of which a special application niche and particular function on the market has been assigned.

The chart below contains a summary of the results of the companies belonging to the Group that are included in the area of consolidation. Following the chart there is a series of brief explanatory notes describing the activities of each company and commenting on the results for the financial year 2016.

	Revenues	**Revenues**	**Variation**	**EBIT**	**EBIT**	**Income (loss) for the financial period**	**Income (loss) for the financial period**
	31/12/2016	**31/12/2015**		**31/12/2016**	**31/12/2015**	**31/12/2016**	**31/12/2015**
Cutlite Penta S.r.l.	24.032	19.609	22,56%	677	282	449	175
Deka Mela S.r.l.	36.075	29.893	20,68%	2.019	1.062	1.769	1.086
Esthelogue S.r.l.	9.285	7.934	17,03%	649	206	389	35
Deka Sarl	3.884	3.636	6,82%	(4)	16	(4)	16
Lasit S.p.A.	10.224	8.411	21,56%	987	726	623	398
Quanta System S.p.A.	43.551	34.005	28,07%	7.347	3.985	4.962	2.521
Asclepion GmbH	34.222	28.049	22,01%	3.012	2.427	1.997	1.573
ASA S.r.l.	8.790	7.539	16,59%	2.010	1.582	1.532	1.194
BRCT Inc.	-	-	0,00%	(17)	(29)	95	52
With Us Co., Ltd	22.308	19.635	13,61%	3.102	2.129	1.747	1.256
Penta-Chutian Laser (Wuhan) Co., Ltd	27.136	28.624	-5,20%	1.467	590	870	614
Cutlite do Brasil Ltda	1.879	2.386	-21,25%	(936)	(802)	(781)	(915)
Lasercut Technologies Inc.	1	22	-95,45%	7	11	2	6
Pharmonia S.r.l.	362	180	101,11%	14	(20)	11	(23)
Quanta France Sarl	-	718	-100,00%	-	(16)	-	(18)
Deka Laser Tech Inc.	-	-	0,00%	-	1.929	-	1.929
Deka Medical Inc.	99	276	-64,13%	16	(44)	4	(56)
Deka Japan Co., Ltd	2.246	1.550	44,90%	69	(45)	68	(26)
Penta-Laser Equipment Wenzhou Co., Ltd	38.412	27.561	39,37%	2.310	1.442	1.604	1.069
JenaSurgical GmbH	1.792	1.779	0,73%	2	21	3	22
Accure Quanta, Inc.	-	-	0,00%	(2)	(3)	(2)	(3)
Merit Due S.r.l.	58	15	286,67%	30	-	19	-

Deka M.E.L.A. S.r.l.
Deka M.E.L.A. represents the main distribution channel for the range of medical laser systems developed in the El.En factory in Calenzano, which are sold under the brand name of DEKA. The company was founded by El.En. in the early 1990s and has gradually consolidated their position on the market, first in Italy and then internationally. Deka operates in the sectors of dermatology, aesthetics and surgery and uses a network of agents for direct distribution in Italy and, for export, a network of highly qualified distributors that have been selected over a period of time. After the launching of the Monna Lisa Touch laser system for the treatment of vaginal atrophy, Deka has reappeared successfully in the gynecology field in which it had previously operated with CO_2 laser systems during its first years of activity.
The company showed a growth of over 20% for 2016, thanks to the gynecology segment but also to the excellent results in the sales of Alexandrite hair removal systems, in particular the new Motus.
The sales margins remained substantially stable with respect to 2015; the overheads and the costs for personnel showed a growth that was contained well within the limits of that for the sales volume. Consequently, there was a considerable improvement in the EBIT, which amounted to 2,02 million Euros and exceeded that for 2015 by 90%.

The DEKA organization, both in Italy and in the international network, has a presence that is recognized for the innovation of the products, the professional quality of the offer, and the excellent performance of the laser systems that they sell. This has been a goal of the company in the last few years but is also a condition on which, the Group counts on creating further growth thanks to their capacity to move new products through a consolidated and effective distribution network.

In early 2017 Deka started a reorganization process for distribution in Italy and using the new brand name “Renaissance” Deka also attends to the distribution of the products of the associated company Quanta System. The immediate success that has been registered by this operation confirms the lie of development of the company.

Cutlite Penta S.r.l.
This company which has its Headquarters in Calenzano, produces laser systems for the industrial cutting applications and on X-Y movements controller by CNC installs laser power sources manufactured by El.En. S.p.A. In 2013, after the merger with Ot-las S.r.l., they added the new business of laser marking for large surfaces with galvanometric movement of the beam.
2016 was an important year for the growth of the company and saw the consolidation of its competitive position and the reorganization of its production activities which will put it into a position to sustain the large production volume required by the increase in demand they have achieved from the market.
With a growth in the sales volume of about 23%, the EBIT also increased considerably and doubled with respect to last year, coming close to 3% on the sales volume. The company has worked to expand its markets, in particular in Europe, in order to obtain an expended working base outside of the Italian market. The domestic market, in fact, showed the greatest growth, thanks to the improvement in the general conditions of the manufacturing sector and thanks to the increased incentives which will continue also during 2017.

The relationship with the Parent Company, El.En. S.p.A., remains fundamental both for the acquisition of laser sources as well as the collaboration on projects for new systems and new accessories, in particular for those involving “beam delivery”, although in the past few years Cutlite Penta has gradually equipped itself with increasingly evolved structures and personnel and, by identifying alternative partners, has also dealt with the technological shift that has reduced the use of CO_2 laser sources (principally manufactured by El.En. SpA) for power cutting applications. On the other hand, the contribution of El.En. SpA’s RF laser sources in the mid-power applications and for marking systems remains decisive, as well as the financial support supplied by the Parent Company for mid-term initiatives like the expansion on the Chinese market through the subsidiary **Penta Chutian Laser (Wuhan).**
This latter company was founded ten years ago for the purpose of giving the Group a local factory serving the most important manufacturing market in the world; this was a necessary condition in order to be able to play a leading role in the local competition which is extremely aggressive in terms of price, and the international competition which is better known than we are in the specific segment of sheet metal cutting.
Penta Chutian of Wuhan now operates jointly with **Penta Laser Equipment (Wenzhou),** which was founded three years ago in order to take advantage of the favorable conditions offered by the city of Wenzhou for a new high-tech factory which began production in the Summer of 2016. The new plant will make it possible to double the manufacturing capacity in a building that was specifically designed for our type of production. The new factory will also make it possible to better serve the local market which, thanks to the work conducted in the past few years, is turning out to be very interesting and registering high growth rates. The consolidated sales volume of the two Chinese companies grew 31,5% in 2016 (38,6% in local currency; the growth in Euros reflects the weakness of the renminbi), with a solid improvement in the EBIT. The two companies therefore start 2017 with a solid base and we are confident that this year will confirm the excellent trend of the past two years.

Quanta System S.p.A.
Quanta System was created as a research center specialized in the manufacture of scientific lasers and the company has been able to maintain over time their superior ability to produce technologically advanced lasers for the medical sector, to which it has almost completely dedicated all of its activity. In the medical sector, Quanta has registered over the years a rapid and brilliant growth; in 2016 the exceeded the threshold of 40 million Euros in sales volume, with net income of 4,9 million. This is an extraordinary results if one considers that during the Summer the manufacturing activities were moved to a new factory in Samarate (VA), with all of the logistic difficulties that that entailed. In the new building, with ample space that had been specifically designed to house the growing volume of production, they created the ideal environment where the design, development and manufacture of laser equipment can be conducted in the most efficient way possible and according to the highest qualitative standards.
Among the products which most contributed to the results for the year, we should call attention to the innovative Discovery Pico, with which Quanta has now entered into the elite group of producers of picosecond systems for the removal of tattoos; this product is able to offer a performance which is able to satisfy both the requirements of the clientele as well as an improvement in the financial results. Also of interest is the range of laser systems for urologic surgery, in which Quanta maintains a significant quota of the market.

Lasit S.p.A. is specialized in the production of marking systems for small surfaces and maintains a dynamic research and development team in its headquarters in Torre Annunziata (NA); its mechanical workshop is equipped with the most advanced technological plants (including laser systems for cutting) which allow it to conduct a machining service for the other companies of the Group and to offer to its clientele a customization of systems that make it unique on the market. The company's focus on the clientele by offering custom systems and services has allowed Lasit to consolidate its market. In 2016 the company exceeded the threshold of 10 million Eurs in sales volume; this was an important goal which brought with it an excellent profitability level.

Asclepion Laser Technologies GmbH
Asclepion was purchased in 2003 from Carl Zeiss Meditec, and is now one of the most important companies of the Group and one of the three business units with which the Group operates on the market of laser systems for medical applications. Thanks to its geographical location in Jena, the global cradle of the electro-optical industry and its capacity to associate its image with the highly prestigious consideration which the German high-tech products enjoy throughout the world, in the last few years, Asclepion has acquired high standing on the international markets.
The most successful product, which was the driver in the growth registered in the last few years, is the Mediostar for hair removal with various models with different levels of performance and different price ranges that cover the various niches of the market. Along with Mediostar the company produces the more traditional line of Asclepion products, the erbium lasers for dermatology of which the company has thousands of installations in particular in Germany; the potential range of applications of the system has been amplified thanks to the accessories specifically designed for photo-rejuvenation and, more recently, gynaecological applications, which have met with considerable success on the market.
In 2015 Asclepion, together with Deka M.E.L.A. launched a new company, **Jena Surgical GmbH,** to promote and distribute the systems for surgical applications on the international markets; this company has now become one of Asclepion most important clients and a significant driver of its development.
For Asclepion 2016 was a year of great satisfaction, with a record sales volume of 34 million Euros, showing a growth of 22% and an EBIT of over 3 million Euros. The basis on which these results are founded, both in terms of products and coverage of the markets, are solid and we are confident that they will be confirmed in 2017.

With Us Co Ltd
With us Co. has achieved an important market position in the field of aesthetics in Japan, by proposing the systems produced by the Group and offering all-inclusive maintenance service for the growing number of systems already installed. Thanks to some orders that are probably not repeatable to the same extent next year, 2016 registered a sales volume of 2,7 billion Japanese Yen, and showed a growth in Euros thanks to the strengthening of the Yen and registered a record EBIT, over 3 million Euros.

ASA S.r.l.
This company, located in Vicenza, is a subsidiary of Deka M.E.L.A. S.r.l., and operates in the sector of physical therapy, for which it develops and manufactures a range of laser equipment, and it also is active in the distribution and marketing of some of the equipment produced by the Parent Company El.En. S.p.A.
The therapeutic effectiveness and the valid clinical and marketing support have allowed Asa to grow progressively in the past few years and, in 2016, to exceed 8 million Euros in sales volume, again with an excellent profitability level. The innovative products make it possible to maintain a good sales margin which, in turn, makes it possible to invest in the development and promotion activities, creating positive results which we are confident will continue next year.

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 sales volume registered in 2016, showed a slight increase over last year and made it possible for the net result to break even.

Deka Japan, which distributes the Deka brand medical systems in Japan, is now in a phase of transition while they wait to be authorized to move to the market the latest generation systems, a very complex process because of the laborious procedures required to register a new product. In any case, in 2016, the company registered a significant development in sales volume which we are confident they will be able to repeat in 2017.

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

Esthelogue S.r.l. distributes the laser systems of the Group in the aesthetic sector in Italy and in this context has acquired an increasingly important role for particular applications. Again in 2016, the Mediostar Next laser system and its evolutions, Mediostar Pro and XL, produced by Asclepion in Jena, significantly increased the number of installations and the sales volume. The training services that Esthelogue offers to its clients are of fundamental importance both for the value that is transferred to the client and the support of sales. The Group is sure that they will have mid-term benefits from the increasingly solid market position obtained and from the confidence that the clients have in the Esthelogue technology, also for marketing new and different applicative technologies on this interesting market.

Pharmonia S.r.l. has terminated its activity of distribution of aesthetic systems specifically designed and produced for use in pharmacies and now conducts a sporadic activity in the marketing of some products on specific international markets.

Other companies, industrial sector

Lasercut Technologies Inc. terminated its after-sales service activity for some industrial systems on the USA.; **BRCT Inc.** acts as a financial subholding, a role that has been intensified since the acquisition in 2014 of the equity in Quanta USA LLC.

Cutlite do Brasil Ltda has a factory in Blumenau in the state of Santa Catarina and has about twenty employees. They produce laser systems for industrial applications and, to a lesser degree, attends to the distribution of laser systems produced by the Italian associated companies. 2016 confirmed the critical situation of the company which registered losses that even eroded its capital.

Research and Development activities

During 2016 the Group conducted an intense research and development activity for the purpose of discovering new laser applications and different light sources for both the medical and the industrial sectors and to place innovative products on the market. In general, for highly technological products in particular, the global market requires that the competition be met by rapidly and continually placing on the market completely new products and innovative versions of old products with new applications or improved performance which use the most recent technologies and components. For this reason extensive and intense research and development programs must be conducted and organized according to brief and mid- to long-term schedules.

In our laboratories we conduct research on new or unsolved problems in medicine and industry and we try to find solutions on the basis of the experience and know-how that we have developed on the interaction between laser light and biological and inert materials. As far as laser lights are concerned, we develop the sources on one hand by making a selection of its spectral content, the methods for generating it and the optimal level of power and, on the other hand, we program its management over time in relation to the laws governing its disbursement and in space as far as the shape and movement of the light beam is concerned.

The research which is aimed at obtaining mid-long-term results is generally oriented towards subjects which represent major entrepreneurial risks, inspired by intuitions which have arisen within our companies or by prospects indicated by the scientific work conducted by advanced research centers throughout the world, some of which we collaborate with.

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

This mechanism concerns the sector of laser light applications to medicine but also to industry and to the conservation of our cultural and artistic heritage.

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

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

Systems and applications for lasers in medicine

The parent company, El.En. has been active in research on biological samples and cell cultures in the laboratory for surgical applications of the devices and sub-systems for the SMARTXIDE^2 family of products (the product name is pronounced “Smartxide quadro” to highlight the Italian origin of the devices belonging to this family, considering the characteristics and performance that are particularly appreciated by the clientele) which has recently been developed and placed on the market for different applications in surgery, for cutaneous ulcers and for aesthetic medicine. The systems are equipped with a laser source fed by radio frequency with an average power of up to 80w and interface management from personal computer installed on the device. These are multi-disciplinary systems which can be used in general surgery, otolaryngology, dermatology, gynecology, odontostomatology, neurology, laparoscopic surgery, aesthetic surgery, and, in the same field, research for new clinical applications in dermatology (cutaneous ulcers, diabetic feet), gynecology, urogynecology, paradontology and endodontics, in neurology and ophthalmology has been continued or initiated.

For this purpose we are now working on further technological innovations contained in scanning systems characterized by optical systems and newly developed electronic controls, which make it possible to perform surgical operations on various parts of the anatomy with extreme precision.

We have completed the development of a prototype for a new scanning system of the laser beam which is very compact and easy to handle and which has excellent characteristics of precision for applications in dermatological surgery.

Intense research is also being conducted at various centers in Italy and other countries in order to collect clinical results relating to the innovative possibilities offered by the equipment of this type.

An application that is extremely important is used in uro-gynecology and, in particular, for a new treatment to reduce the effects of the atrophy of vaginal mucous. There are already hundreds centers already active in Italy and other countries that perform this treatment which is called the “Mona Lisa Touch” or “Monna Lisa Touch”, depending on the country. At some of these centers which operate inside university structures or prestigious private clinics in Italy and

abroad (particularly USA), they are now conducting important research in order to gain a better understanding of the mechanisms and new applications that can be obtained from scientific advancements. Clinical studies related to the laser treatment of atrophy of the vaginal mucous have demonstrated that it is safe, effective and without negative collateral effects; it can be said that this is an extremely important innovation for medicine that will always remain among the options for specific therapy. For this reason, it is our specific intention to remain among the leaders in this new therapeutic sector and to guide and encourage the scientific and technological developments in order to maintain our position. This particular pathology is common and quite disabling with interactions with other pathologies; it afflicts a high percentage of women in menopause and younger women with tumors to whom therapies are given that affect the hormonal balance and cause a sort of early menopause.
We are conducting research on a new class of applications in gynecology based on the exceptional characteristics of the *restitutio ad integrum* that the use of CO_2 lasers supplies to soft tissues in the various anatomic areas being treated.
For surgical applications we are now developing a treatment for diabetic feet. In this sector we have obtained interesting results concerning the possibility of cleaning (debridement) and removal of the necrotic tissue the lesions with a laser which leaves the treated portion practically sterile and with the additional advantage of reducing the pain suffered by the patient during the treatment; in fact, the laser light works without mechanical contact with the various parts of the ulcer and vaporizes or cuts the parts to be eliminated with extreme precision. The cure of chronic ulcers with laser treatments is based on unique characteristics of the laser beam during the cleaning phase and also on the bio-stimulation capacity operated by the laser light, our cultural heritage, which activates the multipotent mesenchymal cells which are facilitated in their arrival to the area to be repaired by the surgical action of the laser and are stimulated by this light to divide and multiply in order to regenerate the tissues. We have applied for a patent for this method and for the devices for the treatment of cutaneous ulcers along with our patents on the regeneration of tissues stimulated by high-powered lasers.
For this purpose we had previously coined the acronym HILT, *High Intensity Laser Therapy*, which characterized the range of laser products. The specific distribution on the market was entrusted to our subsidiary ASA; in this regard we should also mention the completion of the development of the new Hiro TT system, the first example of this new approach of “multi-level” control which makes use of advanced graphics, with last generation LCD capacitors; the device received the CE approval mark in January 2017.
For the applications on cutaneous ulcers we have concluded development of a mono-mirror scanner accessory for CO_2 laser equipped with feedback position, miniaturized with speed and precision performance comparable to those of the Hi Scan with double galvanometer which was more costly and cumbersome.
We participated successfully in the recent world symposium (World Union Wound Healing Societies – 27/30 September 2016) and presented the clinical results we had obtained including the extraordinary method developed with our laser which made it possible, already in first twenty cases treated, to cure a very high percentage of patients afflicted by ulcers with the bone exposed, and destined for amputation.
Among the applied research activities, we also continued to work on the BI-TRE project “*BIophotonic technologies for Tissue REpair”* (BiophotonicsPlus Transnational Call 2012-2013, co-financed by the Region of Tuscany), on methods of anastomosis of the blood vessels using semi-conductor lasers and special patches and, in the field of neurosurgery in particular, the technique would allow the surgeon to save hours in the duration of operations on the brain.

We have continued research on a new laser surgery assisted by 3-dimensional high resolution X-ray with robot arm which part of the operating table to which the X-ray system is attached.
We are now developing dedicated software and refining the hardware components to cover all of the areas where there is still room for improvement: one interesting possibility is that of a study of the distribution of blood vessels in the ankle for the study and treatment of the diabetic foot.
In collaboration with Elesta, we are working on the development of a device for the percutaneous laser ablation of breast tumors, with delivery of energy from a diffusing tip which is cooled by closed forced circulation of sterile liquid; combined with this project we are developing a method of characterization of tissue damage through ultrasound during and after the ablative operation.
We have concluded the development and already obtained important sales results from of an alexandrite mono-source system called Motus AX for laser hair removal applications, which is equipped with innovative technical solutions and accessories for minimizing pain during treatment while maintaining effectiveness, thanks to the “Moveo” mode which moderates the energy dose for the necessary impulse. The system was designed with the aim of making it extremely easy to maintain (there are no laser mirrors to align since they are obtained directly on the face of the alexandrite bar) and very safe to use. Thanks to the Moveo, the treatment method has already been installed in about 180 units. The system minimizes size, weight, electrical consumption and management costs for the doctor.

We have completed the development for the measurement in real time of the skin temperature for the optimization of the effectiveness and safety of radio frequency aesthetic treatments. The system regulates the emission of radio frequency energy and keeps the skin temperature below a certain amount that can be set as an endpoint regardless of the speed of motion, homogeneity of coverage, and manual dexterity of the doctor who is holding the hand-piece.

We have completed the study and planning phase of an innovative system for “Body Shaping”(reduction of the adipose layer in various parts of the body) based on the use of a new form of energy that is able to provoke a reduction of the adipocites by necrosis or apoptosis. We are now running laboratory experiments to improve the control of the superficial and in depth temperature. The study for the interpretation of the action mechanisms intended to optimize the usage protocols has continued.
We have concluded the development of a version of Echolaser with only two specific channels for minimally invasive operations on the thyroid and an experimental system equipped with cooled fibers. In 2016 we already installed four systems with two channels and we are now in the engineering phase of a system with a peristaltic pump and cooled fibers.
We continued operations to extend the intellectual property of the Group by formulating international patents and assistance in granting them on an international basis; at the same time, we have been taking the necessary measures for the protection of our brand names and applications in the most important countries.
In the PHOTOBIOLAB created at El.En. for research on the interaction between light and biological tissue, we have conducted experiments on new medical applications in the fields of ophthalmology, proctology and neurology, results of which are used mainly for the development of DEKA products.

DEKA M.E.L.A. in collaboration with El.En. carried on an intense research activity with the objective of identifying new applications and the experimentation of new methods to be used by laser equipment in various medical sectors: aesthetic, surgical, gynecological and uro-gynecological, otolaryngology and odontostomatology. This activity is conducted by involving highly specialized personnel working for the company and the Group to which the company belongs, as well as for Italian and foreign academic and professional medical centers. They are also conducting clinical experiments for the interpretation and documentation of the biological processes that are at the base of treatments for curing chronic ulcers and diabetic feet after laser treatment.
They have begun research on the use of lasers for stimulating nano-particles, in collaboration with various partners including Colorobbia which is active in the development and manufacture of nano-particles; this activity is part of the INSIDE project (“*svIluppo di targeting diagNostici e teranoStici basati su nanosIstemi e/o linfociti ingegnerizzati per l’indiviDuazione precoce e il trattamento del mElanoma e della sclerosi multipla*”) (Regione Toscana – POR FESR 2014-2020, Bando 1: Strategic Research and Development Projects).

At Quanta System they are conducting intense research on the development of laser instruments intended for aesthetic medicine and medical therapies in urology. As part of this project they have developed a prototype for a new single-use morcellator.
They have concluded the development of the Thunder system for hair removal with high powered Alexandrite and Nd:Yag sources that can also be activated with simultaneous emission and with a highly original delivery mechanism.
They have completed laboratory and clinical experiments on incremental innovations of the Q-switched systems with fractional hand-pieces, universal adaptors with different spot shapes for automatic recognition; development of special beam delivery accessories for laser applications for the treatment of benign hypertrophy of the prostate (BHP); development of incremental innovations on Holmium systems for lithotripsy, improving the performance of the cavity, of the launch of the fiber and of the fibers themselves.

They have completed the development and started to market a picosecond system, nanosecond system and a system in free running. The Discovery Pico features a peak power of 1064 nm and 532 nm, the highest among the systems now available on the market and its technical solutions are protected by patents.
They are conducting research on new systems for the treatment of skin blemishes.
They have developed the armored Thunder Compact for the restoration of art works; this system is compact and easy to move and is particularly suitable for use on site.
For the aesthetic sector, they implemented an important improvement to Icoone, transformed into Energy based device which, in the Icoone laser version includes the addition of laser and LED in the Robosolo hand-piece.
In January of 2016 they concluded the development of a new scanner for a laser system with 585nm emission for percutaneous vascular applications.

At Asclepion Laser Technologies they obtained EC certification for the Multipulse Ho Plus, a 140 W holmium laser system for the treatment of benign hypertrophy of the prostate which will be sold through a company of the Group, Jena Surgical.
They have started an updating strategy of all the Asclepion systems: a new philosophy of user interface, new electronics and new design.
They have developed automatic vessel recognition for vascular treatments by camera.
They have conducted preliminary activities for improving lasers for the removal of tattoos and pigmented lesions and on the methods and innovative devices for “body shaping”.
They have continued the activity for the evaluation of new concepts of optical fibers and ferrules; they also have conducted studies for uses of applications in the medical field and technologies for the recognition and cataloguing of images.

As part of the European project in collaboration with ACTIS, an associated company of El.En., they have continued the study of the therapy of tumors through activation of nano-particles by laser light and ultrasound; the project is LUSBUBBLE, "*Light and UltraSound activated microBUBBLEs for cancer treatment"* (BiophotonicsPlus Transnational Call 2012-2013).

Laser systems and applications for industry
At El.En., in collaboration with the subsidiary Cutlite Penta we continued research for the development of innovative pre-cutting processes and machine micro-perforation of labels and systems for applications in the field of cutting and welding plastic materials and for the beverage sector in order to prolong the shelf-life of food products.
We continued the study that had been begun on software and algorithms for high-speed advanced coding in the sector of transactional paper-digital converting.
We are conducting intense activity aimed at increasing the maximum power of sources in the RF range by improving and increasing the power of the emissions and laser sources while maintaining a high quality and modulability of the beam in order to make innovative applications possible like the micro-piercing of panels and special applications in the field of digital converting and the cutting of rigid modular wooden packing materials in MDF (Medium Density Fibreboard).

At El.En. for the development of laser sources, we have concluded the project for 850W sources and we have begun the experimentation with a sealed 300W source based on a new concept.
For carbon dioxide (CO_2) sources with planar discharge, we have designed, developed and tested a new system for the treatment of the beam with a stronger spatial filter, in preparation for use with more powerful sources; we have designed and tested optical filtering techniques inside the resonator for the selection of the wave length and of the fundamental mode of the stable branch. The purpose is to improve the stability of the focal spot and to increase the speed of the start up and testing. We have studied a new laser source with planar symmetry equipped with a power of over 1kW and we have studied its optical resonator and the system for conditioning the beam.
For the development of the new source, in comparison with those already in production, we have focused on the mechanical and thermo-mechanical stability of the supporting structure and the electrodes by using simulations of the finished elements of the critical parts of the system. For the new source we have begun and continued to work on the development of a radio frequency delivery system with enough power for the discharging surface by combining the exits of several amplifiers on a single delivery point. We are about to start to work on the development of a new control with an ARM-CORTEX M4 processor that will be able to satisfy the requirements of the innovative interface.

We have conducted research activity on the remote welding of sheet metal with surface treatments and applications with optical retroaction systems.
We have dedicated significant resources to the improvement of the repeatability/mid-long term drift performance of the galvanometers used in the scansion heads for high speed applications in the so-called digital converting sector. Besides the activities described above, we have also conducted studies of a minor entity on the focalization systems of laser sources both with carbon dioxide which we manufacture as well as solid state in optical fiber.
At Cutlite Penta they have developed and experimented with new process sensors installed in machines for metal cutting.
For cutting plexiglas we have developed a new CAM software with an interface user that is much closer to the world of graphics and design. We have developed a project for a new five-axle machine which minimizes the impact on the production activities thanks to the bases of the flat machines with linear motors that are manufactured by our company.

We have also continued testing and experimentation of scanning and focalizing heads for lasers in fibre developed in our factory, for remote welding plants for metal materials, and the manufacture of large series of furniture accessories. As part of this project we have also initiated the development of a new dynamic focalization system with high-speed response.
We have developed and started production of laser systems for metal cutting equipe with high-powered laser sources in fiber: in fact, very recently, at the important fair in Shanghai we presented a system with a 12kW source installed for high-speed cutting of sheet metal even of considerable thickness.
In the die sector we have engineered a new system for attaching rotary dies to the machine. This simple method offers greater guarantees of precision and reduces the number of settings during the testing phase.

The following chart shows the costs for Research and Development for this period:

Thousand of Euros	**31/12/2016**	**31/12/2015**
Staff costs and general expenses	7.194	6.669
Equipment	149	202
Costs for testing and prototypes	2.317	1.790
Consultancy fees	683	461
Other services	57	72
Intangible assets	-	14
Total	**10.401**	**9.207**

Following the usual company policy, the expense shown in the chart have all been entered in the operating costs.

The amount of expenses sustained corresponds to about 4% of the consolidated sales volume of the Group. The expenses are mostly sustained by El.En. S.p.A., and amount to 7% of its sales volume.

RISK FACTORS AND PROCEDURES FOR THE MANAGEMENT OF FINANCIAL RISKS

Operating risks

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

The main financial instruments of the Group include checking accounts and short-term deposits, short and long-term financial liabilities, leasing, financial instruments and hedging derivatives contracts.
Besides these, the Group also has payables and receivables derived from its activity.
The main financial risks to which the Group is exposed are those related to currency exchange, credit, cash and interest rates.

Currency risk

The Group is exposed to the risk caused by fluctuations in the Exchange rates of the currencies used for some of the commercial and financial transactions. These risks are monitored by the management which takes all the necessary measures to reduce them.
Since the Parent Company prepares its consolidated financial statements in Euros, the fluctuations in the Exchange rates used to convert the data in the statements of the subsidiaries originally expressed in foreign currency may negatively influence the results of the Group, the consolidated financial position and the consolidated shareholders' equity as expressed in Euros in the consolidated statements of the Group.
With US Co. Ltd. this year and last year stipulated three derivatives of the type called "currency rate swap" in order to hedge the risk in currency exchange for purchases in Euro.

Operation	Notional value	*Fair value*
Currency swap	€ 950.000	-€ 32.228
Currency swap	€ 1.350.000	-€ 140.813
Currency swap	€ 2.050.000	-€ 103.461
Total	**€ 4.350.000**	**-€ 276.502**

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 9% of the total trade receivables from third parties. For an analysis of the due dates on trade receivables from third parties, please consult the relative note in the consolidated financial statement.

As far as guarantees granted to third parties are concerned:

the Parent Company El.En. S.p.A. has underwritten:
- in 2013, a bank guarantee for a maximum of 50 thousand Euros as a guarantee for customs duties as per ex art. 34 of the T.U.L.D., payable for temporary imports, with expiration date in June 2017 with possibility of extension annually.
- in 2014 a bank guarantee for a maximum of 253 thousand Euros as a guarantee for the restitution of the amount requested as a down payment on the "BI-TRE" research project, which was accepted for a grant in the Bando Regionale 2012 approved by the Regione Toscana with *Decreto Dirigenziale* n. 5160 on November 5th 2012, with expiration date in February 2018.
- during 2015, a bank guarantee for a maximum of 6 thousand Euros as guarantee on the delivery and functioning of the laser for the restoration project approved by the Ministry of Cultural Activities; this project included the institution of a research and conservation center for of art works with Headquarters in Sassari, approved by a decree of the regional secretary n.59 of September 29th 2015, which has been extended until May 20th 2017.
- during 2016 a bank guarantee for a maximum of 11.368 Euros as a guarantee against the delivery and functioning of the CO_2 laser for a cutting and piercing system to be added to the prototype station at the Department of Industrial Engineering of the University of Salerno, project PON03PE_00129_1 in implementation of *Decreto Direttoriale* rep.n.3118/2016, expiring in July 2017.

The subsidiary Deka M.E.L.A. S.r.l. in 2016 underwrote a bank guarantee for a maximum of 127.925 Euros as a guarantee for the final reimbursement of the amount require as a down payment for the project POR FESR 2014 – 2020 Strategic Research and Development project phase 2, admitted for contributions by the *Bando Unico* approved by the Region of Tuscany with Decree 3389 on July 30th 2014, with expiration date in May 2020.

Cash and interest rate risks
As far as the exposure of the Group to risks related to cash and interest rates is concerned, it should be pointed out that cash held by the Group has been maintained at a high level also during this half in such a way as to cover existing debts and obtain a net financial position which is extremely positive. For this reason we believe that these risks are fully covered.

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

STOCK OPTIONS OFFERED TO ADMINISTRATORS, COLLABORATORS AND EMPLOYEES

For the stock options offered to the administrators, collaborators and employees, please consult the detailed description in the paragraph relevant to the significant events which occurred in 2016.

TREASURY STOCK

For information on the treasury stock, please consult the relative section in the Notes to the consolidated financial statement.

STAFF

As mentioned above, the number people employed by the Group rose from 965 people on December 31st 2015 to 1093 on December 31st 2016. The chart below shows the division by company belonging to the Group.

Company	2016 Average	31-dec-16	31-dec-15	Var.	Var. %
El.En. S.p.A.	211,00	215	207	8	3,86%
Cutlite Penta Srl	50,00	52	48	4	8,33%
Esthelogue Srl	13,00	13	13	0	0,00%
Deka M.E.L.A. Srl	16,50	17	16	1	6,25%
Quanta System SpA	114,50	122	107	15	14,02%
Lasit SpA	49,50	51	48	3	6,25%
Asa Srl	40,50	41	40	1	2,50%
Deka Sarl	10,00	11	9	2	22,22%
Deka Medical Inc	0,00	0	0	0	0,00%
Asclepion Laser T. GmbH	92,00	95	89	6	6,74%
Jena Surgical GmbH	1,00	1	1	0	0,00%
Lasercut Technologies Inc	0,00	0	0	0	0,00%
With Us Co Ltd	42,50	45	40	5	12,50%
Wuhan Penta Chutian Laser Equipment Co Ltd	139,00	122	156	-34	-21,79%
Penta-Laser Equipment Wenzhou Co. Ltd	218,00	279	157	122	77,71%
BRCT Inc.	0,00	0	0	0	0,00%
Cutlite do Brasil Ltda	25,00	23	27	-4	-14,81%
Deka Japan Ltd	6,50	6	7	-1	-14,29%
Total	**1.029,00**	**1.093**	**965**	**128**	**13,26%**

CORPORATE GOVERNANCE AND OWNERSHIP IN COMPLIANCE WITH GOVERNMENT LEGISLATIVE DECREE 231/2001

In compliance with the laws and regulations now in force, El.En. S.p.A. has drawn up a report on their corporate governante ("*Relazione sul governo societario e gli assetti proprietari*") which has been deposited with the authorities and published in a separate section of this document. This report on corporate governance can also be consulted on internet on the site of the Group: www.elengroup.com – in the section "Investor relations/governance/corporate documents".

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

INTER-GROUP RELATIONS AND WITH RELATED PARTIES

In compliance with Regolamento Consob dated March 12th 2010, n. 17221 and subsequent modifications, the Parent Company, El.En. SpA approved the rules disciplining relations with related parties ("*Regolamento per la disciplina delle operazioni con parti correlate")* which can be consulted on the internet site of the company www.elengroup.com *section. "Investor Relations/governance/corporate documents*".
These regulations represent an up-date of those approved in 2007 by the company as implementation of art. 2391-*bis* of the civil code, of the recommendations contained in art. 9 force in the past (and in particular the applicative criteria 9.C.1) of the Self Disciplining Code for Companies Listed on the Stock market (*Codice di Autodisciplina delle Società Quotate*), edition of March 2006, in consideration of the above mentioned Regulations for Operations with Related Parties ("*Regolamento Operazioni con Parti Correlate*") n. 17221 and later modifications as well as the Consob Communication DEM/110078683 of September 24th 2010. The procedures contained in the "*Regolamento per la disciplina delle operazioni delle parti correlate*" went into force on January 1st 2011.
The operations conducted with related parties, including the inter-Group relations cannot be qualified as atypical or unusual; these operations are regulated by ordinary market conditions.

In regard to the relations with related parties, please refer to the specific paragraph in the Explanatory Notes of the Consolidated statement of the El.En. Group and the separate statement of El.En. S.p.A.

OPT-OUT REGIME

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

OTHER INFORMATION

Atypical and unusual operations

In compliance with Consob Communication DEM/6064293 of July 28th 2006, we wish to state that during the year 2016 and 2015 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. 36 and following paragraphs of the Consob Market Regulations.

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 2016 among the companies that are controlled by El.En. S.p.A. the following are subject to the regulations: With Us Co. Ltd, Penta Chutian Laser (Wuhan) Co. Ltd e Penta-Laser Equipment (Wenzhou) Co. Ltd.
- Procedures have been adopted to assure the complete compliance to the regulation.

Fiscal consolidation

It should be recalled that for the three year period 2011-2013 which was later extended for the three year period 2014-2016, for the subsidiary Esthelogue S.r.l. and, for the three year period 2012-2014, extended for the three year period 2015-2017, for the subsidiary Cutlite Penta S.r.l., the Parent Company El.En. S.p.A. will adhere to the IRES regime of taxation of the national consolidated as per art.117 and following paragraphs of the TUIR and of the Ministerial Decree of June 9th D.M. 2004. The relations between the parties, as far as this law is concerned, are regulated by the special "Consolidation Agreement".

SUBSEQUENT EVENT

No significant events occurred after the closing of the year.

CURRENT OUTLOOK

The results for 2016 are the best ever registered by the Group for sales volume, EBIT and net income.

As occurred at the start of the year, the aspiration to exceed the record that had just been set represented a challenge that quite arduous, especially considering some non-repeatable events that took place in 2016: first of all, the capital gains from the sale of the Cynosure shares, but also some exceptional and extraordinary performances from an operative point of view.

Our expectation is that a favorable trend in the market will make it possible to obtain a growth in the sales volume of over 5% again in 2017. Some internal reorganization activities, a less favorable mix of products sold, some costs of an exceptional nature will make it difficult to achieve the EBIT of 2016 which will represent the highest objective for the year.

DESTINATION OF NET INCOME

To our shareholders,
In submitting for your approval the separate financial statement of El.En. S.p.A. as of December 31st 2016, we propose to allocate the net income for this year, for an amount of 41.510.952,00 Euros as follows:
- 33.791.963,20 as extraordinary reserve;
- to distribute to the shares in circulation on the date that coupon 1 becomes due, May 29th 2017,– in compliance with art. 2357-*ter*, second sub-section of the Civil Code– a dividend of 0,40 Euros gross for each share in circulation for an overall amount of 7.718.988,80 Euros as of today's date.

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 2017

Financial year 2016

Internet site: www.elengroup.com

GLOSSARY

Codice: the self-disciplining code of the companies quoted on the stock market which was approved in July 2015 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.

"El. En."/ "the Company": the listed company to which this report refers.

"Financial year": the financial period closed on December 31st 2016 which is referred to in the report.

"Regolamento Emittenti Consob": the Regulations issued by Consob (*Commissione Nazionale per le Società e la Borsa*, after vote n. 11971 in 1999 (and later modified) concerning listed companies;

"Regolamento Mercati Consob": the Regulations issued by Consob after vote n. 16191 in 2007 (and later modifications) concerning stock markets.

"Regolamento Parti Correlate Consob": the Regulations issued by Consob after vote n. 17221 in 2010 (and later modifications) related to operations with related parties.

"Report": the report on corporate governance and ownership that all companies are required to issue in compliance with art. 123-bis TUF.

"Statute/company statute" 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 in conformity with the suggestions and recommendations of the Code, already in the first version of 1999, subsequently revised (2002, 2006, 2011, 2014, and the last time in 2015) 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. Since December 9th 2016 the Company has been include in the FTSE Italia Mid Cap index, FTSE Italia Star segment.
The corporate governance of El.En. consists of a Board of Directors, a controlling body and an assembly.
During the phase of adaptation to the regulations set forth by Legislative Decree n. 6 of January 17th 2003, and the later amendments and modifications, the shareholders of El.En. voted to keep the traditional system of administration and management.
Consequently, the company is currently administered by a Board of Directors which is regulated, in all of its aspects (composition, functions, salaries, powers, representation of the company), 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.

This report is drawn up on the basis of the relative *forma*t, VI edition, specifically prepared by the Borsa Italian SpA.

The Board of Directors
The Board of Directors holds full powers for the ordinary and extraordinary administration of the activities related to the pursuit of the aims of the company.
The Board Members were elected by the shareholders' meeting held on April 28th 2015 and, after the vote of approval of the Board of Directors on May 15th 2015, is made up of executive and non-executive members organized in three committees so as to carry out consulting and executive functions in support of the Board: the committees for internal control, for remuneration, and for nominations.
Two of the Board members were elected since they possessed the independence requirements as per art. 148-ter TUF.
The board members have legal domicile at the headquarters of the Company for the duration of their mandate.
The executive Board Members retain, in accordance with the vote of the Board of Directors held on May 15th 2015, 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 2017 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 described below and which are disciplined by the specific regulations:

a) *Nominations Committee for the appointment of the director*, (henceforth referred to as the Nominations Committee") which has the task of assuring the transparency of the procedures for the selection and election of the board members as well as the balanced and efficient composition of the board.
b) *Remuneration Committee*, which has the task of formulating proposals for the amount of remuneration to be paid to the executive Board Members and to those that have particular responsibilities, and, in response to the indications given by the delegated commissions, to determine the criteria for the remuneration of the top executive officials of the company. Following the modification of article 7 of the Code, the Board, on May 13th 2011, formally adapted the regulations of the Remuneration Committee to the new rules with reference to the performance of some of the tasks of the Committee regarding the general policy for the remuneration of the administrators and other strategic figures. Most recently, on May 15th 2012, the Board proceeded with the addition to the regulations of the modifications in the Code in relation to the reference to art. 6 rather than 7;
c) *Committee for controls and risks (*formerly *the Internal Control Committee)*, which has consulting, executive and sustaining functions for the Board of Directors in the realization and the supervision of the internal controls systems and of the evaluations of the proposals of the independent auditors. With the vote held on November 12th 2010 the Board integrated the functions of the Internal Control Committee on the light of the role attributed to the independent administrators in accordance with article 4, subsection 3 of the *Regolamento Parti Correlate Consob* and the new company regulations related to operations with related parties approved on the same day. Subsequently, following the

changes in the controls pursuant to D. Lgs. 39/2010 and the functions attributed to the Board of Auditors in relation to the evaluation of the proposals made by the auditing companies concerning the performance of these same, as well as the clarifications provided by Borsa Italiana (notice 18916 of December 21st 2010) concerning the coordinating of the changes in the rules with the contents of article 8 of the Code, with a vote cast on May 13th 2011 the Board adapted the regulations of the committee and conferred to the latter, as far as the legal reviewing of the accounts was concerned, a role that was merely that of a sustaining body; on May 15th 2012, the newly appointed Board decided to change the name of the committee to Committee for controls and risks and to add the modifications introduced by art. 7 of the Code 2011 to the regulations.
Most recently, with the resolution of November 13th 2015 the board of directors added the modifications introduced by art. 7 of Code 2015 to the regulations of the Commission for Controls and Risks.
The regulations of the committees also determine their composition and role.
The first version of these rules was approved on September 5th 2000, and they were revised in order to adapt them to the new regulations or new structural reorganization in the company.
On September 5th 2000 the Board also appointed a provost for internal control. The internal control system was later amplified and organized as described below in this report.

The Board convenes at least once every quarter also in order to guarantee adequate information for the Board of Statutory Auditors related to the most important transactions conducted by the Company and its subsidiaries as well as, when required, the conducting of operations with related parties or those that are particularly complex or important and, moreover, every time that the president and/or the executive board members decide to present questions and decisions related to their area of expertise to the entire board.

The directors of the Company participate as members of the administrative bodies of the subsidiary companies or else have the position of sole director, otherwise the administrative body of the subsidiary companies supply complete detailed information required for the organization of the activities of the Group and the accounting statements necessary for conformity with the relative legislation; normally, the usual policy in the past has been for the subsidiary companies to supply all of the information necessary for the preparation of the consolidated financial and economic reports before the end of the month following the closing of the quarter.
The company by-laws concerning the appointment of directors, the composition of the Board and their related areas of competency – specifically articles 19, 21 and 22 – were modified by the assembly which was held on May 15th 2007 for the purpose of adapting them, to the extent required and not already included, to the new TUF and to the Code and, most recently, further adapted by the assembly held on October 28th 2010 to the directives contained in the a.m. D. Lgs. 27/2010. At that time, the Board was also attributed the prerogatives described in articles 11 and 13 of the Consob Regulations on urgent dealings with related parties.
During the meeting held on May 15th 2012, article 19 of the by-laws was adapted to L. July 12th 2011, n. 120 in terms of the balance between genders.

Moreover, the shareholders' meeting of May 15th 2013, removed from the text of Articles 19 and 25 – which regulate the method of election, respectively: the first, of the administrative body and the second of the controlling bodies, the prohibition from withdrawal of the certificates demonstrating the validation of the right to present proposals for nominations before the actual meeting of the assembly. At the same time, we also corrected some typographical errors present in these articles referring to the date of deposit/communication of the certificates.
For a detailed description, please refer to the specific paragraphs contained in the part of this report related to information on the adhesion to the Code.
In relation to the required presence of the so-called independent board members which, since 2005 has been obligatory by law, the by-laws state this practice in relation to the rules regarding the appointment and composition of the Board; it should be noted that, in conformity with the Code, this practice has been regular policy since the company was first quoted on the stock market.

The Board of Statutory Auditors
The Board of Statutory Auditors is the body which, in conformity with the laws and company by-laws, is entrusted with the supervision of the conformity to the laws and to the company by-laws, the respect of the principles of correct administration, of the adequacy of the company organizational set-up related to the specific tasks, systems of internal controls and accounting administration system used by the company and its concrete functioning. The Board of Statutory Auditors moreover supervises the implementation of art. 19 of D. Lgs. January 27th 2010 n. 39 as well as the means for the correct application of the rules for corporate governance contained in the self-disciplining code and on the conformity with the Consob regulations and the implementation of the company procedures related to dealing with related parties.
This Board is also entrusted with the supervision of the adequacy of the instructions given to the subsidiary companies so that they supply all the information necessary in order to be in compliance with the communication obligations required by law.

The present Board of Statutory Auditors, was elected by the assembly on May 12th 2016 and will remain in office until the approval of the financial statements for 2018.
Company by-laws establish a limit in the accumulation of assignments, in conformity with 148-bis TUF, so that the appointment of a candidate or auditor who already functions as acting auditor in more than five listed companies is considered ineligible or invalid, as well those who are in a situation of incompatibility or that exceed the maximum limit as per the *Regolamento Emittenti* (art. 144-*duodecies* and following).
After the modifications in the by-laws approved by the assembly on May 15th 2007, they specified in art. 25 of the statute, which already contemplated the election using a voting list, that the acting auditor drawn from the minority list which came in first would be elected president of the Board of Statutory Auditors. Most recently, with the assembly of May 15th 2012 the Company adapted art.25 of the By-laws to L. July 12th 2011, n. 120 in terms of the balance between genders.
Pursuant to art. 144-*septies*, sub-section 2, Registry of Companies, the minimum amount of the equity in the capital stock that is required on the occasion of the last election for the presentation of the lists of candidates for the board of auditors is 4,5%, in conformity with art. 25 of the Company By-laws, with art. 144-sexies Registry of Companies, and CONSOB resolution of January 28th 2016, no. 19499.

Auditing
The auditing (in compliance with D. Lgs. 39/2010) is conferred to companies that are enrolled in the CONSOB professional register. Starting from the date of the quotation of the company on the stock market until the December 31st 2011 the task of auditing the separate and consolidated financial statement of the company, in conformity with art. 159 TUF in force at the time the appointment, was conferred to RECONTA ERNST & YOUNG s.p.a.
The shareholders' meeting which meets in order to approve the financial statement for 2011 for the years 2012 – 2020 conferred the appointment on Deloitte & Touche SpA in conformity with articles 13,14 and 17 of D. Lgs 39/2010.

Internal dealing
Up until March 30th 2006, for the relevant definable subjects in accordance with and in conformity with articles 2.6.3 and 2.6.4. of the "*Regolamento dei Mercati organizzati e gestiti da Borsa Italiana SpA*" 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 has been 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.

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2.0 INFORMATION ON OWNERSHIP (ex art. 123-bis, sub-section 1, TUF) on December 31st 2016

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

The extraordinary shareholders' meeting held on May 12th 2016 proceeded with the split of the nominal value of the shares in the ratio to 1:4, leaving the amount of capital stock unchanged. Consequently, for every ordinary share with a nominal value of 0,52 Euros each shareholder received four shares worth 0,13 Euros each. After this operation, which was neutral as far as the entity of the equity was concerned, the capital stock which is underwritten and paid out is unchanged and amounts to 2.508.671,36 Euros and is divided into 19.297.472 ordinary shares which are worth 0,13 Euros each.

The same assembly, in compliance with art. 2443 of the Civil Code, voted to confer to the Board of Directors, for a period of five years starting on May 12th 2016, the power to increase the capital stock one or more times for a maximum amount of 104,000.00 nominal Euros by issuing a maximum of 800,000 ordinary shares having a nominal value of 0,13 Euros each, with the payment of a price the entity of which will be determined by the Board in a unit value, including share premium, which is equal to the arithmetical average of the official prices registered by the ordinary shares of the Company on the stock market that is organized and directed by Borsa Italiana s.p.a. during the 6 months prior to the single vote of the Board or the increase of capital, even partial, on the condition that this amount is not less than that determined on the basis of the consolidated shareholders' equity of the El.En. Group on December 31st of the year of the last financial statement published on the date of the respective single vote for increase, even partial, in execution of the resolution.

This increase in capital must be voted on, in compliance with sub-section 5 of art. 2441 Civil Code, with the exclusion of the option right established by the law in favor of the shareholders since it has been set aside for use in the Stock Option Plan 2016-2025, was approved by the shareholders' meeting of May 12th 2016 and is intended for the board members, collaborators and employees of the Company and the subsidiaries it controls.

On September 13th 2016 the Board exercised this right and put into effect the Stock Option Plan 2016-2025 which was described in the 2016 Management Report in the section "Significant events which occurred in 2016" and in the information sheet which was drawn up in conformity with article 84-bis, sub-section 1, and chart 7 of Appendix 3A of the Regolamento Emittenti Consob consulted on the Company's internet site, www.elengroup.com (Italian version) – sez. Investor Relations - Documenti Societari - Piano Stock Option 2016-2025.

b) Restrictions in the transfer of stock (ex art. 123-bis, sub-section 1, letter b), TUF)

There are no particular restrictions on the transfer of stock.

c) Significant ownerships in shareholders' capital (ex art. 123-bis, sub-section 1, letter c), TUF)

From the information and data available on December 31st 2016 the shareholders listed on the attached Table 1 have significant ownership (over 5%) of the capital stock of the Company.

d) ***Shares which confer special rights (ex art. 123-bis, sub-section 1, letter d), TUF)***

None.

e) Shares held by employees: mechanism of the voting rights (ex art. 123-bis, sub-section 1, letter e), TUF)

None.

f) Restrictions in the right to vote (ex art. 123-bis, sub-section 1, letter f), TUF)

None.

g) Agreements among shareholders (ex art. 123-bis, sub-section 1, letter g), TUF)

None.

h) Clauses related to change of control (ex art. 123-bis, sub-section 1, letter h), TUF) and by-laws relating to OPA (ex art. 104, sub section 1-ter and 104 bis, sub section 1, TUF)

None.

In relation to the regulations contained in the by-laws regarding offers of public acquisition (OPA), the shareholders' meeting voted on May 13th 2011 to include among the prerogatives of the Board, in compliance with art. 104, sub-section 1-ter, T.U.F., the power to implement defensive measures in case of an offer of public acquisition even in the absence of the authorization of the shareholders' meeting.

i) Authorizations to increase the capital stock and to purchase treasury stock (ex art. 123-bis, sub-section 1, letter m), TUF)

On September 13th 2016 the Board put into effect the resolution taken by the shareholders' meeting on May 12nd 2016.
For details, please refer to the paragraphs above, at letter a) of this section in relation to the structure of the capital stock and the references made there for consulting the relative documents.
As far as the treasury stock is concerned, on October 27th 2016, the authorization granted by the shareholders' meeting of April 28th 2015 for the purchase of treasury stock expired.
The company does not currently possess treasury stock.

l) Management and coordinating activities (ex. art. 2497 and following of Civil Code)

El.En. SpA is the Parent Company and therefore is not subject to any activity of management or coordinating in compliance with art. 2497 and following of the Civil Code.

* * *

In compliance with art. 123-*bis*, first sub-section, letter i) TUF we herewith declare that *"no agreements have been stipulated between the Company and the Directors which include indemnities in case of resignation or firing without just cause or if their employment is terminated due to an offer of public acquisition"*.

The information required by article 123-*bis*, first sub-section, letter l) TUF *("the regulations applicable to the appointment and the replacement of the directors….as well the modification of the by-laws, if different from the legislative and regulatory ones applied in addition")* are described in the section of the Report dedicated to the Board (Section 4.1).

* * *

3.0 COMPLIANCE (ex art. 123-bis, sub-section 2, letter a), TUF)

Until the ordinary stock of the Company. was quoted on the stock market organized and managed by the Borsa Italiana S.p.A. on December 11th 2000, apart from any legal obligations and/or regulations, compatibly with its size and structure, the Company acted in accordance with the suggestions and recommendations of the Code, both in the original version of 1999, as well as the subsequent revised and modified versions.

The present version of the Code (July 2015) is accessible to the public at the web site http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf.

The information in compliance with art. 123-bis, sub-section 2, letter a), TUF is contained in the related and pertinent sections of the Report.

* * *

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* 11971/1999, 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* 11971/1999, regarding the respect of the balance among types in the compiling of the lists of candidates as well as in the composition of the body elected and in the replacement of members who have ceased.
Moreover, the shareholders' meeting held on May 15th 2013, in consideration of the change in legislation and regulations concerning the validation of the right to present lists of candidates as per D, Legs. 18th June 2012, n. 91, removed from the text of the by-laws the prohibition from withdrawing the certificates before the meeting was held.

At this time, in relation to appointments, 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* 11971, with shareholders who detain, even jointly, a controlling equity or relative majority which can be identified on the basis of the "communication of significant equities" as per art. 120 or of the publication of company pacts as per art. 122 of the same decree.
Moreover, already before the introduction of art.147-ter, sub-section1-bis. TUF, in order to satisfy the interest of most shareholders to know in advance the personal and professional characteristics of the candidates so as to cast a more informed vote, it was decided to anticipate the statutory term for depositing the lists (in compliance with Code 2006 6.C.1.).
Except for the regulations stated in Art. 19 of the above mentioned statute, El.En. Spa is not subject to any other special regulations related to the composition of the Board of directors, in particular those related to the representation of minority shareholders and/or the number and characteristics of the independent directors.

Succession plans (Criteria 5.C.2 of the Code)
The Company does not belong to the FTSE-Mib index.
Following the recommendations of the Nominations Committee, the current Board has decided to defer the formulation o fan actual succession plan for the executive board members since it is clear that any new board members that are chosen to replace one or more of the members who have ceased must be persons who have a profound knowledge of the functional and organizational characteristics of the company.
The Board has also based its evaluation on the fact that over time, thanks to the investment that the company has made in this sector, qualified personnel of the Company has acquired the managerial capacity which in any case would make it possible at any time to find a temporary replacement in case of necessity.

4.2. COMPOSITION (ex art. 123-bis, sub-section 2, letter d), TUF) – ART. 2 CODE

Current members of the Board of Directors
The current Board which will be in office until the approval of the annual report for the year which ends on December 31st 2017, is composed of the following members:

1) Gabriele Clementi – chairman and managing director;
2) Barbara Bazzocchi – managing director;
3) Andrea Cangioli – managing director;
4) Fabia Romagnoli - independent board member in compliance with art. 147-ter TUF and art. 3 of the Code.
5) Alberto Pecci – non-executive board member;
6) Michele Legnaioli – independent board member in compliance with art. 147-ter TUF and art. 3 of the Code.

The number of board members was established as six by the shareholders' meeting which met on April 28th 2015 and which elected the current Board.

The Board was elected with 56,738% of the voting capital by the shareholders' meeting held on April 28th 2015 and, after the vote of the Board of Directors on May 15th 2015, 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 jointly by the following partners: Andrea Cangioli, Gabriele Clementi, Barbara Bazzocchi.

The personal data of the board members elected on April 28th 2015 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. Spa 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.

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. SpA. As director, she has been involved full time in the management of the company since its founding. Since 1989 she has been managing director and she also is a member of the Boards of some of the companies of the Group.

ANDREA CANGIOLI – managing director, born in Florence in December 31st 1965. In 1991, he received his Engineering degree from the Politecnico di Milano with a major in Engineering of Technological Industries specializing in Economics and Organization. Since 1992 he has been on the Board of Directors of El.En. s.r.l. and since 1996 he has been managing director of the company and of numerous companies belonging to the Group.

ALBERTO PECCI – non-executive board member, born in Pistoia on September 18th 1943. He received his degree in Political Science and after a brief experience working at the BNL bank USA, he was dedicated to Lanificio Pecci, of which he is president, as well the other companies of the textile group of which the Lanificio is parent company. He was nominated Cavaliere del Lavoro in 1992, and was Vice President (1988-1993) and then President (1993-2002) of the La Fondiaria Assicurazioni; he has been a member of the Board of Directors of Mediobanca, of Assicurazioni Generali, of Banca Intesa and of Alleanza Assicurazioni. He is currently a non-executive member of the board of Directors of Mediobanca s.p.a, a company listed on the Italian stock market (Borsa Italiana). He has been a non-executive board member of the Comapny 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 Spa, and Fiorentinagas Clienti Spa, 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 Spa.
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 28th 2015 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 meeting held on March 15th, the Board conducted a self-evaluation on the functioning, considered efficient, on the size of the Board, on the composition, in relation to what is stated in the By-laws and the regulations as well as the Code, and the areas of professional competence of the members of the Board.
The self-evaluation process is repeated once a year, normally during the approval of the financial statement for the year.

(2.P.2 e 2.P.3) As far as the non-executive members are concerned, to their activity as Board Members they dedicate adequate time and personal commitment so as to constantly have an active and knowledgeable role in the assemblies and board meetings and on the committees of which they are members. In fact the two independent administrators and the non-executive Board Member, Pecci, through their assiduous participation in the work of the committees of which they are members and at the board meetings are directly involved with the issues of remuneration and systems of internal control and risk management and of the composition and the adequacy of the administrative organization.

The positions held by non-executive directors in other companies are shown on the following chart:

Name	**Position and name of company**	**Number of large size companies or those quoted on the stock market (also foreign)**
Michele Legnaioli	• Sole director of Valmarina s.r.l.	0
Fabia Romagnoli	• Managing director of Mariplast Spa • President of the Fondazione Cassa di Risparmio of Prato • Sole director of Goldplast s.r.l.	0
Alberto Pecci	• Executive President of Pecci Filati s.p.a. • Executive president of Toscofin s.r.l. • Sole Director of Centro P s.r.l. • Sole Director of Enrico Pecci s.a.s. di Alberto Pecci & C. • Sole director of SMIL s.a.s di Alberto Pecci & C. • Sole director of Alero s.a.s. di Alberto Pecci & C. • Sole director of Campora Immobiliare s.a.s. di Alberto Pecci & C. • Sole director of Celledrese s.a.s. di Alberto Pecci e C. • Sole director of Finelda s.a.s. di Alberto Pecci & C. • Executive vice-president of Immobiliare Marina di Salivoli s.r.l. • Non-executive board member of Rimigliano s.r.l. • Non-executive board member of Ego s.r.l. • Non-executive board member of Mediobanca s.p.a.Mediobanca spa	1

Maximum number of positions which can be held in other companies (I.C.3)

During the board meeting held on May 15th 2015, the board members confirmed what they had already stated in the past in relation to the maximum number of positions as director or auditor which El.En. directors could hold in other companies that are quoted on the regular Italian and foreign stock markets, in financial institutions, banks, insurance companies or others of significant dimensions. During this meeting, the board elaborated their evaluations on the basis of the involvement related to each role (executive, non-executive, independent board member) also in relation to the type and size of the company in which the positions were held as well as the eventuality of their belonging to the El.En. Group and established that their executive board members could not hold positions as directors and/or auditors in more than five companies quoted on the stock market.

As far as the Board of Statutory Auditors is concerned, after the approval of the shareholders' meeting, the board of directors, using the regulatory recall method, inserted into art. 25 of the statutes, the further limits which were introduced by art.. 144-*duodecies* 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 2016 none of the current board members or auditors has exceeded the maximum number of positions.

Induction Programme

As already mentioned, the current executive members of the Board of Directors 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 meeting held on May 12th 2016, therefore, the Board decided that the area in which it would be opportune to increase the professional formation initiatives would be to acquire better information on the development sectors of the company activities. These activities were created in 2016 when the president of the scientific and technical commission of the Company illustrated 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.

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 of Directors 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 of Directors, 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 provision 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 but, in any case, 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. Moreover, in compliance with Art. 6 of the *Internal Regulations for operations with related parties* of the Company, the board member who, directly or indirectly, has an interest is required to absent himself/herself from a board meeting during which discussions on this subject are taking place.

During the financial year 2016 the Board of Directors met six (6) times on the following dates:

1. March 15th
2. March 24th
3. May 12th
4. September 13th
5. November 11th
6. December 15th

For the percentage of attendance at the meetings of the individual board members, see the relative chart at the end of this report.

The average duration of each meeting during 2016 was 2,40 hours (1.C.1, letter i)

During the financial year 2017, the Board of Directors has met on the following dates:

1. March 15th

and, on November 11th 2016 established the following calendar of meetings in compliance with the company regulations (1.C.1.letter i):

2. May 15th Quarterly report as of March 31st 2017;
3. September 7th – Half-yearly report
4. November 14th – Quarterly report as of September 30th 2017.

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 in urgent cases) all of the documentation and information necessary related to the subjects to be discussed and submitted for their approval. In practice, in order to assure that the pre-meeting information sheet is delivered rapidly and completely, we send the documentation needed for the discussion of the subjects as part of the order of the day of the meeting, either dispatched *brevi manu* or by e-mail to all of the board members and members of the Board of Statutory Auditors (1.C.5).

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.

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. In order to illustrate changes in regulations, the legal consultant of the Company is also usually present at the board meetings and, when deemed necessary in order to describe and to illustrate subjects to be discussed that day of a purely technical nature, the director of internal functions, an executive or professional of the type considered most suitable.
In order to formally acknowledge the recommendations of the Code, even though this occurs normally, the Company voted to recognize in a by-law (art. 20) the faculty that the President of the Board of Directors has to request that

managers of the company, the subsidiaries or the associated companies, who are responsible for particular sectors that needs to be dealt with, attend the board meetings in order to supply the opportune information on the subjects on the agenda (art. 1, applicative criteria 1.C.6).

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In compliance with art. 20 E of the company statutes, besides the attributions which by law cannot be delegated and are part of the specific duties and functions of the Board, the following activities are reserved as the exclusive right of the Board of Directors:
- establishing the general direction to be taken by the management and overseeing the general trend of the management with particular reference to situations of conflict of interest;
- the study and approval of the strategic, industrial and financial plans of the company and of the structure of the Group of which it is the leader (1.C.1. lett.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.4);
- 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 lett. 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* T.U.F.)

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 as well as the half-yearly reports presented by the internal auditor and by the executive officer responsible for the preparation of the financial statement of the company, had evaluated during the meetings held respectively on March 15th 2016 (related to the activities of the second half of 2015: 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 of control; analysis of the relations with the subsidiary companies; of the procedures and relative flow of accounting and extra-accounting information; activities that are part of Law 262/05) and on September 13th 2016 (referred to the first semester of 2016: updating of the matrices of the areas of control; analysis of the methods used for managing the real estate holdings of the Company; verification of the functioning and adequacy of the internal controls and risk management systems in relation to the formation of the financials; activities related to Law 262/05); the adequacy of the organizational, administrative and general accounting structures of the Company set up by the executive board members, with particular reference to the system of internal controls and the management of risks (Applicative criteria 1.C.1., lett. c).

In relation to the organizational, administrative and general accounting structure of the subsidiary companies with strategic importance set up by the executive directors, with particular reference to the internal control system and the management of risks (Applicative criteria 1.C.1., lett. c), the Company, as part of the activities *ex* L. 262/2005, again in 2016 El.En conducted a re-examination of the perimeter of scoping and it was found that it would be unnecessary to modify the perimeter of scoping with respect to last year.
Consequently, the companies that have been selected as significant for this financial year are: Deka Mela S.r.l, Cutlite Penta S.r.l. entirely; Esthelogue 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 results of the activities conducted this year and of the tests, as usual, were shown 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 therefore, every three months, compares the results programmed with those actually achieved. (Applicative criteria 1.C.1., lett. e).

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

Art. 20 of the company, moreover, although it is the subject of specific Consob Regulations and El.En. statutes, grants the faculty to the Board to examine and approve in advance all the operations of El.En. and of it subsidiaries in which one or more of the directors have an interest either for themselves or for a third party. Moreover, article 6 of the internal regulations for dealings with related parties requires that the Board Member who holds an interest, directly or indirectly, must inform the Board in advance and then absent themselves from the meeting, except in those cases in which they have to remain in order to not compromise the quorum, in which case instead of absenting himself/herself, he/she must abstain from the vote.
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.

Generally speaking, in relation to the identification of the operations that have particular strategic, economic or financial importance, no general criteria have been established because the evaluation for each individual case is turned over to the delegated bodies which conduct the daily management and, in the opinion of the Board, have all the characteristics required for identifying these cases.
This is different from what occurs with operations conducted with related parties in relation to which the company has adhered, in compliance with the internal regulations for such operations, to the definition of operations of major significance as defined by the Consob in the *Regolamento Parti Correlate Consob*, Attachment 3.

The Board evaluates the size, composition and functioning of the Board itself and of its committees, in terms of determining the number of board members, when the proposal is brought to the assembly and subsequently for the division and delegating of functions and the election of the committees (Applicative criteria 1.C.1., letter g) and, later on, repeats the evaluation procedure annually. This examination is preceded by an analysis of the composition of the Bord 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.
This year the evaluation was conducted on March 15th when the Board met for the approval of the financial statement. The evaluation had a positive outcome considering the results achieved during the year and the composition of the Board which had not changed during the year.
Once a year, after the approval of the financial statement, the Board usually proceeds with the evaluation of the presence of the requirements of independence for the independent Board Members considered sufficient also in quantitative terms in relation to the Code and to the law.

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 concurrency, 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 therefore 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 28th 2015, appointed from among its members, three executive members, one of which is also the president. These members have, 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.4) 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.4, although each one could potentially achieve this. In practice, although they have held a mandate as executive director for many years, 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.

For this reason the Board at this time, after hearing the opinion of the Nominations Committee, during the annual self-evaluation on March 15th, by unanimous decision voted to not proceed with the appointment of a lead independent director on the basis of applicative criteria 2.C.3, 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.3., 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.5).

Chairman of the Board of Directors (2.P.5)

In conformity with art. 2. of the Code, art. 20 A of the El.En. company statutes assigns to the President the possibility/duty of organizing the work of the Board, by proceeding with the convocation and the organization of the Order of the Day as well as the coordinating of the Board's activities, the conduction of the various meetings, and the rapid communication of information to the board members so that they can act and decide knowledgeably and autonomously.

Art. 23 of the company statute assigns the representation of El.En to the president of the Board of Directors without any limitations and, within the limitations of the powers delegated to them, to the members of the Board of Directors who have executive powers.

In effect, to the president of the Company – Gabriele Clementi – on account of the small/medium size of the Company and the close collaboration, even in operational terms, with the other two executive board members, executive powers have been conferred which have a content and breadth analogous to those of the other executive directors: in fact, like the other two executives, he conducts a concrete and daily activity in the service of the company.

During the board meetings he also makes it a habit to inform and involve the non-executive members in the company activities, the strategies of the Group and the prospects for their long-term realization.
As already described and explained above in relation to the conferring of powers, the Board of Directors at this time does not feel that it is opportune to appoint one of the two independent members as *lead independent director* to collaborate with the president in order to further re-enforce the connection between the executive and non-executive directors.

The chairman is not the principal, in the sense of "sole person", responsible for the management of El.En., as explained in the motivations given in the preceding paragraph and he is not the controlling partner of El.En.

Information given to the Board of Directors

The delegated bodies refer to the Board concerning the activities conducted while exercising the proxies conferred to them:
- normally, on a quarterly basis;
- when a significant transaction takes place with related parties or in conflict of interests, by calling a special board meeting.

During this year the delegated bodies reported to the Board quarterly during the regular scheduled meetings for the approval of the financial statements.

4.5. OTHER EXECUTIVE BOARD MEMBERS

On the current Board of Directors there are no executive directors 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 2015, at the first meeting after the election, while forming the internal commissions, the Board decided that the requisites for independence existed in relation to the two non- executive board members elected as such (Applicative criteria 3.C.4.).
The independence of the directors is subsequently evaluated annually during the meeting for the approval of the financial statement on the basis of information obtained from the directors themselves (3.C.4): according to policy, in fact, the company sends a questionnaire to the two directors qualified as independent which contains the declaration concerning the controlling, economic or personal relations with the company, the subsidiaries or executives of the company.
In this regard it should be noted that during the approval of the financial statement for 2016 and of this Report, the Board, during the meeting of March 15th 2017, 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, and considering the recommendations that had been received from the Commission for Corporate Governance of Companies quoted on the stock market included in the comment to art. 3 of Code 2015, the independent administrators decided to hold on February 16th and on November 11th their first meeting that was different and separate from those of the various company committees of which they are members.

At the moment of the presentation of their candidacy in the lists for appointment to the Board, the two independent administrators indicated their suitability to qualify as independent both in compliance with art. 148, comma 3 TUF, and with art. 3 of the Code and promised that they would maintain their qualifications of independence for their entire term or, if unable to do so, to resign (comment to art 5 of the Code).

In the declaration which they renew every year, for the evaluation of the continued existence of the prerequisites for independence the two board members who have this qualification are obliged to immediately inform the Board of Directors of any changes that might have taken place with respect to what they had declared previously.

4.7. LEAD INDEPENDENT DIRECTOR

After an analysis conducted by the Board of Directors on the basis of an opinion expressed by the Nomination Committee, 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.

This circumstance was confirmed by the new Nomination Committee which had been given the task of making the evaluation after the election of the new Board of Directors and the conferring of powers during the inauguration of the Board on May 15th 2015 and the annual self-evaluation conducted on March 15th 2016.

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.
In fact, for the purpose of being able to act quickly in order to be able to be aligned with the recommendations, the company by-laws state in the definition of the areas of competence pertaining to the Board as per Art. 20 E, 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 conduction of the company.

5.0 TREATMENT OF COMPANY INFORMATION

The confidential information is managed by the President and the executive board members so as to guarantee its preservation and diffusion in conformity with the laws now in effect. The 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 following the specific instructions from the executive board members, in compliance with 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 President and the executive directors, along with the employees and collaborators who elaborate the data and are aware of information related to the company, first on the basis of its nature – whether it is confidential or not - and, secondly as to what is the best and most correct means of diffusion.

In 2007 the Board of Directors, on the basis of a proposal made by the managing directors, 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, i.e., price sensitive.

The above mentioned regulations were adopted, therefore, with the double intent of preventing, on one hand, an uncontrolled diffusion of information which could compromise the legitimate interests of the company and of its stockholders and, on the other, to insure a correct, rapid and impartial communication to the market of the important sensitive information which, as per art. 181 TUF could significantly influence the prices of the financial instruments issued by the Company which involve El.En. itself or its subsidiaries.

Moreover, following the acceptance by the Italian legislators of the European regulations regarding *market abuse*, this document also includes the rules for the institution and management of the persons who have access to sensitive information in compliance with art. 115 TUF and the relative Consob regulations implementing them.

As already mentioned, moreover, in conformity with articles 2.6.3 and 2.6.4 of the markets organized and managed by Borsa Italiana S.p.A. then in effect, from 2003 until March 31st of 2006, the Company had adopted an internal ethics code for the Group concerning *internal dealing*.

After the modifications made on the TUF by the law on saving (*Legge sul Risparmio*) and the regulations issued by Consob to implement them, the obligation to communicate all operations made by significant subjects as prescribed in the ethics code became law, and the threshold of the operations to be communicated was reduced to 5.000,00 Euros; for this reason it was necessary to adopt a new text for the internal regulations which reflected the current regulations.

In following the recommendations of Borsa Italiana, El.En. accepted the new ethics code which is called the "Ethics code for operations performed on financial instruments of El.En. by significant persons" ("*Codice di comportamento per operazioni compiute su strumenti finanziari di El.En. s.p.a. da persone rilevanti*") adopted by the Board of Directors after the vote on March 31st 2006 and subsequently modified by the resolution taken on November 13th 2006 and on November 13th 2015, the imposition on the significant persons and those closely connected to them, as defined in art. 152-*sexies* Regolamento Consob 11971/1999, to respect a blackout period of 15 days prior to the approval by the board of the financial for the year and the relative intermediate reports.

European Regulation 596/2014 prohibits people who work in a administrative, control or management function from conducting operations for themselves or for third parties directly or indirectly related to financial instruments of the Company for a period of 30 calendar days prior to the announcement o an intermediate financial report or final annual report that the company is required to make public (the so-called closing period) (see article 19, sub-section 11 of the MAR). After this regulation came into force, the Company adopted the above mentioned "*Codice di comportamento per operazioni compiute su strumenti finanziari di El.En. s.p.a. da persone rilevanti*" and raised the limits of the blackout accordingly.

In the case of extraordinary operations, moreover, the Board of Directors may impose extra temporal limits *ad personam* for the negotiation of company shares, or, in exceptional and motivated cases they may grant exceptions to the blackout period.

In the above mentioned ethics code the exercising of stock options or of rights for options related to financial instruments and, solely for the shares derived from the stock option plans the consequent selling operations (as long as they are made when exercising the stock option right) are not subject to the limits and prohibitions described in the above mentioned ethics code.

6.0 INTERNAL COMMITTEES OF THE BOARD OF DIRECTORS (ex art. 123-bis, sub-section 2, letter d), TUF) – ART. 4 CODE

Since 2000, and after that, at each re-election, the Board has created from among its members three commissions which are supposed to take initiatives and to be consulted.
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 regulations defining their composition, duties and functions approved by the Board of Directors and periodically updated by the Board.
c) the composition reflects the recommendations expressed in the Code and the last time the members were replaced was on May 15th 2015 after the election of the present board;
d) the regulations of each committee state that minutes must be made to record the content of each meeting in special books; each commission president must announce that the meeting has taken place during the board meetings in which the commission is involved in a subject being examined.
e) the regulations of each committee state that in order to carry out their duties and their functions, the committee has access to the information and company functions necessary for this task, as well as the faculty of consulting outside experts and of disposing of any financial resources placed at their disposal by the Company to the extent required for carrying out the activities with which they have been entrusted;
f) the regulation of each commission states that persons from outside the company may be sent to participate in the meetings when their presence constitutes a useful auxiliary for the conducting of the activities and functions of the commissions.

* * *

7.0 NOMINATION COMMITTEE – ART. 5 CODE

In conformity with art. 5.P.1. of the Code, the Board of Directors appointed a nominating committee for the appointment of the Directors, composed of its own non-executive members.

Composition and function of the nomination committee (ex art. 123-bis, sub-section 2, letter d), TUF)
The composition 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 2015 and is composed as follows: Fabia Romagnoli (non-executive and independent), Michele Legnaioli (non-executive and independent) and Alberto Pecci (non-executive).

The tasks to be performed and the mode of operation of the above mentioned Committee were formally established at the time of its constitution on September 5th 2000 in the regulations approved *ad hoc* by the Board of Directors which met on the same day; later, the tasks assigned to the Commission were revised in compliance with the various modifications to the Code.

During 2016 the committee met twice. All of the members were present and the meetings lasted 67,50 minutes. The work conducted during the meeting was coordinated by the president. At one of the meetings a member of the Board of Auditors was present. The president of the committee reported to the Board during the meeting held on March 15th, about the meeting held on March 14th .

The nominations committee this year has been made up of three members mostly independent directors (standard 5.P.1).

The secretary and, upon invitation by the committee, a member of the Board of Statutory Auditors and the internal auditor participate in the meetings. (Applicative criteria 4.C.1., lett. f).

In 2017, the committee has already met once, on March 13th, 2017. At time no other meetings are scheduled.

Functions of the nomination committee

In compliance with art. 9 of the regulations of the committee, they are entrusted with the tasks described in art. 5 of the Code. The committee must guarantee the transparency of the selection and the election of the Board as well as the balance in its composition and therefore 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 Applicative criteria 5.C.1 letter b).
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) (Applicative criteria 5.C.1 letter a.);
d) they can conduct the investigation and formulate proposals related to the evaluation of the use of succession plans for the executive administrators and, when necessary, contribute to the creation of the plan.

When carrying out their functions and duties, the commission 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 2016, the Commission supported the Board during the annual process of self-evaluation and the recurrence of the conditions necessary for the appointment of a lead independent director during the meeting for the approval of the 2015 financials. They also met in order to set up the rotation of the president of the commission for organizational purposes.
Except for extemporaneous meetings requested during the regular board meetings and which are recorded in the board minutes, in conformity with regulations, the meetings of the nominations Committee are recorded separately in the minutes book. (Applicative criteria 4.C.1., lett. d).

In carrying out its functions, the 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 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 order to guarantee the most complete information and total transparency in the remuneration paid to the directors, in 2000 the Board of Directors created the remuneration committee from among its own members (Principle 6.P.3.).

Composition and function of the remuneration committee (ex art. 123-bis, sub-section 2, letter d), TUF)
The committee that is now in office was appointed by the resolution taken on May 15th 2015 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).

The committee for remuneration functions, and has the duties described, in the regulations approved *ad hoc* by the Board of Directors during the meeting held on September 5th 2000. After that, the tasks of the committee have been revised on the basis of the modifications made in the Code.

It should be noted that the remuneration committee is only for consultation and has the faculty of making proposals and that, in conformity with art. 2389, sub-section 3, c.c. and art. 20 E of the company statutes, only the Board has the power to determine the remuneration of the delegated bodies, the president and the board members with special positions once the opinion of the Board of Auditors has been expressed.

The president of the Committee, on the basis of art. 3 of the relative regulations, has the task of coordinating and planning the activities of the committee and conducting the meetings. He informed them and gave his report on the activities conducted during the first meeting of the Board.
During this year the committee met seven times.
The average duration of the committee meetings held this year was 76 minutes.
All of the committee members were present and the entire Board of Auditors or one of its representatives was present.
The number of meetings held by the committee in 2017: 1 (one), held on March 13th.

During this year the 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 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)
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 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 committee is composed only of non-executive directors, the executive directors to which the remuneration proposals refer do not participate in the meetings of the commission in which the proposals of the committee are made concerning their own 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), the entire Board of Auditors or one of its members also participated (comment to article 6 of the Code).

Functions of the remuneration committee
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 committee presents proposals for the definition of a remuneration policy of the administrators and mangers with strategic responsibilities (standard 6.P.4) to the Board of Directors;
- the commission periodically evaluates the adequacy, the overall consistency and the concrete application of the general policy adopted for the remuneration of the executive directors, the other directors who have special functions,

and the executives with strategic responsibilities, supervises their application on the basis of information supplied by the executive directors and transmits general recommendations to the Board of Directors (Applicative criteria 6.C.5);
- it presents to the Board of Directors proposals for the remuneration of the executive directors and the other directors who have special functions as well as setting the performance objectives related to the variable component of this remuneration; it also monitors the application of the decisions adopted by the board and, in particular, verifies that the performance objectives have actually been achieved (Applicative criteria 6.C.5);
- on its own initiative or upon request by the Board, it conducts the investigative and preparatory activities that are adequate and necessary for the elaboration of the remuneration policy.
- it reports to the shareholders on the manner in which they have carried out their functions.

During this year the Company did not make use of any outside consultants.

In making their recommendations, the remuneration Committee may stipulate that:

- the remuneration of the executive administrators be defined so as to be in line with interests in achieving a priority objective for the creation of value for the shareholders over a mid- to long-term period;
- a significant part if the overall salaries of the board members, who have managerial responsibilities, be dependent to the reaching of certain objectives which may even not be of a economic nature, identified and specified in advance by the Board of Directors.

During this year the Remuneration Committee conducted the following activities:

a) evaluating what had occurred in relation to achieving the goals that had been set for the incentive salary plan for 2015 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 2016. In this regard, they also formulated a proposal for a remuneration policy that was the subject of the report submitted for approval to the shareholders as well as establishing specific guidelines for the remuneration of the new controlling commission, bearing in mind the new conditions.
c) Elaboration of the Stock Option Plan 2016 – 2025.
d) Definition by the end of the year of the proposed remuneration of the general director still to be appointed and with mandate starting on January 1st 2017.

At the various meetings held during the year, the entire Board of Auditors, its president or one of its members participated (Comment to art.6 of the Code).

The meetings of the Remunerations Committee are recorded in the minutes book. (Applicative criteria 4.C.1., lett. d).

When carrying out their functions and duties, the Remuneration Commission 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 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/2017.*

* * *

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 2016 for the inspection and decision of the shareholders' meeting during the meeting for the approval of the financials for 2016. 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) These objectives are set in the first quarter of the year and are measurable and deemed by the Board to be related to the creation of value for the shareholders within a mid-term period.
e) All of the variable component that is due is paid out during the following year.
f) After the election of the new board of directors on May 15th 2015 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.

Remuneration plans based on stocks

The shareholders' meeting held on May 12th 2016 approved the incentivation plan for 2016-2025 (Stock Option Plan 2016-2025) in favour of the administrators, collaborators and employees of the Company and its subsidiaries, to be implemented by assigning in one or more instalments, free of charge, option rights for underwriting newly issued ordinary shares in the company, the exercising of which will be governed by the special regulations definitively approved by the Board of Directors on September 13nd 2016when the plan was implemented. At the same time, the Board proceeded with the identification of the recipients, determine the amount of options to be assigned, as well as to set the price of the new ordinary shares which will be issued as the new beneficiaries exercise their option rights.

All of the details of the plan are described in the *Documento redatto ai sensi dell'articolo 84-bis, sub-sectio 1 and Chart 7of Appendix 3A of the Regolamento Consob n.11971/1999* available on the internet site of the Company, www.elengroup.com sez. Documenti Societari/Piano Stock Option 2016-2025.

In particular, when implementing the plan, the Board established the following with reference to the administrators of the Company in compliance with Applicative Criteria 6.C.2:

a) For all beneficiaries, a vesting of three years: the options assigned may be exercised in a first instalment starting on September 14th 2019.
b) With reference to the beneficiaries that are administrators of the Company, the availability of the options that have been assigned is subordinate to the circumstance which with reference to the preceding year for exercising the option establishes that the recipients of the options have reached the threshold of at least one of the objectives that has been assigned to them in relation to the annual incentive remuneration plans approved each year by the Board following the proposal of the Remuneration Committee.
c) With reference to the beneficiaries that are administrators of the Company, it was established that they, as promised upon assignation of the options, must retain until the end of their mandate at least 5% of the shares received as part of the options assigned to them.

Remuneration of the executive directors

A significant portion of the salaries of the executive directors depends on the earnings of the Company and/or reaching certain goals specified in advance by the Board proposed by the remuneration committee consistently with the incentive policy formulated by the Board and approved by the shareholders' meeting on May 12th 2016, both in relation to the maximum amount which can be paid out, (standard 6.P.2), and the guide lines.

The incentive remuneration plan proposed by the Board on March 15th 2016 and since it was later definitively confirmed by the Shareholders' assembly without any modifications to the proposals of the Board, no urther deliberation by the Board was deemed necessary.

Remuneration of directors with strategic responsibilities

In relation to the directors with strategic responsibilities, at this time the Board of Directors of El.En. has identified only one director who was a board member until the end of the term of the board whose term ended on April 28th 2015 and who is now on the Technical-Scientific Commission of El.En. He is the recipient of an incentive remuneration adopted in accordance with the general policy described above (standard 6.P.2), consequently a significant part of his remuneration is connected to achieving the goals in conformity with the terms that have been described with reference to executive administrators.
With reference to the Stock Option Plan for 2016-2025, for its implementation the Board has used the same methods used for the administrators of the Company which assumes, for the exercising of the option rights, that he/she has reached the threshold amount of at least one of the objectives assigned to him/he in relation to the annual incentive remuneration plan approved every year by the Board on the basis of the proposal of the Remuneration Committee.

The Board of Directors decided to assign an incentive remuneration to the president of the Technical-Scientific commission who, although he is not a director of El.En. is considered a figure of strategic importance in consideration of the fact that the main characteristic of the business of the company is that it is based on research.

Incentive mechanisms for the provost for internal control and executive officer responsible for the preparation of the financial statements
The incentive mechanisms directed at the provost for internal controls and the executive officer responsible for the preparation of the financial statements of the company are established by the managing director of internal controls and are deemed to be consistent with the roles that are assigned to them (Applicative criteria 6.C.3.).

Remuneration of the non-executive directors
The remuneration of the non-executive directors is established by the shareholders meeting at a set sum and is in no way connected to the economic results of El.En. (Applicative criteria 6.C.4.).

The remuneration of the non-executive directors is represented by the base salary established by the shareholders' meeting for all of the board members when they are appointed and currently amounts to 12.000,00 Euros a year.

The non-executive directors are not included in the incentive plans involving stock options (Applicative criteria 6.C.4.).

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Indemnities for the directors in case of resigning, dismissal, or discharging on account of an offer of public acquisition (ex art. 123-bis, sub-section 1, letter i), TUF)

Except for the severance pay indemnity established by the assembly in compliance with art. 17 of the TUIR, at the moment of appointment of the president or the executive board members for a maximum amount of 19.500,00 Euros a year, no agreements have been stipulated between El.En. and the directors concerning an indemnity in case of resignation or dismissal/discharge without just cause or if the relationship with the Company ceases on account of an offer of public acquisition.
At this time there are no further rights assigned in relation to the severance pay indemnity described above, there are no agreements that stipulate the assignment or maintenance of non-monetary benefits in favor of subjects who have terminated their employment, nor consulting contracts that have been stipulated for a period following the termination of employment; no agreements exist in relation to payments for non-compete agreements.

10.0 COMMITTEE FOR CONTROLS AND RISKS

In 2000 the Board of Directors created an internal controls committee which, in 2012, was renamed "Committee for controls and risks" (Principle 7.P.3 letter a, n.ii and 7.P.4)

Composition and function of the committee for controls and risks (ex art. 123bis, sub-section 2, letter d), TUF)
The composition of the committee has always been in conformity with the Code in its various versions.
The committee that is now in office was appointed by the resolution taken on May 15th 2015 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 president, Michele Legnaioli, in conformity with art. 3 of the committee regulations, has the task of coordinating and scheduling their activities as well as conducting the meetings.

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 commission met twice, on March 13th and on September 13th .
The meetings lasted for an average of 70 minutes and all of the members were present.
For the current year a meeting has been held on March 15th and another is scheduled for September 7th .

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
According to the regulations, the commission is responsible for the tasks described in art. 7 of the Code, as well as those derived from the CONSOB *Regolamento Part Correlate* regarding the regulations for dealings with related parties.
During this year, 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.
During this year, after the modifications made to the Code in July 2015, they clarified in the regulations the committee's role as a support in the inquiry conducted for the evaluation and decisions of the board of directors related to the management of risks derived from adverse facts of which the board had become aware (7.C.2 lett.g).

The committee was assigned those tasks described in the *Regolamento Consob* 17221/2010 related to operations with related parties and those mentioned in art. 7 of the Code.
Therefore, the committee, as part of the operations conducted with related parties:
(a) examines, analyzes and expresses an opinion in advance on the procedures and on the relative modifications adopted by the Board of Directors in relation to operations conducted with related parties;
(b) carries out the tasks which have been assigned to it in those procedures in relation to the instruction and examination of the operations with related parties governed by these same procedures.
Moreover, in relation to art. 7 of the Code, in offering advice and proposals, when required, it must analyze the problems and implement the practices for the control of the company activities and in particular, as far as is compatible with the functions attributed by the law to the Board of Statutory Auditors of companies listed on the stock market, it must:
a) assist the Board of Directors in defining the directives for internal control and risk management, in the periodic evaluation of the adequacy and effectiveness of the system, of the efficiency and effectiveness of the system, as well as the verification activity aimed at the identification and management of the main risks involving the company and its

subsidiaries, and the determining of the degree of compatibility for the risks which have been identified involving the company or its subsidiaries, through a management of the company that is consistent with the strategic objectives that have been set also in of view of a mid- to long term sustainability of the company's activities.
(b) evaluate, together with the executive officer responsible for the preparation of the financial statements and the independent auditors and the Board of Statutory auditors, the adequacy of the accounting principles being used and their consistency in relation to the drawing up of the consolidated financial statement;
(c) express their opinions on specific aspects related to the identification of the main risks to which the company is exposed.
(d) examine the periodic reports which have as their subject, the evaluation of the system for internal controls and management of risks and, in particular, those concerning internal audit.
(e) monitor the autonomy, the adequacy, the effectiveness and the efficiency of the internal auditing system.
(f) using their own discretion and specifically communicating with the president of the Board of Auditors, to ask for the function of an internal audit to conduct verifications on specific operating areas.
(g) assist the Board of Auditors when specifically requested, in the evaluation of proposals advanced by the auditing company in order to obtain the position of auditors and evaluate the work plan drawn up for the auditing and the results shown in the report and in the letter of suggestions.
(h) assist the Board of Auditors when specifically requested, in their supervision of the effectiveness of the auditing process.
(i) report to the Board, at least twice a year, on the occasion of the approval of the financial and the half-yearly report, on the activity conducted and on the adequacy of the system of internal controls and management of risks;
(l) form an opinion concerning the appointment, revocation and remuneration of the manager of the internal auditing system and they qualities that this person has that are necessary for carrying out his functions and responsibilities;
(m) to support, through an adequate activity of inquiry, the evaluations and decisions of the Board of Directors related to the management of risks deriving from adverse facts of which the Board has become aware.
(n) carry out the other tasks which from time to time may be assigned to it by the Board of Directors.

During this year the commission evaluated, in particular, the activities conducted by the manager in relation to Law 262/2005, by the internal auditors respectively in relation to the updating of the limits of the areas of risk and the state of the control activities that have been implemented, and of the functioning and the adequacy of the system of internal controls and risk management with reference to the area of formation of the financials, the analysis of the relations with the subsidiary companies, the procedures related to the flow of accounting and extra-accounting information, as well as the management of the real estate holdings of the Company.

All the members of the Board of Auditors usually participate in the work of the committee for controls and risks (Applicative criteria 7.C.3.).

The meetings of the commission for internal controls are duly recorded in the book of 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).

At this time the 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.

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 commission for controls and risks, the internal auditors, the provosts for internal controls, the executive responsible for the company financial documents, the supervising bodies 231, 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, of the rules and different bodies at their respective levels.
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 5th 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 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 Spa, as the executive officer responsible for the preparation of the financial statements.
Initially, El.En. instituted a task force with the objective of analysing the system of internal controls with reference to the tasks assigned by law to the executive responsible for the accounting and company documents collaborating with Price Waterhouse Coopers company (a company which is different from that which audits the books of El.En.).
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.

Every six months, using the Commission for controls and risks and the Board of Auditors, the Board evaluates the plan (the type and frequency) of the controls set up by the internal auditor in coordination with the managing director of internal controls (Applicative criteria 7.C.1 letter c).
Through the activities implemented and coordinated by the internal controls committee, as well as the reports presented periodically by the internal controls provost and the superintending institution 231, during the meetings held on March 15th, May 12th, September 13th , and November 11th, the Board evaluated as adequate the efficiency, effectiveness and correct functioning of the internal controls system (Applicative criteria 7.C.1., lett. b and d).

11.1. EXECUTIVE DIRECTOR IN CHARGE OF INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has identified an administrator for the institution and maintenance of an effective system for internal controls and risk management (standard 7.P.3, letter a) n.i)). Andrea Cangioli, managing director was appointed to this position.
In the name of the Board, he is in charge of the supervision of the functioning of the system of internal controls and risk management and carries out the tasks and the functions as per the Code and in particular: the identification of the main

risks for the company (strategic, operative, financial, compliance), bearing in mind the characteristics of the activity conducted by El.En. and by its subsidiaries, and submits them for periodic examination by the Board when the financial data and the managerial performance of the Company and the Group are bring presented (Applicative criteria 7.C.4, lett. a); implementing the directives defined by the Board of Directors, including the planning, activation and management of the internal controls system and constant verification of its adequacy, effectiveness and efficiency (Applicative criteria 7.C.4., lett. b); adaptation of the system to the dynamics of the operating conditions and the legislative and regulating situation (Applicative criteria 7.C.4., lett. c); request to the person responsible for the internal audit to conduct the verifications in specific operating sectors and on the respect of the regulations and procedures in carrying out company operations, while keeping the commissions for controls and risks and the Board of Statutory auditors informed (Applicative criteria 7.C.4., lett. d).

During the work sessions of the committee for control and risks and of the Board of Auditors, when necessary, the executive director will refer concerning the problems that have emerged or that he has been informed of as part of the activity that he conducts (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 commission for controls and risks (Applicative criteria 7.C.1.- second part) with the approval of the Board of Auditors.

The Board is the body in charge of the remuneration of the provost(s) for internal auditing; consistent with the company policy, upon proposal from the executive director in charge of supervising the functions of the internal controls system and, on the basis of the opinion expressed by the commission for controls and risks, (Applicative criteria 7.C.1- second part) and of the Board of Auditors.

The provosts for internal auditing are not responsible for any of the operative sectors and in the hierarchy depend on the Board of Directors (Applicative criteria 7.C.5., lett. b).
The provosts responsible for internal auditing conduct verifications continually and also in relation to specific cases and, in conformity with the international standards, the operations and the effectiveness of the system of internal controls and risk management based on a process of analysis and classification of the main risks of the controls (7.C.5, lett. a).

The provosts responsible for internal auditing, each one in their own area of expertise, have direct access to all the information that is useful for conducting their activities (Applicative criteria 7.C.5, lett. c); they prepare periodic 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., lett. 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., lett. f); they have not had an opportunity to report on events of particular significance; 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 including the systems used for entering the accounts (Applicative criteria 7.C.5, lett. 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.

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; the updating of the mapping and analysis of the internal control activities conducted over the years, the verification activities carried out and their results for the purpose of scheduling future activities; the updating of the perimeter of the areas of risk and the state of the control activities that have been implemented; the relationships with the subsidiary companies, the procedures relative to the flow of accounting and extra-accounting information, the analysis of the methods and regulations for the management of the real estate holdings of the company and the activities conducted in compliance with law 262/05.

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The function of internal auditing with reference to the area of drawing up the financial statement which is an activity of the ex-262/05 area of monitoring has been assigned to Dott. Lorenzo Paci, CPA, an external subject involved in the activities for the implementation of 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 is in the process of being adopted by the subsidiary Deka M.E.L.A. s.r.l.

The present model of El.En. is the result of a revision and continual updating of the one originally approved, on the basis of the evolution of the types of possible misdemeanors that are contemplated individually by the legislators. With the intent of preventing any misdemeanors which could in some way be related to the activity of El.En. in consideration of its structure and the area in which it operates, the Board has decided to include in its own model 231 the part regarding health and safety on the workplace which is valid also for compliance with art. 30 L. 81/09.
Besides the violations related to health and safety in the workplace, the present model ex D.Lgs 231/2001 of the Company is aimed at preventing crimes against the public administration, company crimes, market offenses, environmental crimes, transnational crimes, receiving stolen goods, money laundering, use of illegally obtained money or goods.
The superintending body is a commission composed of three members, one of which is an acting auditor, Dott. Paolo Caselli.
At this time, although the Company, in accordance with the By-laws, has the faculty of attributing to this function to the Board of Auditors, they have deemed it more effective to maintain the current organization of the supervising body: an acting auditor and provosts for internal auditing.

11.4. INDEPENDENT AUDITORS

The auditing activity, in conformity with articles 13, 17, and 19, D. Lgs. 39/2010 is assigned to an independent auditors that is enrolled in the specific CONSOB registry; the shareholders' meeting of May 15th 2012, for the auditing of the annual financial statement and the consolidated statement of the company for the years 2012-2020, Deloitte & Touche s.p.a. has been appointed. The appointment expires upon the approval of the financial statements for 2020.

11.5. EXECUTIVE OFFICER RESPONSIBLE FOR THE PREPARATION OF THE FINANCIAL STATEMENTS OF THE COMPANY

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 THE SUBJECTS INVOLVED IN THE SYSTEM OF INTERNAL CONTROLS AND RISK MANAGEMENT

In essence this coordinating activity has already been described above and therefore does not require repeating, however, it should be stated that El.En. must provide a strict coordination of the persons that are involved in the system of internal controls and risk management through a cross-designation of the subjects belonging to a body as members of others or else through the participation in the work of the various subjects belonging to other bodies that are involved in the system of control and risk management.

12.0 INTERESTS OF THE DIRECTORS AND OPERATIONS WITH RELATED PARTIES

With reference to the operations in which one of the directors has an interest or the operations with related parties, meaning those which involve the parties identified according to IAS 24, in art. 20 the statute states that the approval by the Board in relation to operations having a significant strategic, economic or financial importance, with particular reference to the operations with related parties, to those in which one of the board members detains an interest for himself or for a third party, or those that are unusual or atypical, must be given in advance**.**
The Board, moreover, in conformity with art. 2391-*bis* of the Civil Code, on March 30th 2007 adopted a special procedure called "*Regolamento per la disciplina delle operazioni con parti correlate di El.En. s.p.a.*" (El.En. Regulations for the operations with related parties), in compliance with the CONSOB regulations with related parties, was revised in 2010. This regulation contains the rules which govern the approval and conducting of operations initiated by the company, either directly or through one of the subsidiary companies, with parties with which there is a pre-existing equity investment, a professional or employee relationship, or a close family relationship which could condition the conclusion, regulating or substance of a contractual relationship. This set of rules has rendered, in formal terms, the intent which, in any case, in the past has always been followed by the Company, to act in such a way as to guarantee that the performance of operations with related parties (meaning also the operations in which the correlation exists on account of the interest of an director or an auditor for himself or for a third party) takes place with the greatest transparency and correctness both in substance and in procedure.
The Company and its directors in any case must act and conform to the regulations of the Civil Code concerning this subject (articles 2391 e 2391-*bis*).
Moreover, the specific procedure controlling the relations with related parties and the existence of conflicts of interest which involve the administrative and controlling bodies is contained in the manual of administrative and management procedures, in force since 2000.
This procedure specifies that the provost for internal controls/internal auditor must proceed every six months with the verification, by means of interviews with the members of the Board of Directors and the Board of Statutory Auditors, of the existence of other related parties or of situations which might determine a conflict of interest.
In practice, this verification is conducted by means of a written interview consisting of a questionnaire which is filled out and signed by the above mentioned officers and kept in a file by the provost for internal controls/internal auditor.
The procedure approved by the Board contains the criteria for identifying the operations which must be approved by the Board after the opinion of the commission 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, in a review of the internal Regulations, and in particular of art. 6, the Board 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.

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 in the new policies introduced relating to gender balance, by law 120 of July 12th 2011, art. 25 of the company statutes the following procedure must be applied for the appointment of the auditors.

***"Art. 25 – Statutory Board of auditors** (...omissis). For the appointment of the members of the Board of Statutory Auditors the following procedure must be applied: the partners who intend to nominate candidates to be appointed Auditor at least 25 (twenty-five) days before the date set for the first convocation of the ordinary assembly must deposit the following documents at company headquarters:*

a) a list containing the names shown in numerical order and divided into two sections: one for the candidates for acting auditor and the other for supplementary auditor.

b) along with the list, they must present a complete description of the professional curriculum of the persons being nominated and supply adequate reasons for the nomination as well as a complete CV for each candidate;

c) along with the list, they must present a declaration in which each candidate accepts his nomination and declares, on their own responsibility, the non-existence of causes for ineligibility or incompatibility as well the existence of all of the requisites prescribed by the applicable regulations and by the company statutes for this particular position;

d) along with the list they must add a declaration by the partners who are not among those who detain, even jointly, a controlling equity or relative majority, which attests the absence of the connections as per art. 144-quinquies Regolamento Consob 11971/1999 *with these latter.*

The lists must contain the identity of the partners or the name of the partner, who is presenting the list with all of the personal data and the percentage of capital possessed individually or jointly.

The creation of this list containing the names of the least three candidates must take place in compliance with the regulations of the balance of genders.

Each partner may present and participate with only one list and each candidate can be present on only one list, otherwise they will be considered ineligible.

Only the partners who either alone or jointly with other partners represent the quota of equity in the capital stock in the amount established by art. 147-ter D. Lgs. February 24th 1998, n. 58, or in the greater amount established by the Consob regulations bearing in mind the capitalization, floating funds and ownership of the quoted companies, may present lists.

The ownership of the minimum quota of equity necessary for the presentation of the lists is determined by the shares which are registered in the name of the partners in the day on which the lists are deposited at the company. The relative certification must, in any case, be presented at least 21 days before the date set for the first convocation of ordinary assembly.

The auditors are nominated by the ordinary Assembly on the basis of the lists presented by the partners in which the candidates are listed in numerical order. Each partner having the right to vote may vote only for one list.

*In the case that, upon expiration of the term for presenting the lists, only one list has been deposited, or else that only lists presented by partners that, on the basis of sub-section 4 of art. 144-*sexies Regolamento Consob 11971/1999*, are connected to each other as per art. 144-quinquies* Regolamento Consob 11971/1999*, additional lists may be presented up until the fifth day after that date. In this case the amount of equity which must be held in the capital for the presentation of the list is reduced by half.*

In the case that there is more than one list, for the election of the members of the Board of Statutory Auditors the procedure described below must be followed:

a) the votes obtained by each list must be divided by one, two, three, etc. according to the progressive number assigned to each candidate;

b) the quotients that are thus obtained must be assigned progressively to the candidates of each list in the order in which they appear on the list and they will placed in a single classification in descending order.

c) the candidates that receive the highest quotients will be elected.

At least one acting Auditor must be taken from the minority list which obtained the greatest number of votes. Consequently, in the case that the three highest quotients were obtained by candidates belonging to the majority lists, the last acting auditor to be elected must, in any case, be taken from the minority list which obtained the most votes, even though he obtained a quotient that was lower than that of the majority candidate with the third highest quotient.

In the case in which the candidates have obtained the same quotient, the candidate on the list which has not yet elected any Auditor will be elected, or in the case that all the lists have elected the same number of Auditors, the candidate on the list which obtained the greatest number of votes will be elected. In the case of the same number of votes for the list and the same quotients, a new election will be held by the entire ordinary Assembly, and the candidate who receives the simple majority of votes will be elected.

The presidency of the Board of Statutory Auditors is assigned to the acting Auditor elected first on the minority list who has obtained the greatest number of votes, or, if there is no minority list, to the acting auditor elected first from the list

which received the greatest number of votes. In the case of the substitution of the acting Auditor, he will be replaced by the substitute Auditor belonging to the same list as the one who is being replaced.
In the case that no list has been presented before the expiration date, the Assembly will vote with the relative majority of partners present at the Assembly.
In the case that only one list has been presented the acting and supplementary auditors will be elected from that list in the order in which they appear on the list.
In the case that no minority list receives votes the integration of the Board of Statutory Auditors will take place by means of a vote with the relative majority of the partners present at the Assembly.
The composition of the body that is elected, in any case, must be of such a nature as to assure the balance between genders represented inconformity with art. 148, sub-section 1-bis, D. Lgs. 24 February 1998, n. 58.
The appointment of the auditors for the completion of the Board of Auditors in conformity with article 2401 c.c. is made by the Assembly with a relative majority.
In any case, the cessation of the appointment of one or more components of the controlling body, the designation and appointment of new members must be in compliance with the current regulations regarding the balance between genders represented.

The present Board of Auditors was elected by the ordinary assembly on May 12th 2016 for the financial years 2016-2018 and expires upon the approval of the financial statement on December 31st 2018.

As of December 31st 2016, the Board of Auditors of El.En. s.p.a. is composed as follows: Dott. Vincenzo Pilla, President; Dott. Paolo Caselli, auditor; Dott.ssa Rita Pelagotti, auditor; Dott.ssa Daniela Moroni and Dott. Manfredi Bufalini, alternate auditors.

Pursuant to art. 144-septies, sub-section 2, Reg. Emittenti, the minimum amount of equity in the share capital that is necessary for the presentation of the lists of candidates for the Board of Auditors was 4,5%, in conformity with art.25 of the company by-laws, art. 144-sexies of the Reg. Emittenti and CONSOB resolution of January 28th 2016, no. 19499.

14.0 COMPOSITION AND FUNCTION OF THE BOARD OF AUDITORS (ex art. 123-bis, sub-section 2, letter d), TUF)

In conformity with the specific company statutes, the auditors must possess the requisites required by law and, consequently, also the requisites of independence as per art. 148 TUF.

They must act with autonomy and independence also in relation to the shareholders who have elected them (standard 8.P.2.).
The current Board comes from a single list presented by Andrea Cangioli, and Barbara Bazzocchi since no other lists were presented at the time of the elections held on May 12th 2016.
The election took place, it should be recalled, before the share split, with a vote in favour by 2.861.469 shares which is equal to 59.313% of the capital stock.
The mandate of the present Board lasts for three years and will terminate with the approval of the financials for 2018.
For the professional curriculum and the personal characteristics of the members, please consult the curriculums published on the web site of the Company; for the president Vincenzo Pilla, the acting auditors Paolo Caselli and Rita Pelagotti; for the supplementary auditor Daniela Moroni and Manfredi Bufalini in the following section: www.elengroup.com/investor www elengroup.com(section “Investor relations”/governance/documenti assembleari /2016/assemblea ordinaria e straordinaria 26 aprile 2016-12 maggio 2016”).
The company constantly places at their disposal their staff and the resources which the Board deems useful in order to conduct their functions in conformity with the current version of art. 25 of the statutes.
As already mentioned, for the purposes of implementing Applicative Criteria 8.C.5, one of the auditors, Dott. Paolo Caselli has always participated actively in the meetings and activities of the Committee for controls and risks with the director of internal auditing. Moreover, in accordance with the vote made by the Board on March 31st 2008, confirmed on May 15th 2012 and May 12th 2016, he is also a member of the supervising body as per *ex* D.Lgs. 231/2001.
Since D.Lgs. 39/2010 came into force, the Board o Auditors, through the acting auditors has participated in the committee for control and risk management.
The reporting activities of the internal auditor and the director take place at the committee for internal control in the broadest sense, including the committee for control and management of risks and for internal control ex D.Lgs. 39 cit.

The Board of Statutory Auditors, is the body which legally is supposed to supervise the compliance with the law and with the company statutes, the respect of the principles for correct administration, the adequacy of the organization of the company in relation to the aspects in which they are competent, the internal controls system and the administrative and accounting systems used by the company and their actual functioning. The Board of Statutory auditors, moreover, supervises the application of the dispositions contained in art. 19 of D. Lgs. No. 39 of January 27th 2010, as well as the methods used for the correct implementation of the rules for corporate governance contained in the self-disciplining code and the compliance with the Consob rules and the effective implementation of company procedures regarding dealings with related parties.
This body is also entrusted with the supervision of the adequacy of the instructions given to the subsidiaries so that they can supply all of the information necessary in order to comply with the requirements for communication according to the law.
When requested by the Board of Directors, this body also acts as a supervising body in conformity with art. 6, D. Lgs. 8th June 2001, n. 231.

As of December 31st 2016 the Board is composed of three acting auditors and two supplementary auditors:

Name	Position	Residence	Place and date of birth
Vincenzo Pilla	President	Firenze, Via Crispi, 6	S. Croce di Magliano (CB), May 19 th 1961
Paolo Caselli	Acting auditor	Pistoia, Via Venturi, 1/B	Firenze, April 14th 1966
Rita Pelagotti	Acting auditor	Firenze, Piazza Santo Spirito 7	Firenze, December 6th 1956
Daniela Moroni	Supplementary auditor	Firenze, Borgo Pinti 60	Monteverdi Marittimo (Pisa) September 16th 1952
Manfredi Bufalini	Supplementary auditor	Firenze, Piazza S. Firenze, 2	Firenze, August 24th 1966

According to the Statutes there is a limit in the number of offices which can be held, in conformity with art. 148-*bis* TUF, so that those auditors who hold the office of acting auditors in more than five companies quoted on the stock market as well as those who are in situations of incompatibility or are over the maximum number of offices according to the *Regolamento Emittenti* (articles. 144-*duodecies* and following) are considered ineligible and dismissed if they are candidates or elected auditors.

As of December 31st 2016 the following components of the Board of Statutory Auditors of the company were also members of the controlling bodies of the following subsidiary companies:

First and last name	Positions
Vincenzo Pilla	- President of the Board of Statutory Auditors of Lasit s.p.a. - President of the Board of Auditors of Quanta System s.p.a.
Paolo Caselli	- Sole Auditor of Deka M.E.L.A. s.r.l. - Acting auditor of Lasit s.p.a. - Alternate auditor of Quanta System s.p.a.

The average duration of the meetings of the Board of Statutory Auditors is 113,33 minutes.
During this year the Board of Statutory Auditors met six (6) times.
Six meetings of the Board of Statutory Auditors have been scheduled for the year 2017, two of which have already been held, on January 26th and March 20th.
The President and the acting auditor, Paolo Caselli were present at all of the meetings; the acting auditor Rita Pelagotti was present at 5 of the 6 meetings.

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The Board of Statutory Auditors:

- verified the independence of its members on the first occasion after their appointment (Applicative criteria 8.C.1) and evaluated their requisites for independence as art. 148, comma 3, TUF (*Art. 144- novies*, sub-section 1-*bis*, *Regolamento Emittenti*;

- during the year verified that their members continued to have the requisites for independence and transmitted the results to the Board (Applicative criteria 8.C.1.);

- while conducting the evaluations mentioned above, applied all of the criteria stated in the Code with reference to the independence of the directors (Applicative criteria 8.C.1.).

All of the verifications had a positive outcome.

In relation to the initiatives taken by the President of the Board for purposes of an induction programme, as stated above, the members of the Board of 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 Auditors, we do not believe that it is necessary to take particular measures towards the creation of an induction programme 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.
As far as the remuneration o the Board of Auditors is concerned, after the preliminary investigation conducted by the Remuneration Committee, the results of which were reported during the Board meeting of March 15th in view of the election of the new controlling body, it was approved by the shareholders' meeting as had been proposed by the Board and is suitable in consideration of the effort involved, the importance of the role and the size and sector of the Company. (Applicative criteria 8.C.3.).

An auditor who, either for himself or for a third party has an interest in a particular operation of El.En. must inform immediately and in detail the other auditors and the president of the Board concerning the nature, terms, origin and extent of his interest and in compliance with art. 6 of the internal regulations for operations with related parties, must leave the meeting which is voting in this regard. (Applicative criteria 8.C.3.).

The Board of Auditors, for which the methods have already been described previously in this report, in conducting their activities, are 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.4. and 8.C.5.).

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; it has also carried out the functions attributed to it by D. Lgs. 39/2010 with reference to the supervising activity of the auditing company to be proposed as successor appointed by the shareholders' meeting which met on May 15th 2012 .

15.0 RELATIONS WITH SHAREHOLDERS

El.En. has created a special section in its Internet site which is easy to find and to access and which contains all of the information concerning El.En. which is of importance to its shareholders so that they can gain the knowledge they need to exercise their rights. This section is called "INVESTOR RELATIONS" and can be consulted from the homepage of the Company.

The person responsible for management of relations with the El.En. shareholders is Enrico Romagnoli (investor relations manager) (Applicative criteria 9.C.1.).

El.En. does not feel it is necessary to create a special department in the company for the relations with shareholders (Applicative criteria 9.C.1.).

In conformity with art. 9 of the Code, the Board of Directors, compatibly with the organization and structure of El.En. endeavours to encourage the participation of the shareholders in the assemblies and to facilitate the exercising of the rights of its partners also by creating a continuous dialogue with them. The Board of Directors endeavours to set a convenient time, date and place (usually the company headquarters) for the meetings and to comply rapidly with the requirements set by law in relation to the convening of the assembly, the communication that the assembly has been convened, and the participation of the shareholders at the assembly.
In conformity with the Code, all of the directors normally attend the assemblies and, during the assemblies all of the information and news concerning El.En. are communicated to the shareholders, naturally in compliance with the regulations related to price sensitive information.
The President of the Board of Directors and the executive board members have unanimously agreed to appoint one of the employees, Enrico Romagnoli, to be responsible for the relations with institutional investors and the other shareholders. The *investor relations manager* is part of a company department which is composed of employees who elaborate accounting, administrative and financial documents and information.

In conformity with the procedure for the communication of documents and information concerning El.En., the investor relations manager is involved in a dialogue with the shareholders and with the institutional investors also through management of a special section of the Company's Internet site and the communication of the appropriate documents in compliance with the law and the regulations regarding the treatment of company information ("*Regolamento sul trattamento della informazione societaria")*, in particular confidential information.

16.0 SHAREHOLDERS' MEETINGS (ex art. 123-bis, sub-section 2, letter c), TUF)

The assembly is governed by Title III of the Company Statutes (articles 11-18) which, in conformity with the law and the specific rulings, regulates its areas of competence, functioning, means of convening, constitutional quorums, intervention etc. as described below in the version that was updated on December 31st 2014:

"***Article 11***

Assembly

The legally constituted Assembly represents the entirety of the shareholders, and its decisions, made in conformity with the law and with the Statutes, are binding for all of the shareholders including those that dissent or were not present.
The Assembly may be ordinary or extraordinary and may be convened even in second or third convocation.
The ordinary Assembly must be convened at least once a year for the approval of the financial report within the terms established by the law. It can be convened within one-hundred and eighty days after the closing of the financial year for the years for which the company is obliged to draw up the consolidated statement and when particular reasons related to the structure and the subject of the company require it.
The Shareholders' Meeting is convened whenever the administrative body deems it opportune, or when a special request has been presented by the persons who may do so according to law, or else upon the initiative of the Board of Statutory Auditors or a part of it, in conformity with art. 25 of the current Statutes.

Article 12

Place of asssembly

The Assemblies are held at the headquarters of the company or in another place that is specified in the notification of the assembly, as long as it is in Italy.

Article 13

Convocation of the Assembly

The Assembly is convoked normally by the Administrative body, in conformity with the relative regulations, by means of a notice which is published, in accordance with the law, on the internet site of the company and in the daily newspaper "ITALIA OGGI" (except in those cases where the law states otherwise). The notice must state the day, the time and the place where the meeting is being held and the list of subjects which will be discussed.

A single notice may contain the dates for the first, second and third convocations.

Article 14

Attendance at the Assembly

Attendance at the Assembly is governed by the related laws and regulations now in effect.
The shareholders who have the right to vote may attend the assembly on the condition that, and for the number of shares in relation to which, they have deposited certification in conformity with the law.
A partner who has the right to attend the Assembly in conformity with D. Lgs February 24th 1998, n. 58 and the other applicable regulations, may be represented by conferring a written power of attorney. The power of attorney which is written and signed digitally must be sent to the company by certified e-mail.
The company does not make use of the institution of "designated representative of the company with listed stock" as described in article 135-undecies D.Lgs. February 24th 1998, n. 58.

Article 15

Presidency of the Assembly

The Assembly is presided over by the President of the Board of Directors or, if he is absent or impeded, by the Vice-President; if neither of them are present, then by the person elected with the greatest majority of votes by the shareholders present.
The Assembly elects, even among the non-shareholders, a Secretary and, if deemed necessary, two scrutinizers.
The presence of a secretary is not necessary if the minutes are kept by a notary.
The President of the Assembly has the duty of verifying that the meeting complies with regulations and of ascertaining the identity and legitimate rights of those present. Once the validity of the constituents of the Assembly has been certified, it cannot be invalidated because some of those present have left the meeting.
The President also has the task of presiding over the regular conduction of the meeting of the Assembly, directing and moderating the discussion and establishing, when necessary the duration of each intervention, determining the methods and order for voting and ascertaining the results, all in conformity with the regulations which, formulated by the Board of Directors and approved by the ordinary Assembly can govern the orderly and functional activity of the meeting both in ordinary and extraordinary assembly.

Article 16
Minutes

The decisions taken by the Assembly must be transcribed in the minutes and be signed by the President, by the Secretary, or by a notary and by the scrutinizers if there are any. In the cases where it is set forth by the law, and, also, when the President of the Assembly deems it opportune, the minutes may be drawn up by a notary.

Article 17
Ordinary Assembly

For the first convocation the ordinary assembly is considered to be duly constituted when the number of shareholders present represents at least half of the capital stock calculated in conformity with art. 2368, sub-section 1, c.c.; the assembly votes by absolute majority. For the second convocation the ordinary assembly, whatever the portion of capital stock represented is, votes according to the absolute majority of those present on the subjects which should have been decided earlier.
For appointment of the Board of Statutory Auditors the regulations as per Art. 25 of the present Statute must be observed.
In conformity with the laws and regulations, write-in votes are allowed.

Article 18
Extraordinary Assembly

In first and second convocation the extraordinary assembly is considered to be duly constituted when the number of shareholders present represents the portion of the capital stock indicated as per art. 2368, sub-section second and 2369, third sub-section c.c.. For the third convocation, the Assembly is duly constituted when the number of shareholders present represents at least a fifth of the capital stock. The assembly decides in first, second and third convocation with the favourable vote of at least two thirds of the capital stock represented in the assembly.

Since 2000, the El.En. by-laws include the possibility for its shareholders to use write-in votes (absentee ballots).
The notifications of convocation of assembly and the relative courtesy communications concerning the actual date of the meeting are published both on the Internet site of the company and, where required and if allowed also in a summary, in a national daily newspaper (at this time ITALIA OGGI).
The majority shareholders are members of the Board and up to now none of them has presented a proposal on subjects for which a specific proposal had not previously been presented by the Administrators (Comment to art.9).
The President of the Board of Directors who, unless prevented from doing so, presides over the assembly, must proceed with a detailed description of the proposals and the subjects in the Order of the Day of the shareholders' meeting in such a way as to guarantee that the assembly is conducted in an efficient and orderly fashion. For this purpose, the shareholders meeting held on May 15th 2007 approved the assembly regulations drawn up by the board (Criteria 9.C.3), which were later modified on May 13th 2011 in the part related to attendance at the assembly. In fact, it was also necessary to revise the assembly regulations in the light of the modification to article 14 of the company by-laws which was approved by the shareholders' meeting on October 28th 2010 after the innovations introduced by lawmakers with D. Lgs. No. 27 of January 27th 2010 in relation to article 2370 C.C. regarding the right to attend the assembly and exercising of the right to vote, and the introduction of art. 83-sexies TUF, a rule which established the so-called *record date*.
The assembly regulations of El.En. s-p-a- that are listed below are also available on the web site www.elengroup.com in the section called Investor Relations/Governance/Statute.

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ASSEMBLY REGULATIONS OF EL.EN. S.p.A.

Art. 1 – Subject and area of application

This set of regulations governs the orderly and efficient conduction of the shareholders' meeting of El.En. s.p.a. ("the Company") both for the ordinary and extraordinary assemblies.
The regulations can be consulted at company headquarters or on the Internet site of the Company (www.elen.it - investor relations section) as well as whenever an assembly meets.

Art. 2 – Place and presidency of the assembly meetings

The assembly meets in first, second and third convocations at the time and place shown in the notice of convocation published in conformity with art. 13 of the Statute, and it is normally presided over by the president of the Board of Directors, or in case of his absence or impediment, by the persons indicated in art. 15 of the company statutes.

Art. 3 – Attendance at the assembly

3.1. The right to attend the assembly is governed by article 14 of the Company by-laws according to which the persons who may attend the assembly are: the shareholders and those who have a legitimate right to attend the assembly, who possess the right to vote on the condition that, they have made the deposit for the number of shares possessed within the established term and following the methods required by law.

3.2. Upon invitation by the president, the employees of the Company, consultants and representatives of the company in charge of auditing the accounts may attend the assembly meetings when their presence is considered useful or opportune in relation to the subjects to be discussed or the work to be conducted.
3.3. Experts, financial analyst, and journalists, with the consent of the president, may also attend the meetings of the assembly unless there are objections on the part of the shareholders present. For this purpose, those who wish to attend must send the president a written request by the second weekday before the date set for the assembly.
3.4. Before starting the description and discussion of the various items in the Order of the Day, the president must inform the assembly of the presence and participation in the meeting of those persons indicated in sub-sections 3.2.and 3.3. above.

Art. 4 –Verification of the right to attend the assembly and access to the meetings.
4.1. Only the approved and authorized persons, as per article 3 above, after showing personal identification and verification of their legitimate right, may have access to the assembly rooms.
4.2. The personal identification and verification of the legitimate right to attend the assembly must be conducted by auxiliary personnel hired specifically for this purpose, at the entrance to the rooms where the meeting will be held and normally take place during the thirty minutes prior to the time set for the beginning of the meeting, unless otherwise stated in the notice of convocation.
4.3. at the entrance to the meeting rooms those persons who have the right to attend the assembly must display personal identification and the certification described in the notice of convocation to the auxiliary personnel. Once the identification and the verification has taken place as per sub-section 4.2. above, the auxiliary personal will give the attendees a special voucher which they must keep for the duration of the assembly meeting and return to the auxiliary personnel should they leave the meeting, even temporarily.
4.4. In order to facilitate the verification of the powers of representation to which they have the right, the persons who attend the assembly as legal or voluntary representatives of shareholders or of other persons who possess the right to vote, may send the documents proving their powers to the Company within the two days preceding the date set for the meeting.
4.5. Except for the audio-visual equipment which may be authorized by the president to assist the creation of the written report (minutes) and documentation of the meeting of the assembly, no type of recording equipment (including cell phones), photographic equipment or similar.
Art. 5 – Constitution of the assembly and opening of discussions
5.1. The president of the assembly is assisted in drawing up the minutes by a secretary appointed, even from among the non-shareholders, by the assembly on the basis of a proposal made by the president himself or by a notary and, when necessary in conformity with the law, by two scrutinizers designated in the same way among the non-shareholders. The secretary or the notary can be assisted by persons of their choice and, as an exception to art. 4.5, upon authorization by the president, they may use audio-visual recording equipment
5.2. Among his duties, the president also has that of ascertaining and guaranteeing the legitimacy of the individual delegations and, in general, the legitimacy of the attendees present at the assembly and, consequently, also to verify and declare the legitimate constitution of the assembly. The president may create a presidential office which has the task of assisting him in the verification of the legitimacy of the participation and of the voting, as well as the specific assembly procedures.
The president may solve any conflicts which may arise related to the legitimacy of the attendees.
5.3. The President of the assembly may make use of the security services provided by the auxiliary services which have been specifically hired for the occasion.
5.4. In the case that the number of shareholders present does not reach the amount of capital stock necessary for the legitimate constitution of the assembly in conformity with articles 17 and 18 of the company statutes, the president of the assembly, after an appropriate amount of time, in any case not less than an hour after the time set for the beginning of the meeting, will communicate this information to the attendees and postpone the discussion of the Order of the Day until the next convocation.
5.5. Once the legitimate constitution of the assembly has been ascertained, the president of the assembly declares that the discussions may begin.
Art. 6 – Discussion of the subjects and proposals in the Order of the Day
6.1.The president of the assembly must describe to the attendees the subjects and the proposals on the agenda, by using, whenever he deems opportune, the opinions of directors, auditors and employees of the Company. The subjects and the proposals can be dealt with in a different order that is approved on the basis of a proposal by the president with a vote by the majority of the capital represented, and, in the same way, a proposal by the president to deal partially or completely may be approved.
6.2. The president of the legitimate assembly also has the duty of directing and moderating the discussions and the right to intervene by establishing the methods and maximum duration of each intervention.
The president of the assembly has faculty to: call a conclusion to the discussions which are lasting longer than the set time limit or that are not pertinent to the subject or proposal on the agenda; to silence those who intervene without having the right to do so or those who have been reprimanded and persist; to prevent words and attitudes that are inappropriate, pretentious, aggressive, offensive or slanderous as well as evident excesses, revoking the right to speak

whenever he deems necessary and, in the most serious cases, ordering the expulsion of the person from the meeting area for the entire duration of the discussions.
6.3. The request to be present at the discussions of the individual subjects on the agenda must be directed to the president, who in granting the right to speak, normally follows the progressive order of the requests to speak. The faculty of a brief reply is granted to whoever has requested the right to speak.
6.4. The president of the assembly or, upon his invitation, the directors, auditors, company employees or consultants normally reply after all of the discussions on each subject on the agenda. The components of the administrative body and of the Board of Statutory Auditors may request to intervene in the discussions.
6.5. In order to prepare adequate replies to the various interventions, bearing in mind the purpose and relevance of the subjects and proposals being dealt with, the president of the assembly may, on the basis of his indisputable judgement, suspend the work of the assembly for an interval of not more than two hours.
6.6. After all of the interventions and replies, the president declares the discussions concluded and puts the proposals to a vote.
Art. 7 – Voting and conclusion of the meeting
7.1. Voting on the various items usually takes place right after the conclusion of the discussions on each item listed in the Order of the Day and the discussions are held in the order in which they appear in the agenda unless the president of the assembly decides otherwise and determines that the voting take place in a different order or after the conclusion of the discussions of all or some of the items.
7.2. Before the voting can begin, the president of the assembly must readmit the shareholders who wish to return to the meeting and had left or been expelled during the discussion time.
7.3. Except in the case of incontrovertible laws to the contrary, the voting must take place with open scrutiny.
7.4. The president of the assembly establishes the means for expressing the votes, which is normally by a show of hands, the recording and counting of the votes, and can also express a time limit within which the vote must be cast.
Upon conclusion of the voting, the scrutiny of the votes takes place; when this is terminated, the president, assisted by the secretary or the notary and scrutinizers if there are any, proclaims the results of the voting.
7.5. The votes that are expressed in a manner that is different from that established by the president of the assembly are null and void.
7.6. The shareholders who express negative votes or who abstain, must declare at the time of the declaration of their vote, their name and the number of shares which they hold on their own or for which they have power of attorney. After the agenda has been concluded, the president of the assembly declares the meeting terminated and proceeds with the formalities for the completion of the minutes.
Art. 8 – Final provisions
8.1. In compliance with art. 15 of the company statutes now in effect, this set of Regulations was approve, by the ordinary assembly of the Company which was held on May 15th 2007, and it can be modified or abrogated only by the vote of the same body.
8.2. Besides the various measures described in this set of regulations, the president may adopt any measures that he deems opportune in order to guarantee the orderly and correct conduction of the work of the assembly and the exercising of the rights of those present."

The Board of Directors, with all of the members present during the meeting held on May 12th 2016, reported to the assembly in relation to the activities conducted and endeavored to make sure that adequate information concerning the necessary elements were supplied to the shareholders so that they can make informed decisions on those matters that were of competence of the assembly (Applicative criteria 9.C.2) in particular by making the documentation and the proposals to be voted on available to the shareholders in due time.
Concerning the guaranteed right of each partner to express their opinion on the subjects under discussion, the president of the Assembly, in conformity with the assembly regulations listed below, concretely as shown in the minutes of the Assembly, proceeds, after the discussion of each subject in the Order of the Day, to invite the shareholders present to intervene in the discussion (Applicative Criteria 9.C.2).
The Remuneration Committee which was present and at the disposal of the assembly, stated that they believed to have reported to the shareholders in their remuneration report (*Relazione sulla Remunerazione*) and the present report.

During this year the market capitalization of the El.En. stock varied significantly, while the presence of the original partners remained practically the same in the structure of the company.
Consequently, the Board did not consider to propose 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 the minorities (Criteria 9.C.4.).

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

During the meeting held on December 15th the Board voted to appoint as general director Ing. Paolo Salvadeo, ex general director and presently managing director of the subsidiary Quanta System s.p.a., with effect starting on January 1st 2017. With a special notarized letter of attorney registered with the *Registro delle Imprese* in Florence they were attributed to him particular powers for ordinary administration.
No other changes took place in the corporate governance.

For the Board of Directors
The President – Gabriele Clementi

TABLE 1 – INFORMATION ON OWNERSHIP

On the basis of information supplied by El.En.

STRUCTURE OF CAPITAL STOCK				
	Number of shares	% of the capital stock	Quoted	Rights and obligations
Ordinary shares	19.297.472	100%	Milan Stock Exchange	*ex lege*
Shares with limited voting rights	0			
Shares with no voting rights	0			

OTHER FINANCIAL INSTRUMENTS *(attributing the right to underwrite newly issued shares)*				
	Quoted (state the market) / not quoted	Number of instruments in circulation	Category of the shares available for conversion or use	Number of shares available for conversion or use
Convertible bonds	= = =	0	= = =	0
Warrant	= = =	0	= = =	0

SIGNIFICANT OWNERSHIPS IN SHAREHOLDERS' CAPITAL			
Person declaring	Direct shareholder	Quota % of the ordinary capital	Quota % of the voting capital
ANDREA CANGIOLI	ANDREA CANGIOLI	15,171	15,171
ALBERTO PECCI	S.M.I.L. di Alberto Pecci & C. s.a.s.	10,425	10,425
GABRIELE CLEMENTI	GABRIELE CLEMENTI	9,769	9,769
IMMOBILIARE DEL CILIEGIO	IMMOBILIARE IL CILIEGIO s.r.l.	7,512	7,512
BARBARA BAZZOCCHI	BARBARA BAZZOCCHI	5,122	5,122
KEMPEN CAPITAL MANAGEMENT N.V.	KEMPEN CAPITAL MANAGEMENT N.V.	5,009	5,009
ALBERTO PECCI	ALBERTO PECCI	0,345	0,345

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors as of December 31st 2016											Control and risks committee		Remuneration committee		Nomination committee	
Position	Members	From	Until	List (M/m)	Executive	Non Executive.	Indep. As per the Code	Indep. for TUF	Percentage of attendance at meetings	Number of other positions	Members	Percentage of attendance at meetings	Members	Percentage of attendance at meetings	Members	Percentage of attendance at meetings
Chairman and managing director	Gabriele Clementi	April 28th 2015	Appr. of annual report 2017	M	X				100%	0						
Managing director	Andrea Cangioli	April 28th 2015	Appr. of annual report 2017	M	X				83,4%							
Managing director	Barbara Bazzocchi	April 28th 2015	Appr. of annual report 2017	M	X				100%	0						
Director	Fabia Romagnoli	April 28th 2015	Appr. of annual report 2017	M		X	X	X	83,4%	0	X	100%	X	100%	X	100%
Director	Alberto Pecci	April 28th 2015	Appr. of annual report 2017	M		X			100%	0	X	100%	X	100%	X	100%
Director	Michele Legnaioli	April 28th 2015	Appr. of annual report 2017	M		X	X	X	100%		X	100%	X	100%	X	100%
Number of meetings held during 2016				Board of Directors: 6 (six)		Control and risks committee 2 (two)				Remuneration committee: 7(seven)				Nomination committee: 2 (two)		
Quorum required for the presentation of lists during the last appointment				4,5%												

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Position	Member	since	until	List (M/m)	Indipendence from Code	Percentage of attendance at the board meetings	Number of other positions in companies quoted on the Italian stock market
President	Vincenzo Pilla	May 12th 2016	Approval annual report 2018	**M**	**X**	**100%**	0
Acting auditor	Paolo Caselli	May 12th 2016	Approval annual report 2018	**M**	**X**	**100%**	0
Acting auditor	Rita Pelagotti	May 12th 2016	Approval annual report 2018	**M**	**X**	**83,33%**	0
Supplementary auditor	Daniela Moroni	May 12th 2016	Approval annual report 2018	**M**	**X**	**==**	0
Supplementary auditor	Manfredi Bufalini	May 12th 2016	Approval annual report 2018	**M**	**X**	**==**	0
Number of meetings held in 2016: 6							
CONSOB, with resolution 19499 of January 28th 2016 set the amount required for the presentation of the lists at 4,5% of the capital stock.							

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, lett. 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).

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Premise

El.En. has defined their own system for risk management and internal controls in relation to the process of financial information which is consistent with international best practice and is based on the CoSO Framework model elaborated by the Committee of Sponsoring Organizations o the Treadway Commission, integrated for the computer aspects with the component Enterprise Risk Management (ERM): "COSO ERM Framework") ad the Confindustria guide lines.

The CoSO Report defines internal controls as the process, implemented by the Board of Directors by the management and by all of the employees, which is supposed to furnish a reasonable assurance for the achievement of the company goals:

- Effectiveness and efficiency of the operating activities (*operation*);
- Reliability of the financial *reporting*, for the purpose of guaranteeing that the financial reporting supplied a true and correct representation of the financial and economic situation in conformity with the generally accepted accounting principles.
- Conformity with the laws and with the applicable regulations (*compliance*).

The internal controls system of El.En. is based on the following principal features:

Control environment: this is the environment in which the individuals work and represents the control culture which has permeated the organization. It consists of the following elements: Ethics Code, company structure, systems of powers of attorney and proxy, organizational arrangements, procedure for fulfilling the obligations in relation to internal dealing, organizational model *ex* D.Lgs 231/2001.

Identification and evaluation of risks: this is the process which is intended to guarantee the identification, analysis, and management of company risks particularly in relation to the analysis of risks of an administrative and accounting nature, related to accounting information and to the controls meant defend against the risks which have been identified.

Control activities: this is the set of control policies and procedures which has been defined to create a defence against company risks for the purpose of reducing them to an acceptable level as well as guaranteeing that company objectives are reached. It is composed of the following elements:

i. *Administrative and accounting procedures*: the set of company procedures that are significant in relation to the drawing up and diffusion of accounting information (like related administrative and accounting procedures, in particular, statements and periodic financial reports and matrices of the administrative and accounting controls;
ii. *Company procedures that are significant for the purpose of preventing and monitoring operative risks like:* quality management system ISO 9001:2008.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EL.EN. GROUP
CONSOLIDATED FINANCIAL STATEMENT
AS OF DECEMBER 31st 2016

FINANCIAL CHARTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

Consolidated statement of financial position

Assets	Note		31/12/2016		31/12/2015
Intangible assets	1		3.895.675		3.857.645
Tangible assets	2		39.616.260		32.621.079
Equity investments	3				
- in associated companies		3.222.303		3.101.634	
- other		595.468		41.454.863	
Total Equity investments			3.817.771		44.556.497
Deferred tax assets	4		6.525.995		6.084.724
Other non current assets	4		10.881.451		10.646.054
Total non current assets			**64.737.152**		**97.765.999**
Inventories	5		62.138.288		58.061.398
Accounts receivable	6				
- third parties		61.185.150		60.261.122	
- associated companies		1.260.495		1.065.489	
Total Accounts receivable			62.445.645		61.326.611
Tax receivables	7		5.212.719		7.826.038
Other receivables	7				
- third parties		8.106.549		7.131.827	
- associated companies		457.481		130.455	
Total Other receivables			8.564.030		7.262.282
Securities and other current financial assets	8		-		1.964.722
Cash and cash equivalents	9		97.589.445		46.989.707
Total current assets			**235.950.127**		**183.430.758**
Total Assets			**300.687.279**		**281.196.757**

Liabilities	Note		31/12/2016		31/12/2015
Share capital	10		2.508.671		2.508.671
Additional paid in capital	11		38.593.618		38.593.618
Other reserves	12		64.137.298		86.875.333
Treasury stock	13		-		-
Retained earnings / (accumulated deficit)	14		36.187.694		28.117.462
Net income / (loss)			40.407.578		14.370.850
Group shareholders' equity			**181.834.859**		**170.465.934**
Minority interest			10.864.356		9.072.966
Total shareholders' equity			**192.699.215**		**179.538.900**
Severance indemnity	15		3.860.583		3.375.717
Deferred tax liabilities	16		1.607.046		1.638.163
Other accruals	17		3.514.297		2.889.774
Financial debts and liabilities	18				
- third parties		4.342.074		4.998.252	
Total Financial debts and liabilities			4.342.074		4.998.252
Total non current liabilities			**13.324.000**		**12.901.906**
Financial liabilities	19				
- third parties		10.612.756		14.363.064	
Total Financial liabilities			10.612.756		14.363.064
Accounts payable	20				
- third parties		44.693.970		42.037.992	
- associated companies		-		26.700	
Total Accounts payable			44.693.970		42.064.692
Income tax payables	21		4.285.066		3.841.693
Other current payables	21				
- third parties		35.072.272		28.486.502	
Total Other current payables			35.072.272		28.486.502
Total current liabilities			**94.664.064**		**88.755.951**
Total Liabilities and Shareholders' equity			**300.687.279**		**281.196.757**

Consolidated Income Statement

Income Statement	Note		31/12/2016		31/12/2015
Revenues	22				
- third parties		248.430.093		213.596.932	
- associated companies		4.216.165		4.073.018	
Total Revenues			252.646.258		217.669.950
Other revenues and income	23				
- third parties		3.218.999		2.306.015	
- associated companies		4.903		20.259	
Total Other revenues and income			3.223.902		2.326.274
Revenues and income from operating activity			**255.870.160**		**219.996.224**
Purchase of raw materials	24				
- third parties		129.633.985		114.200.753	
- associated companies		1.620		271	
Total Purchase of raw materials			129.635.605		114.201.024
Changes in inventory of finished goods			(3.401.420)		(1.569.327)
Change in inventory of raw material			(1.586.683)		(6.177.119)
Direct services	25				
- third parties		20.649.218		17.217.517	
- associated companies		40.271		6.598	
Total Direct services			20.689.489		17.224.115
Other operating services and charges	25				
- third parties		31.849.284		28.261.906	
- associated companies		180.612		252.942	
Total Other operating services and charges			32.029.896		28.514.848
Staff cost	26		46.115.688		42.136.351
Depreciation, amortization and other accruals	27		4.793.649		4.167.429
EBIT			**27.593.936**		**21.498.903**
Financial charges	28				
- third parties		(621.353)		(871.091)	
Total Financial charges			(621.353)		(871.091)
Financial income	28				
- third parties		701.192		707.985	
- associated companies		6.621		1.374	
Total Financial income			707.813		709.359
Exchange gain (loss)	28		1.846.958		1.507.632
Share of profit of associated companies			185.588		277.731
Other non operating charges	29		(10.656)		(9.708)
Other non operating income	29		23.019.182		-
Income (loss) before taxes			**52.721.468**		**23.112.826**
Income taxes	30		9.728.339		7.063.719
Income (loss) for the financial period			**42.993.129**		**16.049.107**
Net profit (loss) of minority interest			2.585.551		1.678.257
Net income (loss)			**40.407.578**		**14.370.850**

Basic net income (loss) per share	31	2,09	2,98
Diluted net income (loss) per share	31	2,07	2,98

Consolidated statement of comprehensive income

	Note	31/12/2016	31/12/2015
Income (loss) for the financial period (A)		42.993.129	16.049.107
Other income/(loss) that will not be entered in income statement net of fiscal effects:			
Measurement of defined-benefit plans		(255.606)	254.932
Other income/(loss) that will be entered in income statement net of fiscal effects:			
Cumulative conversion adjustments		313.663	(177.855)
Unrealized gain (loss) on investment AFS	33	(23.775.948)	18.167.364
Unrealized gain (loss) on derivatives and other changes		0	500
Total other income/(loss), net of fiscal effectes (B)		(23.717.891)	18.244.941
Total comprehensive (loss) income (A)+(B)		19.275.238	34.294.048
Referable to:			
Parent Shareholders		16.742.347	32.377.275
Minority Shareholders		2.532.891	1.916.773

Consolidated cash flow statement

Cash Flow Statement	Note	31/12/2016	Related parties	31/12/2015	Related parties
Cash flow generated by operating activity:					
Income (loss) for the financial period		42.993.129		16.049.107	
Amortizations and depreciations	27	3.597.314		3.131.892	
Gain on investment AFS	29	-23.013.846			
Re-Devaluations of equity investments	29	7.003		8.026	
Share of profit of associated companies		-185.588	-185.588	-277.731	-277.731
Stock Option		257.617			
Change of employee severance indemnity	15	484.866		39.102	
Change of provisions for risks and charges	17	624.524		194.913	
Change of provisions for deferred income tax assets	4	-441.270		-511.013	
Change of provisions for deferred income tax liabilities	16	-31.117		-75.925	
Stocks	5	-4.076.890		-7.580.719	
Accounts receivable	6	-1.119.032	-195.006	-13.379.171	-395.270
Tax receivables	7	2.613.320		-1.208.099	
Other receivables	7	-1.046.839		729.236	
Accounts payable	20	2.629.278	-26.700	6.797.676	25.552
Income Tax payables	21	443.373		1.618.803	
Other payables	21	6.585.770		2.730.859	
		-12.671.519		-7.782.151	
Cash flow generated by operating activity		30.321.609		8.266.956	
Cash flow generated by investment activity:					
(Increase) decrease in tangible assets	2	-10.300.369		-8.567.014	
(Increase) decrease in intangible assets	1	-330.153		-503.619	
(Increase) decrease in equity investments and non current assets	3-4	39.919.812		-10.960.067	
(Increase) decrease in financial receivables	7	-254.915	-327.026	423.258	-68.890
(Increase) decrease current investments	8	1.964.722		-1.964.722	
Cash flow generated by investment activity		30.999.097		-21.572.164	
Cash flow from financing activity:					
Increase (decrease) in non current financial liabilities	18	-656.179		-908.579	
Increase (decrease) in current financial liabilities	19	-3.750.308		-7.131.411	
Dividends distributed	32	-6.438.215		-5.390.845	
Cash flow from financing activity		-10.844.702		-13.430.835	
Change in cumulative translation adjustment reserve and other no monetary changes		123.734		-77.833	
Increase (decrease) in cash and cash equivalents		50.599.738		-26.813.876	
Cash and cash equivalents at the beginning of the financial period		46.989.707		73.803.583	
Cash and cash equivalents at the end of the financial period		97.589.445		46.989.707	

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 701 thousand Euros.

Income taxes for this financial year amounted to 9,7 million Euros.

Changes in the consolidated shareholders' equity

Total shareholders' equity	**31/12/2014**	**Net income allocation**	**Dividends distributed**	**Other movements**	**Comprehensive income (loss)**	**31/12/2015**
Share capital	2.508.671					2.508.671
Additional paid in capital	38.593.618					38.593.618
Legal reserve	537.302					537.302
Treasury stock						
Other reserves:						
Extraordinary reserve	42.045.117	18.704.726				60.749.843
Special reserve for grants received	426.657					426.657
Cumulative translation adjustment	3.574				-381.158	-377.584
Other reserves	7.278.736				18.260.379	25.539.115
Retained earnings / (accumulated deficit)	35.042.944	-2.184.616	-4.824.368	-43.702	127.204	28.117.462
Net income / (loss)	16.520.110	-16.520.110			14.370.850	14.370.850
Total Group shareholders' equity	142.956.729	0	-4.824.368	-43.702	32.377.275	170.465.934
Capital and reserve of minority interest	6.099.124	1.479.821	-566.477	143.725	238.516	7.394.709
Result of minority interest	1.479.821	-1.479.821			1.678.257	1.678.257
Total Minority interest	7.578.945	0	-566.477	143.725	1.916.773	9.072.966
Total shareholders' equity	150.535.674		-5.390.845	100.023	34.294.048	179.538.900

Total shareholders' equity	**31/12/2015**	**Net income allocation**	**Dividends distributed**	**Other movements**	**Comprehensive income (loss)**	**31/12/2016**
Share capital	2.508.671					2.508.671
Additional paid in capital	38.593.618					38.593.618
Legal reserve	537.302					537.302
Treasury stock						
Other reserves:						
Extraordinary reserve	60.749.843	518.065				61.267.908
Special reserve for grants received	426.657					426.657
Cumulative translation adjustment	-377.584				326.833	-50.751
Other reserves	25.539.115			257.625	-23.840.558	1.956.182
Retained earnings / (accumulated deficit)	28.117.462	13.852.785	-5.789.242	158.195	-151.506	36.187.694
Net income / (loss)	14.370.850	-14.370.850			40.407.578	40.407.578
Total Group shareholders' equity	170.465.934		-5.789.242	415.820	16.742.347	181.834.859
Capital and reserve of minority interest	7.394.709	1.678.257	-648.973	-92.528	-52.660	8.278.805
Result of minority interest	1.678.257	-1.678.257			2.585.551	2.585.551
Total Minority interest	9.072.966		-648.973	-92.528	2.532.891	10.864.356
Total shareholders' equity	179.538.900		-6.438.215	323.292	19.275.238	192.699.215

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;
- for the other reserves, there was a decrease which was mainly due to the release of the funds in the reserve created earlier for the evaluation of the equity in Cynosure AFS due to the effects of the adaptation to fair value of the amount of the residual equity after the sale of all of the shares of the above mentioned company.
- the retained earnings that are mainly involved in the remeasurement of the severance indemnity fund at the end of the year for the amount related to the subsidiary companies.

For further details, please consult the specific chart of the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

INFORMATION ON THE COMPANY

The parent company El.En. SpA is a corporation which was founded and is registered in Italy. Headquarters of the company are in Calenzano (Florence), Via Baldanzese 17.
Ordinary stock of the company is quoted on the MTA which is managed by Borsa Italiana SpA.
The Consolidated Financial Statement for the El.En. Group was examined and approved by the Board of Directors on March 15th 2017.
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 2016 and 2015. The financial information, however, is supplied with reference to December 31st 2016 and December 31st 2015.

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 2016.

Some of the details contained in these Explanatory Notes which are related to last year have been reclassified in order to offer a better and more complete presentation of the data for 2016.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

This consolidated financial statement for the financial year ending December 31st 2016 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 2016

Accounting principles, amendments and IFRS interpretations applied since January 1st 2016

- Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions" (published on November 21st 2013) related to the entering into accounts of the payments made by the employees or third parties to the Defined Benefit Plans. The application of this amendment did not have any effect on the consolidated finaicial statement of the Group.
- Amendments to IFRS 11 "Accounting for acquisitions of interests in joint operations" (published on May 6th 2014) related to the entering into accounts of the acquisition of interests in a joint operation whose activity

constitutes a business. The application of this amendment did not have any effect on the consolidated financial statement of the Group.

- Amendments to IAS 16 and IAS 38 “Clarification of acceptable methods of depreciation and amortization” (published on May 12th 2014): according to which an amortization criteria based on revenue is usually considered inappropriate, since the revenue generated by an initiative that includes the use of the asset which is the subject of the amortization generally reflects factors that are different than the mere consumption of the economic benefits of the asset itself and this latter condition, however, is required for the amortization. The application of this amendment did not have any effect on the consolidated financial statement of the Group.
- Amendment to IAS 1 “Disclosure Initiative” (published on December 18th 2014): the objective of the modifications is to supply clarifications concerning pieces of information which could be perceived as impediments to a clear and comprehensible formulation of the financial statements. The application of this amendment did not have any effect on the consolidated financial statement of the Group.
- Amendments to IFRS 10, IFRS 12 and IAS 28 “*Investment Entities: Applying the Consolidation Exception*” (published on December 18th 2014), contain modifications related to issues which emerged after the application of the *consolidation exception* granted to the investment entity. The application of this amendment did not have any effect on the consolidated financial statement of the Group.

Moreover, during the annual process for the improvement of the standards, on December 12th 2013 the IASB published a document titled “Annual Improvements to IFRSs: 2010-2012 Cycle” (including IFRS 2 Share Based Payments – Definition of vesting condition, IFRS 3 Business Combination – Accounting for contingent consideration, IFRS 8 Operating segments – Aggregation of operating segments e Reconciliation of total of the reportable segments’ assets to the entity’s assets, IFRS 13 Fair Value Measurement – Short-term receivables and payables) and on September 25th 2014 they published a document titled “Annual Improvements to IFRSs: 2012-2014 Cycle” (including: IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 – Financial Instruments: Disclosure e IAS 19 – Employee Benefits) which partially integrate the pre-existing standards. The application of this amendment did not have any effect on the consolidated financial statement of the Group.

The following IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union, are not yet required and have not been adopted by the Group in advance as of December 31st 2016:

- Standard **IFRS 15 –** ***Revenue from Contracts with Customers*** (published on May 28th 2014 and integrated with further clarifications published on April 12th 2016) which will replace standards IAS 18 – *Revenue* and IAS 11 – *Construction Contracts*, as well as the interpretations of IFRIC 13 – *Customer Loyalty Programs*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* e SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The standard establishes a new model for the recognition of revenue, which will be applied to all contracts stipulated with clients except those which belong to the area of application of other IAS/IFRS standards like leasing, insurance contracts and financial instruments. The fundamental steps for the accounting of revenue according to the new model are the following:
    - Identification of the contract with the client;
    - Identification of the *performance obligations* in the contract;
    - Setting the price;
    - Allocation of the price of the *performance obligations* in the contract;
    - Criteria for the entering into accounts of the revenue when the entity has satisfied each *performance obligation*.

The standard must be applied starting on January 1st 2018 but early application is allowed. The modifications to IFRS 15, *Clarifications to IFRS 15 – Revenue from Contracts with Customers*, published by the IASB on April 12th 2016, on the other hand, have not yet been approved by the European Union.

- Final version of **IFRS 9 –** ***Financial Instruments*** (published on July 24th 2014). The document contains the results of the IASB project for the replacement of IAS 39:
    - It presents new criteria for the classification and evaluation of financial assets and liabilities;
    - With reference to the impairment model, the new standard requires that the estimate of the losses on receivables be made on the basis of the *expected losses* model (and not on the *incurred losses model* used by IAS 39) using information that can be proved, that s available without unreasonable cost or effort and which includes past, present and future data;
    - It introduces a new model for *hedge accounting* (increase in the types of transactions that are eligible for *hedge accounting*, changes in the methods for accounting forward contracts and options when they are included in a *hedge accounting* report, modifications in the effectiveness tests).

The new standard must be applied to the financial reports that start in January 2018 or later.

At this time the Board members are evaluating the possible effects that the introduction of these modifications might have on the consolidated statements of the Group.

The following accounting standards, amendments and IFRS interpretations have not yet been approved by the European Union:

As of the date of this report the competent commissions of the European Union had not yet concluded the approval process necessary for the adoption of the amendments and the standards described below:

- Standard **IFRS 16 – *Leases*** (published on January 13th 2016), intended to replace standard IAS 17 – *Leases*, as well as the IFRIC 4 interpretations *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard supplies a definition of "lease" and introduces the criteria based on control (*right of use*) of an asset in order to distinguish leasing contracts from service contracts, and identifies the discriminating factors as: the identification of the asset, the right to replace it, the right to substantially obtain all of the economic benefits derived from the use of the asset and the right to direct the use of the asset subject to the contract.
  The standard establishes a single model for the recognition and evaluation of leasing contracts for the lessee and states that the accounting of the asset being leased, even operative, must be among the assets with a financial debt as compensation; the standard also offers the possibility of not recognizing as leasing the contracts that have as their subject "*low-value asset*s" and leasing contracts for a period of 12 or fewer months. On the other hand, the standard does not include significant modifications for the leaser.
  The standard must be applied starting on January 1st 2019 but early application is permitted only for companies which apply IFRS 15 - *Revenue from Contracts with Customers* in advance. At this time the administrators are evaluating the possible effects that the introduction of these modifications might have on the consolidated financial statement of the Group.
- Amendment to **IAS 12** "***Recognition of Deferred Tax Assets for Unrealized Losses***" (published on January 19th 2016). The purpose of the document is to supply some clarifications on the accounting of deferred tax assets for unrealized losses when certain circumstances have occurred and on the estimate of the taxable revenue for future financial years. The modifications must be applied starting on January 1st 2017 but early application is allowed. At this time the administrators are evaluating the possible effects that the introduction of these modifications might have on the consolidated financial statement of the Group.
- Amendment to **IAS 7** "***Disclosure Initiative***" (published on January 29th 2016). The purpose of the document is to supply further clarifications to improve the information given on financial liabilities. In particular, the modifications require that an information report be supplied which will allow the users of the financial statements to understand the variations in the liabilities that are derived from financing operations. The modifications must be applied starting on January 1st 2017 but early application is permitted. Presentation of the comparative information for the preceding year is not required. At this time the administrators are evaluating the possible effects that the introduction of these modifications might have on the consolidated financial statement of the Group.
- Amendment to **IFRS 2** "***Classification and measurement of share-based payment transactions***" (published June 20th 2016), which contains some clarifications related to the accounting of the effects of *vesting conditions* in the presence of *cash-settled share-based payments*, to the classification of *share-based payments* with *net settlement* characteristics and the accounting of the modifications o the terms and conditions of a *share-based payment* which change its classification from *cash-settled* a *equity-settled*. The modifications must e applied starting on January 1st 2018 but early application is allowed. At this time the administrators are evaluating the possible effects that the introduction of these modifications might have on the consolidated statements of the Group.
- Document titled "***Annual Improvements to IFRSs: 2014-2016 Cycle***", published on December 8th 2016 (including IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*, IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*, IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*) which partially integrate the pre-existing standards. At this time the administrators are evaluating the possible effects that the introduction of these modifications might have on the consolidated financial statement of the Group.
- Interpretation of **IFRIC 22** "***Foreign Currency Transactions and Advance Consideration***" (published on December 8th 2016). The purpose of the interpretation is to supply guidelines for transactions conducted in foreign currency in those cases where non-moetary down payments have been entered into accounts before the recording of the relative asset, cost or revenue. This document supplies instructions on how an entity must determine the date of the transaction and, consequently, the Exchange rate that must be used when operations

take place in foreign currency for which payment is received or made in advance. The IFRIC 22 will be applicable starting on January 1st 2018 but application in advance is allowed. At this time the administrators are evaluating the possible effects that the introduction of these modifications might have on the consolidated financial statement of the Group.

- Amendment to **IAS 40** "***Transfers of Investment Property***" (published on December 8th 2016). These modifications clarify the transfers of real estate to or from a real estate investment. In particular, an entity must reclassify a real estate holding in or out of the real estate investments only when there is evidence that a change in the use of the property has occurred. This change must be related to a specific event that has occurred and consequently must not be limited to a change in the intentions of the Directors of the entity. These modifications must be applied starting on January 1st 2018, but application in advance is allowed. At this time the administrators are evaluating the possible effects that the introduction of these modifications might have on the consolidated financial statement of the Group.
- Amendment to **IFRS 10 and IAS 28** "***Sales or Contribution of Assets between an Investor and its Associate or Joint Venture***" (published on September 11th 2014). The document was published for the purpose of resolving the conflict which exists between IAS 28 and IFRS 10 concerning the evaluation of the profits or losses that are the result of the sale or granting of a non-monetary asset to a joint venture or subsidiary in exchange for a portion of the capital of this latter. At this time the IASB has suspended the application of this amendment.

The Group has not adopted in advance any of the new standards, interpretations or modifications which have been issued but are not yet in force.

SCOPE OF CONSOLIDATION

SUBSIDIARY COMPANIES

The consolidated financial statement of the El.En. Group includes the statements of the Parent Company and of the Italian and foreign companies that El.En. S.p.A. controls directly or indirectly through a majority of votes in the ordinary assembly. The companies included in the scope of consolidation on the date of this report are listed in the chart below which also shows the percentage owned directly or indirectly by the Parent Company:

Company name	Note	Headquarters	Currency	Share capital	Percentage held			Consolidated percentage
					Direct	Indirect	Total	
Parent company								
El.En. S.p.A.		Calenzano (ITA)	EUR	2.508.671				
Subsidiary companies								
Cutlite Penta S.r.l.		Calenzano (ITA)	EUR	154.621	96,65%		96,65%	96,65%
Deka Mela S.r.l.		Calenzano (ITA)	EUR	40.560	85,00%		85,00%	85,00%
Esthelogue S.r.l.	1	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	2	Jena (GER)	EUR	2.025.000	50,00%	50,00%	100,00%	100,00%
ASA S.r.l.	3	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	4	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	5	Wuhan (CHINA)	CNY	20.467.304		55,00%	55,00%	53,16%
Penta-Laser Equipment Wenzhou Co., Ltd	6	Wenzhou (CHINA)	CNY	31.369.325		55,00%	55,00%	53,16%
Cutlite do Brasil Ltda		Blumenau (BRAZIL)	BRL	11.666.678	68,56%		68,56%	68,56%
Lasercut Technologies Inc.	7	Hamden (USA)	USD	50.000		100,00%	100,00%	100,00%
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%
JenaSurgical GmbH	9	Jena (GER)	EUR	200.000		100,00%	100,00%	92,50%
Accure Quanta, Inc.	10	Wilmington (USA)	USD	5		100,00%	100,00%	100,00%
Merit Due S.r.l.	11	Calenzano (ITA)	EUR	13.000		100,00%	100,00%	96,65%

(1) owned by Elen SpA (50%) and Asclepion (50%)
(2) owned by Elen SpA (50%) and by Quanta System SpA (50%)
(3) owned by Deka Mela Srl (60%)
(4) owned by BRCT (78,85%)
(5) owned by Cutlite Penta Srl (55%)
(6) owned by Cutlite Penta Srl (55%)
(7) owned by BRCT (100%)
(8) owned by BRCT (100%)
(9) owned by Deka Mela Srl (50%) and by Asclepion (50%)
(10) owned by Quanta System SpA (100%)
(11) owned by Cutlite Penta Srl (100%)

Operations conducted during this year

For the operations conducted this year, please refer to the description given in the paragraph titled “Significant events which occurred during 2016” in the Management Report.

ASSOCIATED COMPANIES

El.En. SpA holds directly and indirectly equities in companies in which, however, it does not have control. These companies are evaluated according to the shareholders’ equity method.

The equities in associated companies are shown in the chart below:

Company name	Note	Headquarters	Currency	Share capital	Percentage held			Consolidated percentage
					Direct	Indirect	Total	
Immobiliare Del.Co. S.r.l.		Solbiate Olona (ITA)	EUR	24.000	30,00%		30,00%	30,00%
Actis S.r.l.		Calenzano (ITA)	EUR	10.200	12,00%		12,00%	12,00%
Elesta S.r.l.		Calenzano (ITA)	EUR	110.000	50,00%		50,00%	50,00%
Chutian (Tiajin) Laser Technologies Co.,Ltd	1	Tianjin (CHINA)	CNY	2.000.000		41,00%	41,00%	21,79%
Quanta Aesthetic Lasers Usa, LLC	2	Englewood (USA)	USD	500.200		19,50%	19,50%	19,50%
Accure LLC	3	Delaware (USA)	USD	1.000		45,82%	45,82%	45,82%

(1) owned by Penta Chutian Laser (Wuhan) Co. Ltd (41%)
(2) owned by BRCT (19,50%)
(3) owned by Accure Quanta (45,82%)

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 2016” in the Management Report.

TREASURY STOCK

On April 28th 2015 the shareholders’ meeting of the Parent Company El.En. S.p.A voted to authorize the Board of Directors to acquire treasury stock; this authorization expire in the month of October 2016 without any purchases being made, consequently El.En. S.p.A. does not detain any treasury stock.

STANDARDS OF CONSOLIDATION

The statements used for the consolidation of the annual reports are those of the individual companies. These statements are opportunely reclassified and rectified in such a way as to make them uniform with the accounting standards and IFRS evaluation criteria used by the Parent Company.
The economic results of the subsidiary companies that are bought or sold during the year are included in the consolidated Income Statement from the actual date of purchase to the actual date of sale.
In drawing up the consolidated financial statement the assets and liabilities, the income and charges of the companies included in the area of consolidation have all been included. We have not included the payables and receivables, income and charges, profits and losses which have been generated by transactions made between the consolidated companies.
The book value of the equity in each of the subsidiaries is eliminated in the place of the corresponding portion of the shareholders’ equity of each of the subsidiaries including the final adaptation at fair value on the date of purchase; the difference which emerges, if it is in the black (positive), is treated as goodwill, and as such is entered into accounts, in

accordance with IFRS 3, as illustrated below. If it is in the red (negative) it is entered directly into the Income Statement.
The amount of capital and reserves of subsidiary companies corresponding to equities of third parties is entered under a heading of the shareholders' equity titled "Capital and Reserves of third parties"; the portion of the consolidated economic result which corresponds to the equities of third parties is entered into accounts under the heading "Income (loss) this year pertaining to third parties".

TRANSACTIONS IN FOREIGN CURRENCY

The accounting situation of each consolidated company is drawn up in the working currency of the particular economic context in which each company operates. In these accounting situations, all of the transactions which take place using a currency that is different from the working currency are recorded applying the exchange rate that is current at the time of the transaction. The monetary assets and liabilities listed in a currency which is different from the working currency are subsequently adapted to the exchange rate current on the date of closure of the period being presented.

CONSOLIDATION OF FOREIGN CURRENCY

For the purposes of the Consolidated Statement, results, assets, and liabilities are expressed in Euros, the working currency of the Parent Company, El.En. SpA. For drawing up the Consolidated Statement, the accounting situations with a working currency which is different from the Euro are converted into Euros using, for the assets and liabilities, including goodwill and the adjustments made at the time of consolidation, the exchange rate in force on the date of closure of the financial period being presented and, for the Income Statement, the average exchange rates for the period which approximate the exchange rates in force on the date of the respective transactions. The relative differences in exchange rates are shown directly in the shareholders' equity and are displayed separately in a special reserve of the same. The differences in the exchange rate are shown in the Income Statement at the time that the subsidiary is sold.
The first time that the IFRS were applied, the cumulative differences generated by the consolidation of the foreign companies with a working currency different from the Euro were reclassified into Retained earnings, as is allowed by the IFRS 1; consequently, only the differences in conversion accumulated and entered into accounts after January 1st 2004 are involved in the determination of the capital gains and losses deriving from their possible sale.

For the conversion of the financial statements of the subsidiary and associated companies using a currency that is not the Euro, the exchange rates used are as follows:

Currencies	Exchange Rate 31/12/2015	Average exchange rate 31/12/2016	Exchange Rate 31/12/2016
USD	1,0887	1,1069	1,0541
Yen	131,07	120,20	123,40
Yuan	7,06	7,35	7,32
Real	4,31	3,86	3,43

USE OF ESTIMATES

In applying the IFRS, the drawing up of the Consolidated Annual Report requires estimates and assumptions to be made which affect the assets and liability figures of the financial statement and relative information and potential assets and liabilities at the date of reference. The definitive results could differ from such estimates. The estimates are used to enter the provisions for risks on receivables, for obsolescence of stocks, amortization and depreciation, devaluation of assets, stock options, employee benefits, taxes and other provisions. The estimates and assumptions are periodically reviewed and the effects of any variation are reflected in the Income Statement.
Goodwill is subjected to an impairment test in order to determine any loss in value.

ACCOUNTING POLICIES

A) INTANGIBLE FIXED ASSETS WITH A FINITE AND INDEFINITE LIFE

Intangible assets are those assets lacking an identifiable physical consistency able to produce future economic benefits. They are entered at the historical purchase cost, shown net of the amortization applied in the course of the financial years and directly ascribed to the single headings. The Group has chosen to maintain historical cost, rather than fair value, as the measurement criteria for intangible fixed assets. In the case in which, independently of the amortization already entered, there should be a loss of value, the fixed asset is correspondingly devalued; if, in subsequent financial years the reasons for the devaluation should cease to exist, the value is restored to a maximum limit of its original value, adjusted only by the amortization.
The costs incurred internally for the development of new products and services constitute, depending on the individual case, tangible or intangible assets generated internally and are entered in the assets only where all the following conditions are satisfied: 1) where the technical possibility or intention to complete the asset so as to make it available for use or sale exists; 2) where there is a capacity for the Group to use or sell the asset; 3) the existence of a market for the products and services deriving from the asset, or of utility for internal purposes; 4) the ability of the asset to generate future economic benefits; 5) the availability of sufficient technical and financial resources to complete the development and sale or internal use of the products and services deriving from it; 6) reliable assessment of the costs attributable to the asset during its development. The capitalization of development costs includes only the expenses incurred which may be directly attributed to the development process. Research costs are entered in the Income Statement in the financial year in which they are incurred. The Other Intangible Fixed Assets with a finite useful life are assessed at purchase or production cost and amortized at a constant rate during their estimated useful life.
Goodwill and other activities which have an indefinite life are not subject to systematic amortization but to an annual impairment test. If the amount that can be recovered is estimated to be less than the relative book value, it is reduced to the lowest recoverable value. A loss in value is shown immediately in the Income Statement. For goodwill, devaluations are not subject to reversals of impairment.

Business combinations and goodwill

Business combinations since January 2010

Business combinations are entered into accounts using the acquisitions method. The cost of an acquisition is evaluated as the sum of the amount transferred measured at fair value on the date of the acquisition and the amount of any minority equities in the company acquired. For each business combination the purchaser must evaluate at fair value any minority equities in the company acquired or else in proportion to the quota of the minority equity in the net assets indentified in the company acquired. The costs of acquisitions are entered into accounts and classified among the management expenses.
When the Group acquires a business, it must classify or designate the financial assets acquired or liabilities assumed in compliance with the terms of the contract acquired, the economic conditions and the other pertinent conditions in force on the date of the purchase. This includes the verification conducted in order to establish if an incorporated derivative must be separated from the primary contract.
If the business combination takes place in more than one phase, the purchaser must recalculate the fair value of the equity held previously and evaluated with the shareholders' equity method and report in the Income Statement any profits or losses which have been registered.
Every potential amount must be reported by the purchaser at fair value on the date of acquisition. The variation in the fair value of the potential amount classified as asset or liability will be reported in compliance with IAS 39, in the Income Statement and in the chart showing the other components of the overall Income Statement. If the potential amount is classified in the shareholder's equity, its value must not be recalculated until its extinction is entered into accounts against the capital and reserves.
Goodwill is initially evaluated at the costs which emerges from the excess between the sum of the amounts paid and the amount recognized for the minority quotas with respect to the identified net assets acquired and the liabilities assumed by the Group. If the amount is less than the fair value of the net assets of the subsidiary acquired, the difference is reported in the Income Statement.
After the initial reporting, the goodwill is evaluate at cost reduced by the amount of losses accumulated. After the verification of loss of value, the goodwill acquired in a business combination, after the date of acquisition must be allocated to each of the cash-generating units (CGU) that have been identified and which are expected to benefit from the business combination, whether or not other assets or liabilities of the acquired entity have been assigned to that unit..The identification of the CGU coincides with each juridical subject.
If the goodwill has been assigned to a unit generating cash flow and the entity disposes of part of the assets of that unit, the goodwill associated with the asset disposed of must be included in the accounting value of the asset of that unit when determining the profit or loss derived from the disposal. The goodwill associated with the asset that has been disposed of must be determined on the basis of the relative values of the disposed assets and the part maintained by the unit generating cash flow.

The goodwill derived from the acquisitions made before January 1st 2004 is entered t the amount registered under this heading in the last consolidated statement drawn up on the basis of the preceding accounting standards (December 31st 2003).
Goodwill on equity of associates is included in the carrying value of these companies. In case it is negative, it is immediately recognized in the income statement.

Business combinations prior to January 1st 2010
The business combinations registered before January 1st 2010 were recorded following the previous version of the IFRS 3 (2004).

B) TANGIBLE FIXED ASSETS
The assets have been entered at the purchase cost or production cost, inclusive of accessory charges, net of depreciation. Ordinary maintenance expenses have been entirely entered in the Income Statement. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and amortized according to the residual possibility of use of the said item**.**
The Group uses the method of original cost as opposed to fair value as the assessment criteria for tangible fixed assets. Specifically, in accordance with such standards, the value of land and of the buildings constructed on it is separated and only the building is amortized.

The aliquots used for depreciation are shown on the chart below:

Description	*Depreciation percentage*
Buildings	
- buildings	3.00%
Plants and machinery	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
- other plants and machinery	15.50%
Industrial and commercial equipment	
- miscellaneous and minute equipment	25.00%
- kitchen equipment	25.00%
Other goods	
- motor vehicles	25.00%
- forklift	20.00%
- lightweight constructions	10.00%
- electronic office equipment	20.00%
- furniture	12.00%

C) FINANCIAL CHARGES
Financial charges are registered in the Income Statement at the time in which they are sustained.

D) LOSSES IN VALUE OF ASSETS
At each date referred to in the financial year shown, the tangible and intangible assets with a finite life have been assessed for the purposes of identifying any indicators of loss in value. The recoverable value of the goodwill and intangible assets with an indefinite life, where present, have been estimated at each date of reference. If there is any indication of a reduction in value the presumed cashing-in value is estimated.
The presumed cashing-in value is the higher of the two variables, net sales price and utility value. In determining the utility value, expected cash flow are discounted using a pre-tax discount rate which reflects the current market value of the money rate referred to the investment period and specific risks of the business. For a business not generating highly independent flows of funds, the cashing-in value is determined in relation to the cash-generating unit which the said business belongs to. A loss of value is entered in the Income Statement wherever the value entered for the asset or the relative cash generating unit which it is allocated to, is higher than the presumed cashing-in value. With the exception of goodwill, value losses are readjusted wherever the causes which have generated them cease to exist.

E) FINANCIAL ASSETS: EQUITIES
Financial assets which consist of equities in associated companies are evaluated according to the shareholders' equity method, that is to say, for an amount equal to the corresponding fraction of the shareholders' equity shown in the last financial statement of the companies, after having subtracted the dividends and after having made the rectifications required by the accounting standards used for drawing up the consolidated statement in compliance with the IFRS to make them compatible with the accounting standards used by the Parent Company.
The joint-venture companies are evaluated in the consolidated statement using the shareholders' equity method, starting with the date on which the joint-venture was initiated until it ceased to exist.

F) FINANCIAL INSTRUMENTS

Equities in other companies

The equities in other companies which are not subsidiaries or associated (usually with an ownership of less than 20%) which are not owned with the intent of reselling or trading them (the so-called "available for sale", after being entered into accounts, 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.
The profits and losses that are not made from these financial activities, according to IAS 39, are entered into accounts through the comprehensive statement of income in the shareholders' equity, in the fair value reserve. These profits and losses are transferred from the fair value reserve to the income statement when the financial asset is disposed of or if the asset loses value.

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.

Stocks – financial assets available for sale

The financial assets that are available for sale are evaluated at fair value, with effect on the shareholders equity with the exception of the losses due to reduction in value, until the financial asset is eliminated; at this time the total entered earlier in the shareholder's equity must be entered in the Income Statement.

Accounts receivable

The receivables are entered at cost (identified using the nominal value) net of any value losses, corresponding to their presumed cashing-in value.

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 from the sale of goods is recorded when the significant risks and benefits of the ownership of the goods are transferred to the purchaser, which is normally the time when they are delivered or shipped.
Financial revenue and charges are entered on the basis of interest matured on the net value of the relative financial asset or liability using the actual interest rate.

M) ENTRIES IN FOREIGN CURRENCY

Assets and liabilities in foreign currency, with the exception of real estate, are entered at the exchange rate in effect on the day that the financial period was closed and the relative profits and losses are entered into the Income Statement.

N) GRANTS

Contributions, from both public and third party private bodies are entered when there is reasonable certainty of receiving them and of satisfying the conditions for obtaining them. Contributions received for specific expenses are shown among the other liabilities and credited to the Income Statement at the moment in which the conditions for entering them are satisfied. Contributions received for specific assets, the value of which is entered among the tangible or intangible assets, are shown either as direct reduction of the assets themselves or among the other liabilities and are credited to the Income Statement in relation to the period of depreciation of the assets they refer to. Grants in operating account are shown entirely in the Income Statement at the moment in which the conditions for entering them are satisfied.

O) FINANCIAL LEASING

Financial leasing operations are entered into accounts using the financial methodology which stipulates that the fixed asset acquired and its relative financing be entered into accounts. The relative amounts of depreciation and financial charges are entered in the Income Statement.

P) TAXES

Income taxes include the current and deferred taxes calculated on the taxable income of the companies of the Group. Current taxes represent an estimate of the amount of the income taxes calculated on the taxable income for the period. Deferred income tax assets and liabilities have been calculated on the basis of differences of a temporary nature between assets and liabilities recognized for tax purposes and the corresponding figures on the financial statements applying the current tax rate in force or essentially in force at the date of reference. Deferred tax assets have been entered as assets when it is probable that they will be recovered, in other words when it appears likely that the entity of the taxable amount in the future will be sufficient to recover the assets. The possibility of recuperating deferred tax assets is re-examined at the closing of each financial year.

Q) EARNINGS PER SHARE

The basic earnings per ordinary share are calculated by dividing the portion of the Group's net profit attributable to ordinary shares by the weighted average of the ordinary shares in circulation during the financial year, excluding treasury stock. For the purposes of calculating the diluted earnings per share, the weighted average of the shares in circulation is modified by assuming the subscription of all the potential shares deriving from the conversion of stock options having a diluting effect.

STOCK OPTION PLAN

El.En. S.p.A.

The chart below shows information related to the stock option plan approved during 2016 by the Parent Company El.En. S.p.A., for the purpose of promoting employee incentive and loyalty.

	Max. expiration date	Outstanding options	Options issued	Options cancelled	Options exercised	Expired option not exercised	Outstanding options	Exercisable options	Exercise price
		01/01/2016	01/01/2016 - 31/12/16	01/01/2016 - 31/12/16	01/01/2016 - 31/12/16	01/01/2016 - 31/12/16	31/12/2016	31/12/2016	
Plan 2016-2025	31-dic-25		800.000				800.000		€ 12,72

This plan has two different tranches which have different vesting and exercise periods and consequently is based on a concept equivalent to two distinct options which could be defined as "*American forward start*".
The fair value of an "*American forward start*" option can be obtained by combining a neutral risk approach in order to determine the expected value of the stock at the start of the exercise periods and, later, using a binomial tree type model to exploit the American type option.

For the purpose determining the fair value, the following hypotheses have been formulated:

Risk free rate: 0,338492%
Historical volatility: 0,28489
Interval of time used to calculate the volatility: last year of trading.

The overall *fair value* of the stock options is 2.942.080 Euros.

During 2016 the average price recorded for El.En. stock was about 14,47 Euros.

For the characteristics of the stock option plan and the increase in capital that was approved for implementing it, please consult the description in Note (10) of this report.

Information on the Consolidated Statement of financial position - Assets

Non-current assets

Intangible assets (note 1)

Breakdown of changes occurring in intangible fixed assets during the period is shown on the chart below:

	31/12/2015	Increase	Decrease	Revaluation / Devaluation	Other movements	Amortization	Translation adjustment	31/12/2016
Goodwill	3.038.065							3.038.065
Research and development costs	106.266	85.575				-92.622		99.219
Patents and rights to use patents of others	38.051	26.174				-24.807		39.418
Concessions, licences, trade marks and similar rights	196.464	138.722			23.799	-144.363	1.548	216.170
Other intangible assets	28.725	37.826				-30.331		36.220
Intangible assets under construction and advance payments	450.074	142.192			-125.683			466.583
Total	**3.857.645**	**430.489**			**-101.884**	**-292.123**	**1.548**	**3.895.675**

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 31/12/2016	Goodwill 31/12/2015
Quanta System S.p.A.	2.079.260	2.079.260
ASA S.r.l.	439.082	439.082
Cutlite Penta S.r.l.	415.465	415.465
Asclepion Laser Technologies GmbH	72.758	72.758
Deka MELA S.r.l.	31.500	31.500
Total	3.038.065	3.038.065

As of December 31st 2016 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 2017-2019. In order to determine the recoverable amount of the CGU they considered the actualized financial flows for the 3 years of explicit forecasts added to the terminal value, assumed

at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.
The main assumption of the economic-financial plan used to make the impairment test is related to the growth rate of the sales volume over the time span covered by the plan. The rates used in order to formulate the forecasts used in the impairment tests are consistent with the final data registered during 2016 and with the outlook for the particular market in which they operate.
The Board of Directors considered the assumptions and the corresponding financials to be suitable for purposes of conducting the impairment test and approved the results obtained.
The actualization rate applied to the expected cash flows (WACC) is 6,53%; 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 7,53%.

Cutlite Penta S.r.l.: the recoverable amount was determined using the Discounted Cash Flow (DCF) method by actualizing the cash flows contained in the economic-financial plan approved by the Board of Directors of Cutlite Penta S.r.l., which covered a time span from 2017-2019. In order to determine the recoverable amount of the CGU they considered the actualized financial flows for the 3 years of explicit forecasts added to the terminal value, assumed at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.
The main assumption of the economic-financial plan used to make the impairment test is related to the growth rate of the sales volume over the time span covered by the plan. The rates used in order to formulate the forecasts used in the impairment tests are consistent with the final data registered during 2016.
The Board of Directors considered the assumptions and the corresponding financials to be suitable for purposes of conducting the impairment test and approved the results obtained.
The actualization rate applied to the expected cash flows (WACC) is 6,53%; 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 7,53%.

ASA S.r.l.: the recoverable amount was determined using the Discounted Cash Flow (DCF) method by actualizing the cash flows contained in the economic-financial plan approved by the Board of Directors of ASA S.r.l., which covered a time span from 2017-2019. For the purpose of determining the use value of the CGU we considered the financial flows actualized during the three years of explicit forecasts added to a terminal value, assumed at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.
The main assumption of the economic-financial plan used to make the impairment test is related to the growth rate of the sales volume over the time span covered by the plan. The rates used in order to formulate the forecasts used in the impairment tests are consistent with the final data registered during 2016 and with the outlook for the particular market in which they operate.
The Board of Directors considered the assumptions and the corresponding financials to be suitable for purposes of conducting the impairment test and approved the results obtained.
The actualization rate applied to the expected cash flows (WACC) is 6,53%; 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 7,53%.

The verification of the procedures used for the impairment tests to determine if they were in conformity with the regulations prescribed in the international accounting standards was approved independently by the same Board of Directors of the Parent Company.

Other intangible fixed assets

The increase in "Research and Development costs" are related to the costs sustained for the development of new prototypes by the Parent Company El.En. S.p.A.
The "Patent and rights to use the patents of others" were related to the capitalization of the costs sustained for the purchase of patents by El.En. and by Quanta System.
Under the heading "Concessions, licenses, trademarks and similar rights" we have entered among other things, the costs sustained in particular by the Parent Company El.En. and by the subsidiaries, Lasit, Asclepion and Asa for the purchase of new software.
The residual heading of "Others intangible assets" consists mainly of the costs sustained by the parent Company El.En. and by the subsidiaries Quanta System S.p.A and Deka Mela for the creation of software.
The Intangible assets under construction refer mainly to the costs of research and development sustained by one of the subsidiaries for a prototype that is now being developed.

Tangible fixed assets (note 2)

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

Cost	31/12/2015	Increase	(Disposals)	Revaluation / Devaluation	Other movements	Translation adjustment	31/12/2016
Lands	5.404.307					-48.421	5.355.886
Buildings	18.903.893	1.647.205	-1.230		4.331.808		24.881.676
Plants & machinery	5.849.281	1.575.244	-106.890		357.645	-29.055	7.646.225
Industrial and commercial equipment	12.045.480	1.103.557	-529.353	-63.391	-272.124	63.656	12.347.825
Other assets	9.424.978	2.760.430	-258.460		-2.317.434	51.917	9.661.431
Tangible assets under construction and advance payments	5.007.876	3.923.968			-5.035.288	-152.469	3.744.087
Total	**56.635.815**	**11.010.404**	**-895.933**	**-63.391**	**-2.935.393**	**-114.372**	**63.637.130**

Accumulated depreciation	31/12/2015	Depreciations	(Disposals)	Revaluation / Devaluation	Other movements	Translation adjustment	31/12/2016
Lands							
Buildings	4.200.055	679.741	-461			440	4.879.775
Plants & machinery	3.529.217	523.051	-86.670		-15.982	4.066	3.953.682
Industrial and commercial equipment	9.347.381	1.140.290	-368.918		-277.435	30.049	9.871.367
Other assets	6.938.083	962.110	-215.870		-2.381.222	12.945	5.316.046
Tangible assets under construction and advance payments							
Total	**24.014.736**	**3.305.192**	**-671.919**		**-2.674.639**	**47.500**	**24.020.870**

Net value	31/12/2015	Increase	(Disposals)	Revaluation / Devaluation / Depreciations	Other movements	Translation adjustment	31/12/2016
Lands	5.404.307					-48.421	5.355.886
Buildings	14.703.838	1.647.205	-769	-679.741	4.331.808	-440	20.001.901
Plants & machinery	2.320.064	1.575.244	-20.220	-523.051	373.627	-33.121	3.692.543
Industrial and commercial equipment	2.698.099	1.103.557	-160.435	-1.203.681	5.311	33.607	2.476.458
Other assets	2.486.895	2.760.430	-42.590	-962.110	63.788	38.972	4.345.385
Tangible assets under construction and advance payments	5.007.876	3.923.968			-5.035.288	-152.469	3.744.087
Total	**32.621.079**	**11.010.404**	**-224.014**	**-3.368.583**	**-260.754**	**-161.872**	**39.616.260**

According to the accounting standards being used, the value of the land is separated from the value of the buildings that are located on it and the land is not amortized because it is considered an element with an unlimited useful life. The value of the land on December 31st 2016 was 5.356 thousand Euros.
The heading of "Buildings" includes the building complex in Via Baldanzese a Calenzano (Florence), where the Parent Company operates along with the four subsidiaries Deka M.E.L.A. Srl, Cutlite Penta Srl, Esthelogue Srl and Pharmonia

Srl, the building in the city of Torre Annunziata purchased in 2006 for the research, development and production activities of the subsidiary Lasit SpA, the building in Jena, Germany which since May of 2008 houses the activities of the subsidiary Asclepion GmbH and the building purchased in Samarate (Varese) at the end of the year 2014 by the subsidiary Quanta System SpA as a financial leasing and therefore entered into accounts according to IAS 17. The amount entered in the column “increase” and “Other movements” refers mainly to the costs sustained by the subsidiary Penta Laser Equipment (Wenzhou) for the completion of the new factory; some of the costs related to this construction were registered last year among the tangible assets under construction.

The increases in the category of “Plants and machinery” are related in particular to investments made by Asclepion GmbH, Penta Laser Equipment (Wenzhou) Co Ltd, Cutlite Penta S.r.l., Quanta System S.p.A. and by the Parent Company, El.En. SpA.

The heading of “Industrial and Commercial Equipment” refers in particular to El.En. and to the subsidiaries With Us, Asclepion GmbH, Quanta System, Lasit S.p.A, Cutlite Penta, Deka Japan, Esthelogue and Deka Mela; for this latter, it should be recalled that, as in the past, we have capitalized the costs of some of the machinery sold with operative leasing; these sales, in fact, have been considered as revenue from multi-year leasing in compliance with the IAS/IFRS standards.

The increase in the category of “Other assets” refers mainly to the purchase of new motor vehicles and electronic equipment.

The increases shown in the category of “Tangible assets under construction” refer mainly to the costs sustained by the Chinese subsidiary Penta Laser Equipment (Wenzhou) Co Ltd for the construction of their new factory which started operations this year; the column of “other movements” also contains mainly costs related to the construction of this factory, transferred in the category of “Buildings”.

Equity investments (note 3)

The analysis of the equity investments:

	31/12/2016	31/12/2015	Variation	Var. %
Equity investment in associated companies	3.222.303	3.101.634	120.669	3,89%
Other equity investments	595.468	41.454.863	-40.859.395	-98,56%
Total	**3.817.771**	**44.556.497**	**-40.738.726**	**-91,43%**

Equities in associated companies

For a detailed analysis of the equities held by Group in associated companies, refer to the paragraph relative to the scope of consolidation**.**

It should be recalled that the associated companies Immobiliare Del.Co. Srl, Elesta Srl, Chutian (Tianjin) Lasertechnology Co. Ltd, Quanta Aesthetic Lasers Usa, LLC and Accure LLC are consolidated using the shareholders’ equity method.

The amounts of the equities in associated companies registered in the financial statement are, respectively:

Immobiliare Del.Co. S.r.l.:	253	Thousand Euros
Actis S.r.l.:	1	Thousand Euros
Elesta S.r.l.:	641	Thousand Euros
Quanta Aesthetic Laser USA, LLC:	2.352	Thousand Euros
Chutian (Tianjin) Lasertechnology Co, Ltd:	115	Thousand Euros
Accure LLC:	(140)	Thousand Euros

Quanta Usa LLC.: the value of the equity includes goodwill for 2,2 million Euros. The use value was determined with the Discounted Cash Flow (DCF) method actualizing the cash flow in the economic-financial plan having a time span from 2017-2019. For the purpose of determining the use value of the CGU we considered the financial flow actualizing three years of explicit forecast added to a terminal value assumed at the same current value of the perpetual yield of the flow generated last year that was the subject of the explicit forecast.
The main assumption of the economic-financial plan used to run the impairment test is related to the growth rate of the sales volume considering the time span covered by the plan. The rates used to formulate the forecast used as part of the impairment test are consistent with the data recorded during 2016.
The written assumptions and the corresponding financials were considered suitable for conducting the impairment test by the Board of Directors who approved the results.
The actualization rate applied to the expected cash flows (WACC) is 6,09%; for the cash flows related to the financial periods following the period of explicit forecast, we expect a long term growth rate “g” of 1,5%.
Determining the use value on the basis of these parameters made it possible to avoid 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 7,09%.

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 (*)	189.984	148.330	-42.151	72.601	114.752
Elesta Srl (ex IALT Scrl)	2.718.311	1.435.698	266.230	1.760.863	1.494.633
Immobiliare Del.Co. Srl	826.164	775.979	-13.066	101.978	115.044
Quanta Aesthetic Lasers USA, LLC	2.508.694	1.983.201	661.224	8.403.065	7.741.841
Chutian (Tianjin) Lasertechnology Co. Ltd	1.057.606	778.268	221	792.253	792.032
Accure, LLC	104.613	411.188	-175.183	0	175.183

(*) Data as of December 31st 2015

Equities in other companies

As previously described in the Management Report, the decrease in the category of “other companies” is due in particular to the sale of all of the shares of Cynosure Inc (Nasdaq CYNO) by El.En. SpA, which occurred in April at an average price of about 45,10 US dollars per share net of the sales commission, for a total of about 45 million US dollars. The gross consolidated capital gains entered in the income statement for this operation amounted to about 23 million Euros.

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

Other non current assets	31/12/2016	31/12/2015	Variation	Var. %
Financial receivables - third parties	32.688		32.688	
Deferred tax assets	6.525.995	6.084.724	441.271	7,25%
Other non current assets	10.848.763	10.646.054	202.709	1,90%
Total	**17.407.446**	**16.730.778**	**676.668**	**4,04%**

The category of "Other non current assets" is related to the temporary use of cash by the Parent Company for life insurance policies which have as a basis a separate management of securities with capital guaranteed and with the possibility of cashing them in either partially or entirely for the duration of the contract on the condition that at least a year has passed since the policy was stipulated. Since this is a mid-term investment the company decided to classify it among the non-current assets held for sale booking the *fair value* in the assets and the re-evaluation of the same in the income statement and, consequently, to exclude it from the net financial position.

The deferred tax assets amount to about 6.526 thousand Euros; for a complete analysis of this category, please consult note (16) of this document related to deferred tax assets and liabilities.

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory:

	31/12/2016	31/12/2015	Variation	Var. %
Raw materials, consumables and supplies	32.100.873	30.643.524	1.457.349	4,76%
Work in progress and semi finished products	16.314.365	15.782.444	531.921	3,37%
Finished products and goods	13.723.050	11.635.430	2.087.620	17,94%
Total	**62.138.288**	**58.061.398**	**4.076.890**	**7,02%**

The final inventory amounted to about 62.138 thousand Euros, an increase of 7% over the 58.061 thousand Euros registered for December 31st 2015 which reflects the increase in the volume of business for this period.

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

	31/12/2016	31/12/2015	Variation	Var. %
Gross amount of Inventory	73.277.405	66.652.685	6.624.720	9,94%
Devaluation provision	-11.139.117	-8.591.287	-2.547.830	29,66%
Total	**62.138.288**	**58.061.398**	**4.076.890**	**7,02%**

The fund is calculated so as to align the stock value with the presumed selling price and recognizing, where necessary the obsolescence and slow rotation. The amount of the fund increased about 2.548 thousand Euros during the year and its incidence on the gross value of the inventory rose from 12,9% on December 31st 2015 to 15,2% on December 31st 2016.

Accounts receivables (note 6)

Receivables are composed as follows:

	31/12/2016	31/12/2015	Variation	Var. %
Accounts receivable from third parties	61.185.150	60.261.122	924.028	1,53%
Accounts receivable from associated	1.260.495	1.065.489	195.006	18,30%
Total	**62.445.645**	**61.326.611**	**1.119.034**	**1,82%**

Accounts receivable from third parties	31/12/2016	31/12/2015	Variation	Var. %
Italy	24.435.905	22.353.135	2.082.770	9,32%
EEC	7.197.204	6.354.438	842.766	13,26%
ROW	35.868.047	37.618.929	-1.750.882	-4,65%
minus: allowance for doubtful accounts	-6.316.007	-6.065.380	-250.627	4,13%
Total	**61.185.150**	**60.261.122**	**924.027**	**1,53%**

As can be clearly seen from the chart, the receivables from the European and Italian markets increased significantly while the non-European receivables decreased.

The chart below shows the operations which took place this year for devaluation of receivables:

	2016
At the beginning of the period	6.065.380
Provision	1.081.778
Amounts utilized and Unused amounts reversed	-829.139
Translation adjustment	-2.012
At the end of the period	**6.316.007**

Breakdown of accounts receivables from third parties is shown below:

Accounts receivable from third parties	31/12/2016	31/12/2015
To expire	40.420.013	40.059.766
Expired:		
0-30 days	10.152.012	11.512.823
31-60 days	2.919.923	2.413.959
61-90 days	1.607.120	1.050.495
91-180 days	2.792.423	2.110.415
Over 180 days	3.293.658	3.113.664
Total	**61.185.150**	**60.261.122**

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

Accounts receivable in:	31/12/2016	31/12/2015
Euros	37.144.391	33.499.932
USD	6.053.498	8.987.156
Other currencies	17.987.260	17.774.034
Total	**61.185.150**	**60.261.122**

The value in Euros shown on the chart for receivables originally expressed in US dollars or other currencies represents the exchange rates in use on December 31st 2016 e del December 31st 2015.

For a detailed analysis of the accounts and financial receivables 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:

	31/12/2016	31/12/2015	Variation	Var. %
Tax receivables				
VAT receivables	4.351.545	6.950.366	-2.598.821	-37,39%
Income tax receivables	861.174	875.672	-14.498	-1,66%
Total	**5.212.719**	**7.826.038**	**-2.613.319**	**-33,39%**

Current financial receivables				
Financial receivables - third parties	149.849	221.960	-72.111	-32,49%
Financial receivables – associated	457.481	130.455	327.026	250,68%
Total	**607.330**	**352.415**	**254.915**	**72,33%**
Other current receivables				
Security deposits	276.582	279.373	-2.791	-1,00%
Down payments	3.840.092	2.264.867	1.575.225	69,55%
Other receivables	3.840.026	4.365.627	-525.601	-12,04%
Total	**7.956.700**	**6.909.867**	**1.046.833**	**15,15%**

Total Current financial receivables e Other current receivables	**8.564.030**	**7.262.282**	**1.301.748**	**17,92%**

The financial year closed with a VAT credit of over 4,4 million Euros which was mostly a result of the intense export activity of the Group.
Among the income tax receivables we have entered credits derived from the difference between the pre-existing tax credit or down payment and the tax debt which had matured by the date to which the financial statement refers. It also includes the credit due to the Parent Company and to some of the Italian subsidiaries from the tax authorities, for the amount of the reimbursement of the excess IRES taxes paid due to the failure to deduct the relative IRAP from the expenses for personnel and similar, in conformity with art. 2, sub-section 1-quater, D.L. 201/2011.

For a detailed analysis of financial and other receivables from associated companies, please consult the chapter titled "Related parties" in this document.

Securities and other current financial assets(note 8)

	31/12/2016	31/12/2015	Variation	Var. %
Securities and other current financial assets				
Other current financial assets		1.964.722	-1.964.722	-100,00%
Total		**1.964.722**	**-1.964.722**	**-100,00%**

The amount entered under the heading of "Other current financial assets" last year was made up of mutual funds held by the Parent Company El.En. SpA acquired in 2015 for the purpose of making a temporary use of cash. These securities were sold during 2016.

Cash and cash equivalents (note 9)

Cash and cash equivalents are composed as follows:

	31/12/2016	31/12/2015	Variation	Var. %
Bank and postal current accounts	97.547.718	46.950.501	50.597.217	107,77%
Cash on hand	41.727	39.206	2.521	6,43%
Total	**97.589.445**	**46.989.707**	**50.599.738**	**107,68%**

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

Net financial position as of December 31st 2016

The net financial position of the Group as of December 31st 2016 was as follows (data in thousands of Euros):

Net financial position	**31/12/2016**	**31/12/2015**
Cash and bank	97.589	46.990
Financial instruments	0	1.965
Cash and cash equivalents	**97.589**	**48.954**
Current financial receivables	**150**	**222**
Bank short term loan	(7.991)	(11.593)
Part of financial long term liabilities due within 12 months	(2.621)	(2.770)
Financial short term liabilities	**(10.613)**	**(14.363)**
Net current financial position	**87.127**	**34.813**
Bank long term loan	(1.231)	(1.831)
Other long term financial liabilities	(3.111)	(3.167)
Financial long term liabilities	**(4.342)**	**(4.998)**
Net financial position	**82.784**	**29.815**

The net financial position of the Group increased by about 53 million Euros with respect to the closure of 2015 thanks mainly to the sale of the Cynosure stock (Nasdaq CYNO) which occurred in the month of April for an amount of about 45 million US dollars.

It should be recalled that during the second quarter of the year the Parent Company El.En. paid dividends to third parties for an amount of about 5,8 million Euros, and dividends were paid by the subsidiaries Deka Mela S.r.l., Lasit S.p.A., and ASA S.r.l. for a total of 0,6 million Euros.

As far as the financial impact of investment activities is concerned, the operations related to the acquisition and construction or renovation of new production facilities at the sites of Wenzhou, Samarate e Calenzano, comported a payment of over 7 million Euros during this year.

It should also be recalled that 10,5 million Euros in cash was used for temporary financial investments, the nature of which requires that they be entered into accounts as non-current assets, and consequently excluded from the net financial position.

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 2016, the capital stock of the El.En Group, which coincides with that of the Parent Company, was as follows:

Authorized (to stock option plan service)	Euros	2.612.671
Underwritten and deposited	Euros	2.508.671

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

Category	**31/12/2015**	**Increase**	**Decrease**	**31/12/2016**
No. of Ordinary Shares	4.824.368	19.297.472	-4.824.368	19.297.472
Total	**4.824.368**	**19.297.472**	**-4.824.368**	**19.297.472**

Shares are nominal and indivisible and each of them gives the holder the right to one vote in all the ordinary and extraordinary assemblies as well as the other financial and administrative rights granted in accordance with the law and the Statute. At least 5% of the net profits of the financial year must be set aside for the legal reserve in accordance with art. 2430 of the civil code. The remainder is distributed to the shareholders, unless the assembly votes otherwise. The Statute does not allow advance payments on the dividends. Dividends not cashed within five years from the date of emission are returned to the Company. No special statutory clauses exist with regard to the participation of shareholders in the remaining assets in the event of liquidation. No statutory clauses exist granting special privileges.

In implementation of the decision of the Extraordinary Shareholders' meeting of the Parent Company El.En. S.p.A. on May 12th 2016, starting on May 30th 2016 operations were begun for the splitting of 4.824.368 ordinary shares of El.En. S.p.A by cancellation of the ordinary shares with a nominal value of 0,52 Euros and issuing of new ordinary shares with a value of 0,13 Euros each.
The splitting operation took place on June 1st 2016 by assigning 4 new ordinary shares of El.En. S.p.A stock for each old ordinary share of El.En. SpA.
The capital stock that remains unchanged at a nominal value of 2.508.671,36 Euros, is therefore represented by 19.297.472 ordinary shares having a nominal value of 0,13 Euros each.

Increase in the capital in the stock option plan service
The extraordinary shareholders' meeting of the Parent Company El.En. S.p.A. held on May 12th 2016, in compliance with art. 2443, II sub-section, CC., voted to authorize the Board of Directors to increase, in one or more operations and even separately, within five years after the authorization, the capital stock up to a maximum of nominal 104.000,00 Euros by issuing new shares intended for underwriting by the beneficiaries of the stock option plan for 2016-2025.
On September 13th 2016, the Board of Directors of the Company, following a recommendation of the Remuneration Committee, voted on the implementation of the stock option plan for 2016-2025 ("Stock Option Plan 2016-2025") in compliance with the mandate conferred to them by the Shareholders' meeting mentioned above and identified the beneficiaries of the plan, the number of options to be assigned, the temporal limits for picking up the options, and the price of underwriting them.
The Board, in compliance with art. 2443, II sub-section, CC., also executed the mandate conferred upon them by the Assembly, to increase, upon payment, entirely and exclusively for use in the stock option plan, separately and with the exclusion of the option right described in art. 2441, sub-section V, CC, the capital stock, by 104.000,00 Euros by issuing 800.000 ordinary shares which can be underwritten by the administrators, collaborators and employees of El.En.

S.p.A. and the companies it controls who are the beneficiaries of the stock options included in the above mentioned Plan.
The options may be picked up by the beneficiaries in conformity to the terms and conditions stated in the regulations of the Plan which was definitively approved on September 13th in two equal sections: the first from September 14th 2019 until December 31st 2025, and the second from September 14th 2020 until December 31st 2025.
The plan will terminate on December 31st 2025 and the options that have not been picked up before that date will expire permanently; the capital will be definitively increased for the amount actually underwritten and released by that date.

Additional paid in capital (note 11)

On December 31st 2016 the share premium reserve, coinciding with that of the Parent Company, amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2015.

Other reserves (note 12)

	31/12/2016	31/12/2015	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	61.267.908	60.749.843	518.065	0,85%
Cumulative translation adjustment	-50.751	-377.584	326.833	-86,56%
Stock option reserve	2.068.895	1.811.278	257.617	14,22%
Special reserve for grants received	426.657	426.657		0,00%
Other reserves	-112.713	23.727.837	-23.840.550	-100,48%
Total	**64.137.298**	**86.875.333**	**-22.738.035**	**-26,17%**

On December 31st 2016 the "extraordinary reserve" amounted to 61.268 thousand Euros; the increase with respect to December 31st 2015 is due to the allocation of part of the net income for the year by the Parent Company El.En. Spa, in compliance with the resolution taken by the Shareholders' meeting on May 12th 2016.

The reserve for stock options 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 increase is due to the quota that matured on December 31st 2016 for the stock option plan 2016-2025 described above.

The conversion reserve summarizes the effects of the variations in the exchange rate on the investments in foreign currency. The effects for the year 2016 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 last year.

The decrease in the category of "other reserves" is mainly due to the release of the reserve initially created for the adaptation to fair value of the amount of the equity held in Cynosure Inc.; this equity was sold this year. This heading 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 resolution taken by the Shareholders' meeting of the Parent Company El.En. S.p.A on April 28th 2015 to authorize the Board of Directors to purchase treasury stock definitively expire in the month of October 2016 without any purchase having been made. Consequently, at this time, El.En. S.p.A. does not own any treasury stock.

Retained earnings (note 14)

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

Non-current liabilities

Severance indemnity (note 15)

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

31/12/2015	Provision	(Utilization)	Payment to complementary pension forms, to INPS fund and other movements	31/12/2016
3.375.717	1.395.707	-375.776	-535.065	3.860.583

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 2016 amounted to 3.845 thousand Euros.

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

Financial hypotheses	Year 2015	Year 2016
Annual implementation rate	2,03%	1,31%
Annual inflation rate	1,50%	0,5% (from 2017 to 2020) 1% (from 2021 to 2023) 1,5% (for the remainder of the projection period)
Annual increase rate of salaries (including inflation)	Executives 2,00% White collar workers 0,50% Blue collar workers 0,50%	Executives 2,00% White collar workers 0,50% Blue collar workers 0,50%

The interest rate used to determine the present value of the liability was based on the rate of iBoxx AA 10+ for the amount of 1,31% 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:

	31/12/2015	Provision	(Utilization)	Other movements	Translation adjustment	31/12/2016
Deferred tax assets on inventory devaluation	1.575.265	507.347	(22.805)		2.231	2.062.039
Deferred tax assets on warranty reserve	401.020	41.961	(16.640)	-	(1.297)	425.044
Deferred tax assets on bad debt reserve	939.623	81.936	(54.792)	(99)	(3.888)	962.780
Deferred tax assets on losses carryforwards	19.422	-	(2.560)	-	-	16.862
Deferred tax assets on intercompany profits and consolidation adjust.	1.312.344	-	(288.747)	(603)	(1.116)	1.021.877
Other deferred tax assets and on IAS adjust.	1.837.050	283.524	(139.421)	80.909	(24.670)	2.037.393
Total	**6.084.724**	**914.768**	**(524.965)**	**80.207**	**(28.740)**	**6.525.995**
Deferred tax liabilities on advance depreciations	136.684	-	(1.513)	-	-	135.171
Deferred tax liabilities on grants on capital account	183.573	59.693	(7.217)	-	-	236.049
Other deferred tax liabilities and on IAS adjust.	1.317.906	439.587	(22.180)	(516.815)	17.328	1.235.826
Total	**1.638.163**	**499.280**	**(30.910)**	**(516.815)**	**17.328**	**1.607.046**
Net	4.446.561	415.488	(494.055)	597.022	(46.068)	4.918.949

Deferred tax assets amounted to about 6.526 thousand Euros. The deferred tax assets calculated on inventory devaluations of the various companies increased as did the deferred tax assets related to the bad debt reserve and product guarantees. The inter-Group profits decreased and so the consequent deferred tax assets.

Deferred tax liabilities amounted to 1.607 thousand Euros. The variations in the “other deferred tax liabilities” are related, among other things to an evaluation for tax purposes of some LIFO evaluated inventories and to the exchange gain/loss which were not realized. The increase in the heading of “Deferred tax liabilities on grants on capital account” was due to the taxation on some grants in capital account received in the previous years and which, for tax purposes, were deferred in compliance with the laws now in force.

Under the column of “other movements” for both categories we have entered, among other things, the deferred taxes on the value adjustments made on the Cynosure equity and on the severance fund which were entered directly under the heading of *Other Comprehensive Income* (“OCI”).

Other accruals (note 17)

The chart below shows the operations made with other accruals:

	31/12/2015	Provision	(Utilization)	Other movements	Translation adjustment	31/12/2016
Reserve for pension costs and similar	796.816	229.515	-127.154	-19.501		879.676
Warranty reserve on the products	1.691.807	755.543	-226.422		-1.776	2.219.152
Reserve for risks and charges	379.469	36.000				415.469
Other minor reserves	21.682		-20.000	-1.682		
Total	**2.889.774**	**1.021.058**	**-373.576**	**-21.183**	**-1.776**	**3.514.297**

The clients' agents' indemnity fund which is included under the heading of "Reserve for pension funds and similar" on December 31st 2016, amounted to 839 thousand Euros as opposed to the 762 thousand Euros on December 31st 2015. 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 2015	Year 2016
Annual implementation rate	2,03%	1,31%
Annual inflation rate	1,50%	0,5% (from 2017 to 2020) 1% (from 2021 to 2023) 1,5% (for the remainder of the projection period)

The reserve for product guarantees 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.

Financial debts and liabilities (note 18)

Financial m/l term debts	31/12/2016	31/12/2015	Variation	Var. %
Amounts owed to banks	1.231.152	1.830.774	-599.622	-32,75%
Amounts owed to leasing companies	1.872.133	2.428.510	-556.377	-22,91%
Amounts owed to other financiers	1.238.789	738.968	499.821	67,64%
Total	**4.342.074**	**4.998.252**	**-656.178**	**-13,13%**

The mid- to long-term debts owed to banks as of December 31st 2016 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 to With Us divided as shown below:

- 21.678 thousand Yen falling due March 31st 2020 at the annual interest rate of 0,83%;
- 4.100 thousand Yen falling due May 31st 2018 at the annual interest rate of 1,60%
- 22.500 thousand Yen falling due March 31st 2020 at the annual interest rate of 1,15%;

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

a) Facilitated financing for applied research (FEMTO project) issued by MIUR to the subsidiary Quanta System S.p.A. for a total of 806.300 Euros at the annual interest rate of 0,50% to be paid back in 17 half-yearly installments with the last installment on July 1st 2020;

b) Financing issued by Mediocredito to the subsidiary Lasit for a research project for the amount of 272.000 at the annual rate of 0,36% to be paid back in annual installments starting in March 2018, last installment March 8th 2025;

c) Financing issued by Monte dei Paschi di Siena to the subsidiary Lasit for the purchase of motor vehicles for a total of 114.000Euros at the rate of Euribor 6M + 2,75% to be paid back in quarterly installments starting on March 2017, last installment September 30th 2021;
d) Facilitated financing for applied research (MILORD project), issued by FidiToscana to the Parent Company El.En. SpA for a total of 488.285,25 Euros, to be paid back in 6 half-yearly installments, last installment October 31st, 2022.

Current liabilities

Financial debts (note 19)

Below, a breakdown of the financial debts is given:

Financial short term debts	31/12/2016	31/12/2015	Variation	Var. %
Amounts owed to banks	7.991.300	11.592.612	-3.601.312	-31,07%
Amounts owed to leasing companies	610.035	561.356	48.679	8,67%
Amounts owed to other financiers	1.734.919	2.116.204	-381.285	-18,02%
Total	**10.336.254**	**14.270.172**	**-3.933.918**	**-27,57%**

	31/12/2016	31/12/2015	Variation	Var. %
Current liabilities for derivative financial instruments	276.502	92.892	183.610	197,66%
Total	**276.502**	**92.892**	**183.610**	**197,66%**

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

- debts for advance payments on invoices of the subsidiary Esthelogue Srl;
- short-term quota on the financing granted to Asclepion (see note 18);
- short term quota on the financing contracted by With Us (see note 18);
- bank financing granted to With Us;
- bank financing contracted by Asa Srl for a total of 300 thousand Euros to finance the initial costs derived from the expansion of the company on the Chinese market, expiring on July 31st 2017 at the variable rate of Euribor 3 months increased by a spread of 0,75;
- short-term financing contracted by Penta-Laser Equipment Wenzhou Co for about 1.708 thousand Euros (corresponding to about 12,5 million Yuan) 5 million Yuan of which expire in April 2017, at the annual rate of 4,39% and 7,5 million Yuan of which expire in the month of July 2017 at the annual rate of 4,35% ;
- bank financings contracted by Penta Chutian Laser (Wuhan) Co. Ltd for about 4,9 million Euros, 4,8 million of which (corresponding to 35 million Yuan) at the annual rate of 6,90% and 137 thousand Euros of which (corresponding to 1 million Yuan) at the annual rate of the PBC (Central Bank of China)increased 25%.

The category of " amounts owed to other financers" includes:

- the short term quotas of the financing described in the preceding note;
- financing granted to the subsidiary Quanta System SpA by Credem for a total of 1.300.000 Euros at the annual rate of 0,35% granted for operational reasons.

The heading of "Current liabilities for derivative financial instruments" includes the evaluation at fair value according to IAS 39 of the derivatives initiated by With Us. In particular:

- the subsidiary stipulated three currency rate swap derivative contracts in order to hedge the risk of the Euro/Yen exchange rate. The first contract expires in August of 2018, nominal value on December 31st 2016 was 950.000 Euros, the fair value on December 31st was -32.228 Euros; the second contract expires in March of 2019, nominal value on December 31st 2016 was 1.350.000 Euros, the fair value was –140.813 Euros; the third contract expires in August of 2020, nominal value on December 31st 2016 was 2.050.000 Euros, the fair value was–103.461 Euros.

Accounts payable (nota 20)

	31/12/2016	31/12/2015	Variation	Var. %
Accounts payable	44.693.970	42.037.992	2.655.978	6,32%
Amounts owed to associated companies		26.700	-26.700	-100,00%
Total	**44.693.970**	**42.064.692**	**2.629.278**	**6,25%**

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

The chart below shows the accounts payable to third parties for 2016 divided according to the currency.

Accounts payable in:	31/12/2016	31/12/2015
Euros	30.089.677	29.904.069
USD	2.049.391	2.446.107
Other currencies	12.554.902	9.687.816
Total	**44.693.970**	**42.037.992**

On the chart, the value in Euros of the debts originally expressed in US dollars or other currencies represents the amount of currency converted at the exchange rate in force on December 31st 2016 and December 31st 2015.

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 2016 amounted to 4.285 thousand Euros and are entered net of the down payments and deductions.

The subdivision of the other debts is as follows:

	31/12/2016	31/12/2015	Variation	Var. %
Social security debts				
Debts to INPS	2.432.679	2.205.062	227.617	10,32%
Debts to INAIL	168.105	147.811	20.294	13,73%
Debts to other Social Security Institutions	373.716	325.503	48.213	14,81%
Total	**2.974.500**	**2.678.376**	**296.124**	**11,06%**
Other debts				
Debts to the tax authorities for VAT	792.649	726.767	65.882	9,07%
Debts to the tax authorities for withholding	1.723.718	1.634.991	88.727	5,43%
Other tax liabilities	71.876	73.595	-1.719	-2,34%
Debts to staff for wages and salaries	8.457.284	7.250.400	1.206.884	16,65%
Down payments	9.917.872	6.966.259	2.951.613	42,37%
Other debts	11.134.373	9.156.114	1.978.259	21,61%
Total	**32.097.772**	**25.808.126**	**6.289.646**	**24,37%**
Total Social security debts e Other debts	**35.072.272**	**28.486.502**	**6.585.770**	**23,12%**

The amounts owed to staff include, among other things, the debts for deferred salaries of personnel employed as of December 31st 2016.

The entry of “Down payments” consists of down payments received from clients for orders received; the increase refers in particular to the subsidiaries Penta Chutian laser, Cutlite Penta, With Us, Pharmonia and Quanta System.

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.

Analysis of debts by due date

	31/12/2016			31/12/2015		
	<= 1 year	**>1 year <= 5 years**	**> 5 years**	**<= 1 year**	**>1 year <= 5 years**	**> 5 years**
Amounts owed to banks	7.991.300	843.252	387.900	11.592.612	1.335.939	494.835
Amounts owed to leasing companies	610.035	1.872.134		561.356	2.034.369	394.143
Current liabilites for derivative financial instruments	276.502	-		92.892		
Amounts owed to other financiers	1.734.919	939.125	299.664	2.116.204	602.291	136.675
Accounts payable	44.693.970			42.037.992		
Amounts owed to associated companies				26.700		
Income tax payables	4.285.066			3.841.693		
Social security debts	2.974.500			2.676.348		
Other debts	32.097.772			25.810.154		
Total	**94.664.064**	**3.654.511**	**687.564**	**88.755.951**	**3.972.599**	**1.025.653**

Segment information -IFRS8

The segments identified by the Group that are shown below in compliance with IFRS 8, belong to the Medical and Industrial sectors. These sub-divisions correspond to the structure of the reporting that is periodically analyzed by the Management and by the Board of Directors for the management of the business and is the subject of periodic administrative reporting and planning.

31/12/2016		Total	Medical	Industrial	Other
Revenues		254.135	166.056	86.790	1.289
Intersectorial revenues		(1.489)		(200)	(1.289)
Net Revenues		252.646	166.056	86.590	
Other revenues and income		3.224	805	1.162	1.257
Gross Margin		110.533	81.896	27.380	1.257
	Inc.%	*43%*	*49%*	*31%*	*100%*
Margin		37.995	31.920	4.818	1.257
	Inc.%	*15%*	*19%*	*5%*	*100%*
Not assigned charges		10.401			
EBIT		27.594			
Net financial income (charges)		1.933			
Share of profit of associated companies		186	189	0	(4)
Other Income (expense) net		23.009			
Income (loss) before taxes		52.721			
Income taxes		9.728			
Income (loss) before minority interest		42.993			
Minority interest		2.586			
Net income (loss)		40.408			

31/12/15		Total	Medical	Industrial	Other
Revenues		218.900	147.101	70.830	969
Intersectorial revenues		(1.230)		(325)	(905)
Net Revenues		217.670	147.101	70.505	64
Other revenues and income		2.326	870	1.060	397
Gross Margin		96.318	71.154	24.702	461
	Inc.%	*44%*	*48%*	*35%*	*100%*
Margin		30.706	26.495	3.814	397
	Inc.%	*14%*	*18%*	*5%*	*86%*
Not assigned charges		9.207			
EBIT		21.499			
Net financial income (charges)		1.346			
Share of profit of associated companies		278	263	14	1
Other Income (expense) net		(10)			
Income (loss) before taxes		23.113			
Income taxes		7.064			
Income (loss) before minority interest		16.049			
Minority interest		1.678			
Net income (loss)		14.371			

31/12/2016	Total	Medical	Industrial	Other
Assets assigned	212.939	121.490	91.449	
Equity investments	3.564	3.301	263	
Assets not assigned	84.184			
Total assets	300.687	124.791	91.713	0
Liabilities assigned	74.926	27.378	47.548	
Liabilities not assigned	33.062			
Total liabilities	107.988	27.378	47.548	0

31/12/2015	Total	Medical	Industrial	Other
Assets assigned	194.280	114.794	79.486	
Equity investments	44.298	44.123	175	
Assets not assigned	42.619			
Total assets	281.197	158.917	79.661	0
Liabilities assigned	67.213	28.854	38.359	
Liabilities not assigned	34.445			
Total liabilities	101.658	28.854	38.359	0

31/12/2016	Total	Medical	Industrial	Other
Changes in fixed assets:				
- assigned	7.196	2.349	4.847	0
- not assigned	(163)			
Total	7.033	2.349	4.847	0

31/12/2015	Total	Medical	Industrial	Other
Changes in fixed assets:				
- assigned	5.870	886	4.985	0
- not assigned	69			
Total	5.939	886	4.985	0

Information according to the geographic area

31/12/2016	Total	Italy	Europe	Row
Revenues	252.646	46.983	43.832	161.831

31/12/2015	Total	Italy	Europe	Row
Revenues	217.670	38.475	39.229	139.966

31/12/16	Totale	Italy	Europe	Row
Assets assigned	296.870	212.551	19.048	65.271
Equity investments	3.818	1.491	0	2.326
Total assets	300.687	214.042	19.048	67.597
Liabilities assigned	107.988	58.211	8.474	41.303
Total liabilities	107.988	58.211	8.474	41.303

31/12/2015	Totale	Italy	Europe	Row
Assets assigned	236.640	162.671	18.288	55.681
Equity investments	44.556	42.367	30	2.160
Total assets	281.197	205.038	18.318	57.841
Liabilities assigned	101.658	56.626	9.790	35.242
Total liabilities	101.658	56.626	9.790	35.242

31/12/2016	Totale	Italy	Europe	Row
Changes in fixed assets:				
- assigned	7.033	1.862	7	5.164
Total	7.033	1.862	7	5.164

31/12/2015	Totale	Italy	Europe	Row
Changes in fixed assets:				
- assigned	5.939	1.847	(105)	4.196
Total	5.939	1.847	(105)	4.196

Information on the consolidated Income Statement

Revenue (note 22)

The revenue at the end of 2016 was about 253 million Euros with respect to the 218 million Euros registered last year. The overall growth was about 16% and showed a two-digit figure in all sectors in which the company operates.

	31/12/2016	31/12/2015	Variation	Var. %
Medical	166.056.243	147.101.999	18.954.244	12,89%
Industrial	86.590.015	70.567.951	16.022.064	22,70%
Total revenue	**252.646.258**	**217.669.950**	**34.976.308**	**16,07%**

Other income (note 23)

The analysis of the other income is as follows

	31/12/2016	31/12/2015	Variation	Var. %
Insurance refunds	19.633	15.980	3.653	22,86%
Recovery of expenses	954.059	701.351	252.708	36,03%
Capital gains on disposal of fixed assets	66.555	89.288	-22.733	-25,46%
Other income	2.183.205	1.517.955	665.250	43,83%
Grants related to income	450	1.700	-1.250	-73,53%
Total	**3.223.902**	**2.326.274**	**897.628**	**38,59%**

The heading of “Recovery of expenses” refers mainly to reimbursements for shipping costs.
The entry “Other income” consists for the most part of grants for research projects for 1.257 thousand Euros and federal grants related both to the new production center and to the research projects for an amount of about 724 thousand Euros entered by the Chinese subsidiary Penta Laser Equipment Wenzhou Co. Ltd.

Costs for the purchase of goods (note 24)

The analysis is shown on the following chart:

	31/12/2016	31/12/2015	Variation	Var. %
Purchases of raw materials and finished products	125.729.268	109.961.247	15.768.021	14,34%
Packagings	1.380.002	1.327.385	52.617	3,96%
Shipping charges on purchases	1.093.446	1.131.917	-38.471	-3,40%
Other purchase expenses	624.697	933.735	-309.038	-33,10%
Other purchases	808.192	846.740	-38.548	-4,55%
Total	**129.635.605**	**114.201.024**	**15.434.581**	**13,52%**

The costs for purchase of goods as of December 31st 2016 were 129.635 thousand Euros as opposed to 114.201 thousand Euros for last year, showing an increase of 13,52%.

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

Breakdown of this category is shown on the chart below:

	31/12/2016	31/12/2015	Variation	Var. %
Direct services				
Outsourced processing	5.407.506	5.362.438	45.068	0,84%
Technical services	803.106	920.918	-117.812	-12,79%
Shipment charges on sales	2.467.625	2.235.151	232.474	10,40%
Commissions	10.296.139	6.456.939	3.839.200	59,46%
Royalties	3.847	90	3.757	4174,44%
Travel expenses for technical assistance	936.622	948.859	-12.237	-1,29%
Other direct services	774.644	1.299.720	-525.076	-40,40%
Total	**20.689.489**	**17.224.115**	**3.465.374**	**20,12%**
Other operating services and charges				
Maintenance and technical assistance on equipment	493.028	442.954	50.074	11,30%
Commercial services and consulting	1.408.386	1.472.179	-63.793	-4,33%
Legal and administrative services and consulting	1.271.406	1.276.748	-5.342	-0,42%
Audit fees	291.038	285.281	5.757	2,02%
Insurances	728.558	692.282	36.276	5,24%
Travel and accommodation expenses	3.167.691	3.061.507	106.184	3,47%
Trade shows	3.063.723	3.303.307	-239.584	-7,25%
Promotional and advertising fees	4.431.622	3.236.217	1.195.405	36,94%
Expenses related to real estate	1.985.945	1.873.407	112.538	6,01%
Other taxes	333.087	320.953	12.134	3,78%
Vehicles maintenance expenses	1.199.828	1.161.665	38.163	3,29%
Office supplies	403.142	313.325	89.817	28,67%
Hardware and Software assistance	520.777	447.576	73.201	16,35%
Bank charges	292.306	503.092	-210.786	-41,90%
Leases and rentals	2.259.544	2.235.787	23.757	1,06%
Salaries and indemnity to the Board of Directors and Board of Auditors	2.550.416	2.329.328	221.088	9,49%
Temporary employment	412.860	377.365	35.495	9,41%
Other services and charges	7.216.539	5.181.875	2.034.664	39,27%
Total	**32.029.896**	**28.514.848**	**3.515.048**	**12,33%**

The most significant change in the category of “Direct services” are related to “Shipment charges on sales” and “Commissions” due to the increase in production and sales.
The single most important entries under the heading of “Other operating services and charges” are represented by the promotional and publicity expenses, travel, trade shows, while for the category of “Other services and charges” the main costs refer to the cost for technical and scientific consultants for an amount of 1.977 thousand Euros and for study and research for an amount of about 809 thousand Euros. For the research and development activities and costs, please consult the relative paragraphs in the Management Report.

Future commitments for use of goods belonging to others

The chart below shows a summary of the obligations that the Group will have for the use of goods belonging to others.

Operating lease commitments	31/12/2016	31/12/2015
<= 1 year	1.729.292	1.385.691
>1 year <= 5 years	2.683.138	2.204.585
> 5 years	137.211	256.227
Total	4.549.641	3.846.503

Staff costs (note 26)

The chart below shows the costs for staff:

	31/12/2016	31/12/2015	Variation	Var. %
Wages and salaries	35.713.798	32.425.092	3.288.706	10,14%
Social security contributions	8.743.265	8.406.668	336.597	4,00%
Severance indemnity	1.327.477	1.227.279	100.198	8,16%
Staff costs for stock options	206.899		206.899	
Other costs	124.249	77.312	46.937	60,71%
Total	**46.115.688**	**42.136.351**	**3.979.337**	**9,44%**

The costs for personnel was 46.116 thousand Euros, showing an increase of 9,4% over the 42.136 thousand Euros for last year. The increase was due mainly to the increase in the number of employees both in the subsidiaries in Italy and abroad which rose from 965 to 1.093 employees as of December 31st 2016.

Depreciation, amortization and other accruals (note 27)

The table below shows the breakdown for this category:

	31/12/2016	31/12/2015	Variation	Var. %
Amortization of intangible assets	292.123	258.985	33.138	12,80%
Depreciation of tangible assets	3.305.191	2.872.907	432.284	15,05%
Devaluation (Rival.) of fixed assets	63.391		63.391	
Accrual for bad debts	397.737	701.946	-304.209	-43,34%
Accrual for risks and charges	735.207	333.591	401.616	120,39%
Total	**4.793.649**	**4.167.429**	**626.220**	**15,03%**

The accrual for bad debts showed a decrease with respect to last year due to the decrease in devaluations made for cautionary purposes on some of the receivables.
The change in the accrual for risks and charges is due mainly to a greater accrual in the warranty fund.

Financial income and charges (note 28)

The breakdown of the category is as follows:

	31/12/2016	31/12/2015	Variation	Var. %
Financial income				
Interests on bank and postal deposits	367.790	478.941	-111.151	-23,21%
Dividends from other investments		4.172	-4.172	-100,00%
Financial income from associated companies	6.621	1.374	5.247	381,88%
Interests from current securities and financial assets	203.356	165.178	38.178	23,11%
Capital gain and other income from current securities and financial assets	50.163		50.163	
Other financial income	79.883	59.694	20.189	33,82%
Total	**707.813**	**709.359**	**-1.546**	**-0,22%**
Financial charges				
Interests on bank debts and on short term loans	395.596	536.454	-140.858	-26,26%
Interests on bank debts and on other m/l term loans	13.408	49.949	-36.541	-73,16%
Capital losses and other charges on current securities and financial assets	899	35.090	-34.191	-97,44%
Other financial charges	211.450	249.598	-38.148	-15,28%
Total	**621.353**	**871.091**	**-249.738**	**-28,67%**
Exchange gain (loss)				
Exchange gains	4.071.886	2.693.615	1.378.271	51,17%
Exchange losses	-2.042.346	-1.092.774	-949.572	86,90%
Losses on derivative financial instruments	-182.582	-93.209	-89.373	95,88%
Total	**1.846.958**	**1.507.632**	**339.326**	**22,51%**

The “interests from current securities and financial assets” refer to the maturity of the interest on the insurance policies underwritten this year. The “interests on bank debts and on short term loans” refers mainly to overdrafts granted by credit institutions to the parent company and some of the foreign subsidiaries.
The category of “Other financial charges” includes the amount of about 68 thousand Euros for the interests charges deriving from the application of the IAS 19 accounting standard to the severance indemnity; the “losses on derivative financial instruments” are related to the evaluation of the derivative currency swap rate contracts stipulated by the subsidiary With Us in conformity with IAS 39.

Other net income and charges (note 29)

	31/12/2016	31/12/2015	Variation	Var. %
Other non operating charges				
Capital losses on equity investments	3.653		3.653	
Accrual for losses in group companies		1.682	-1.682	-100,00%
Devaluation of equity investment	7.003	8.026	-1.023	-12,75%
Total	**10.656**	**9.708**	**948**	**9,77%**
Other non operating income				
Capital gains on equity investments	23.017.500		23.017.500	
Other non recurring income	1.682		1.682	
Total	**23.019.182**		**23.019.182**	

In the month of April the Parent Company El.En S.p.A. sold 998.628 Cynosure Inc. (Nasdaq CYNO) shares on the stock market, at the price of about 45,10 US dollars a share, net of sales commissions, for a total amount of 45 million US dollars. The gross consolidated capital gains registered in the income statement for this operation has been registered under the heading of “capital gains on equity investments” for the amount of 23.018 thousand Euros.

Income taxes (nota 30)

	31/12/2016	31/12/2015	Variation	Var. %
IRES and other foreign income taxes	9.175.237	6.908.938	2.266.299	32,80%
IRAP Tax	907.044	839.733	67.311	8,02%
Deferred IRES taxes	-126.121	-559.427	433.306	-77,46%
Deferred IRAP taxes	19.158	4.520	14.638	323,85%
Income tax receivable	-221.452	-142.185	-79.267	55,75%
Other income tax	-4.987		-4.987	
Previous years tax	-20.540	12.140	-32.680	-269,19%
Total	**9.728.339**	**7.063.719**	**2.664.620**	**37,72%**

The costs for current and deferred taxes this year is 9.728.339 Euros.

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

	2016	2015
Income/loss before taxes	52.721.468	23.112.826
Theoretical IRES Aliquot	27,50%	27,50%
Theoretical IRES	14.498.404	6.356.027
Higher (lower) fiscal incidence of the foreign companies with respect to the theoretical aliquot	509.697	(120.370)
One time tax (income) charges	(20.540)	12.140
Tax receivables	(221.452)	(26.281)
Pex Benefit	(6.012.441)	
Higher (lower) fiscal incidence of Italian companies with respect to the theoretical aliquot	(449.609)	(2.810)
Higher (lower) fiscal incidence due to the effects of consolidation	411.476	58.827
Actual IRES	8.715.535	6.277.533
Actual IRES aliquot	16,53%	27,16%

The tax rate for 2016 is positively influenced by the partial exemption (PEX) of the capital gains earned from the sale of the last block of Cynosure shares.

Earnings per share (note 31)

Starting on May 30th 2016, in conformity with the resolution of the extraordinary shareholders' meeting of the Parent Company El.En. S.p.A. taken on May 12th 2016, operations for the splitting of 4.824.368 ordinary shares of El.En. S.p.A. began by cancelling the ordinary shares with a nominal value of 0,52 Euros and the issue of new shares with a nominal value of 0,13 Euros each.
The splitting took place with the issuing on June 1st 2016 of four new ordinary El.En. S.p.A. shares for each old El.En. S.p.A share.

The capital stock remains unchanged and amounts to nominal 2.508.671,36 Euros while the average weighted number of shares in circulation this year was 19.297.472 ordinary shares. The profit per share on December 31st 2016 was therefore 2,09 Euros. The diluted earnings per share, which also takes into account the stock options assigned during the year, is 2.07 Euros.

Dividends distributed (note 32)

The shareholders' meeting of El.En. S.p.A. held on April 28th 2015 voted to distribute a dividend of 1 Euro per share in circulation on the date that the coupon came due. The dividend that was paid amounted to 4.824.368 Euros.

The shareholders' meeting of El.En. S.p.A. held on May 12th 2016 voted to distribute a dividend of 1,20 Euros for each of the 4.824.368 shares in circulation on the date the coupon came due. The amount of the dividend paid was 5.789.241,60 Euros.

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

The entry in the category of "Unrealized gain (loss) on investment available for sale" (-23.776 thousand Euros) is related to the release of the reserve created for the evaluation at fair value (net of fiscal effects) of the remaining 998.628 Cynosure shares which were sold in the month of April 2016.

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 and the other executive directors with strategic responsibilities;
- the individuals holding shares in the Parent company El. En. S.p.A;
- the legal bodies of which a significant number of shares is owned by one of the main shareholders of the Parent company, by a member of the Board of Directors of the Parent company, by a member of the Board of Statutory Auditors, by any other of the executives with strategic responsibilities.

One of the Managing Directors, the majority shareholder of the Parent company, has an outright ownership of a 25% quota of Immobiliare del Ciliegio Srl, also a shareholder of the Parent Company.
All the transactions with related parties took place at normal market conditions.

In particular, the paragraphs below give important information about the related parties.

<u>The Members of the Board of Directors and the Board of Statutory Auditors and other strategic executives</u>

The Members of the Board of Directors, of the Board of Statutory Auditors of El.En. S.p.A. and other strategic executives receive the salaries shown in the chart below:

Name	Position	Term duration	Fees in:	Fees	Remuneration for partecipation on committees	Bonus and other incentives	Non monetary benefits	Other rewards	Total	Fair Value of the equity remuneraton	Indemnity for termination of mandate or employment
Clementi Gabriele	Chairman of the BoD	Approval of the financials for 12/31/2017	El.En. SpA	134.232		291.053	3.768		429.053	17.067	6.500
			Subsidiaries/associates	12.480					12.480		
Barbara Bazzocchi	Managing Director	Approval of the financials for 12/31/2017	El.En. SpA	134.232		35.475	3.768		173.475	5.786	6.500
			Subsidiaries/associates	12.000					12.000		
Andrea Cangioli	Managing Director	Approval of the financials for 12/31/2017	El.En. SpA	134.399		45.526	3.601		183.526	11.271	6.500
			Subsidiaries/associates	12.480					12.480		
Michele Legnaioli	Director	Approval of the financials for 12/31/2017	El.En. SpA	12.000					12.000		
			Subsidiaries/associates								
Alberto Pecci	Director	Approval of the financials for 12/31/2017	El.En. SpA	12.000					12.000		
			Subsidiaries/associates								
Fabia Romagnoli	Director	Approval of the financials for 12/31/2017	El.En. SpA	12.000					12.000		
			Subsidiaries/associates								
Vincenzo Pilla (*)	President of the Board of	Approval of the financials for 12/31/2018	El.En. SpA	31.200					31.200		
	Statutory Auditors		Subsidiaries/associates	21.526					21.526		
Paolo Caselli (*)	Statutory Auditor	Approval of the financials for 12/31/2018	El.En. SpA	20.800				9.360	30.160		
			Subsidiaries/associates	24.368				6.032	30.400		
Rita Pelagotti (*)	Statutory Auditor	Approval of the financials for 12/31/2018	El.En. SpA	20.800					20.800		
			Subsidiaries/associates								
Other managers with strategic responsibilities (n. 1)			El.En. SpA	103.607		33.110	13.180	27.177	177.074	17.067	
			Subsidiaries/associates								

N.B.: the salaries shown in the chart are calculated on an accrual basis.
(*) amounts including CAP

Fixed salaries:
- The amounts paid to the directors of the Parent Company for their roles in other companies included in the area of consolidation are as follows: Barbara Bazzocchi, as chairman of the Board of Directors of Cutlite Penta Srl received a salary of 12.000 Euros; Gabriele Clementi as member of the Board of Directors of With Us received a salary of 1.500 thousand yen from that company; Andrea Cangioli as member of the Board of Directors of With Us received a salary of 1.500 thousand yen from that company.
- The salaries of members of the Board of Statutory Auditors for carrying out their functions in other companies included within the area of consolidation are as follows: Vincenzo Pilla as President of the Board of Statutory Auditors of Lasit S.p.A. and Quanta System S.p.A. received a total salary of 21.526 Euros; Paolo Caselli as sole auditor of Deka Mela S.r.l. and acting auditor of Lasit S.p.A. received from these companies a total amount of 24.368 Euros.

Bonuses and other incentives:
- In this column the chart shows the amounts received by the Chairman and Managing Directors of the Board of Directors as an incentive bonus for achieving certain goals which were set by the Board in accordance with the vote of the Shareholders' meetings held on April 28th 2015 which, when determining the amount of remuneration of the Board of Directors, had established at the maximum amount 1 million Euros the variable part of the overall bonuses to be assigned to the managing directors, including the president with powers of attorney, and the board members with

special positions as described in art. 21 of the by-laws and art. 2389, sub-section 3 Civil Code. These bonuses will be paid in 2017.

Non-monetary benefits:

- The heading "Non-monetary benefits" refers to a fringe benefits paid to the President of the Board of Directors and the executive directors in accordance with the vote of the shareholders' meeting held on April 28th 2015.

Other rewards:

- The acting auditor Dott. Paolo Caselli received a bonus of 9.360 Euros as chairman of the Controlling body of El.En. S.p.A., in compliance with ex D.Lgs. 231/01 and 6.032 Euros as chairman of the Controlling body of Quanta System S.p.A. in compliance with ex D.Lgs. 231/01.

Fair value of the equity remuneration:

- The category is related to the fair value for the year of the options assigned to the President of the Board of Directors, Gabriele Clementi, executive directors, Barbara Bazzocchi and Andrea Cangioli and the manager with strategic responsibilities. For detail, on the Plan for 2016-2025 please consult the information sheet drawn up in conformity with art. 84-*bis* of RE 11971/1999.

Indemnity for termination of mandate or employment:

-An annual indemnity of 6.500 Euros each, in compliance with art. 17 of T.U.I.R., is attributed to the president of the Board of Directors Gabriele Clementi and to the executive members Barbara Bazzocchi and Andrea Cangioli.

Prof. Leonardo Masotti, President of the Scientific Commission has been assigned a set sum of 6.000 Euros, as well as an incentive remuneration of 33.110 Euros. Moreover, as President of the Board of Directors of Deka M.E.L.A. S.r.l. he received a salary of 21.000 Euros and as a member of the Board of Directors of With Us he received a salary of 1.500 thousand Yen from that company. Moreover, as part of the stock option plan for 2016-2025 he received the options attributed to him during the implementation of the plan, as per the relative information report drawn up in compliance with art. 84-*bis* cit..

The Parent Company does not have a general director as of the date of this report.

Physical persons possessing an equity in El.En. SpA

The partner Carlo Raffini to whom the Parent Company El.En. assigned a specific professional task for the entire year, received a salary of 32.000 Euros; moreover, for a similar task performed for the subsidiaries Deka M.E.L.A. Srl and Cutlite Penta Srl he received 20.000 Euros.

Subsidiary companies

Normally the operations and the reciprocal amounts due among the companies of the Group that are included in the area of consolidation are eliminated when drawing up the consolidated financial statements, and consequently they are not described here.

Associated companies

All of the transactions involving payables and receivables, costs and revenue, and all financing and guarantees granted to the associated companies during 2016 are clearly shown in detail.

The prices for the transfer of goods are determined in accordance with what normally occurs on the market. The above mentioned inter-Group transactions therefore reflect the trends in market prices although they may differ slightly from them depending on the commercial policy of the Group.

The tables below show an analysis of the transactions which occurred between associated companies both as regards commercial exchanges as well as payables and receivables.

	Financial Receivables		**Commercial receivables**	
Associated companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Actis Srl	30.000		6.239	
Immobiliare Del.Co. Srl	31.565			
Elesta Srl			751.015	
Chutian (Tianjin) Laser Technology Co. Ltd			17.319	
Quanta Aesthetic Lasers USA, LLC	324.766		481.582	
Accure LLC	71.151		4.340	
Total	457.481	-	1.260.495	-

Associated companies:	Sales	Service	Total
Actis Srl	10.715		10.715
SBI S.A.	16.088		16.088
Elesta Srl	420.377	19.823	440.200
Quanta Aesthetic Lasers USA, LLC	3.748.550	612	3.749.162
Totale	4.195.730	20.435	4.216.165

Associated companies:	Other revenues
Elesta Srl	2.503
Actis Srl	2.400
Totale	4.903

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl	1.620	54.000		55.620
Immobiliare Delco Srl		94.299		94.299
Quanta Aesthetic Lasers USA, LLC		72.584		72.584
Totale	1.620	220.883	-	222.503

The amounts shown in the above chart refer to operations that are inherent to the ordinary operations of the company.

The table below shows the incidence which transactions with related parties have had on the economic and financial situation of the Group.

Impact of related parties transactions	Total	related parties	Inc %
Impact of related parties transactions on the statement of financial position			
Equity investments	3.817.771	3.222.303	84,40%
Receivables LT	32.688	-	0,00%
Accounts receivable	62.445.645	1.260.495	2,02%
Other current receivables	8.564.030	457.481	5,34%
Non current financial liabilities	4.342.074	-	0,00%
Current financial liabilities	10.612.756	-	0,00%
Accounts payable	44.693.970	-	0,00%
Other current payables	35.072.272	-	0,00%
Impact of related parties transactions on the income statement			
Revenues	252.646.258	4.216.165	1,67%
Other revenues and income	3.223.902	4.903	0,15%
Purchase of raw materials	129.635.605	1.620	0,00%
Direct services	20.689.489	40.271	0,19%
Other operating services and charges	32.029.896	180.612	0,56%
Financial charges	621.353	-	0,00%
Financial income	707.813	6.621	0,94%
Income taxes	9.728.339		0,00%

RISK FACTORS AND PROCEDURES FOR THE MANAGEMENT OF FINANCIAL RISKS

Operating risks

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

The main financial instruments of the Group include checking accounts and short-term deposits, short and long-term financial liabilities, leasing, financial instruments and hedging derivatives contracts.
Besides these, the Group also has payables and receivables derived from its activity.
The main financial risks to which the Group is exposed are those related to currency exchange, credit, cash and interest rates.

Currency risk

The Group is exposed to the risk caused by fluctuations in the Exchange rates of the currencies used for some of the commercial and financial transactions. These risks are monitored by the management which takes all the necessary measures to reduce them.
Since the Parent Company prepares its consolidated financial statements in Euros, the fluctuations in the Exchange rates used to convert the data in the statements of the subsidiaries originally expressed in foreign currency may negatively influence the results of the Group, the consolidated financial position and the consolidated shareholders' equity as expressed in Euros in the consolidated statements of the Group.
With US Co. Ltd. this year and last year stipulated three derivatives of the type called "currency rate swap" in order to hedge the risk in currency exchange for purchases in Euro.

Operation	Notional value	*Fair value*
Currency swap	€ 950.000	-€ 32.228
Currency swap	€ 1.350.000	-€ 140.813
Currency swap	€ 2.050.000	-€ 103.461
Total	**€ 4.350.000**	**-€ 276.502**

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 9% of the total trade receivables from third parties. For an analysis of the due dates on trade receivables from third parties, please consult the relative note in the consolidated financial statement.

As far as guarantees granted to third parties are concerned:

the Parent Company El.En. S.p.A. has underwritten:
- in 2013, a bank guarantee for a maximum of 50 thousand Euros as a guarantee for customs duties as per ex art. 34 of the T.U.L.D., payable for temporary imports, with expiration date in June 2017 with possibility of extension annually.
- in 2014 a bank guarantee for a maximum of 253 thousand Euros as a guarantee for the restitution of the amount requested as a down payment on the "BI-TRE" research project, which was accepted for a grant in the Bando Regionale 2012 approved by the Regione Toscana with *Decreto Dirigenziale* n. 5160 on November 5th 2012, with expiration date in February 2018.
- during 2015, a bank guarantee for a maximum of 6 thousand Euros as guarantee on the delivery and functioning of the laser for the restoration project approved by the Ministry of Cultural Activities; this project included the institution of a research and conservation center for of art works with Headquarters in Sassari, approved by a decree of the regional secretary n.59 of September 29th 2015, which has been extended until May 20th 2017.
- during 2016 a bank guarantee for a maximum of 11.368 Euros as a guarantee against the delivery and functioning of the CO_2 laser for a cutting and piercing system to be added to the prototype station at the Department of Industrial Engineering of the University of Salerno, project PON03PE_00129_1 in implementation of *Decreto Direttoriale* rep.n.3118/2016, expiring in July 2017.

The subsidiary Deka M.E.L.A. S.r.l. in 2016 underwrote a bank guarantee for a maximum of 127.925 Euros as a guarantee for the final reimbursement of the amount require as a down payment for the project POR FESR 2014 – 2020 Strategic Research and Development project phase 2, admitted for contributions by the *Bando Unico* approved by the Region of Tuscany with Decree 3389 on July 30th 2014, with expiration date in May 2020.

Cash and interest rate risks
As far as the exposure of the Group to risks related to cash and interest rates is concerned, it should be pointed out that cash held by the Group has been maintained at a high level also during this half in such a way as to cover existing debts and obtain a net financial position which is extremely positive. For this reason we believe that these risks are fully covered.

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

Financial Instruments (note 37)

Fair value

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

	Book value	Book value	Fair value	Fair value
	31/12/2016	**31/12/2015**	**31/12/2016**	**31/12/2015**
Equity investments available for sale				
Equity investment in Cynosure Inc.	-	40.974.292	-	40.974.292
Financial assets				
Current financial receivables	607.330	352.415	607.330	352.415
Securities and other non-current financial assets	10.846.332	10.643.051	10.846.332	10.643.051
Securities and other current financial assets	-	1.964.722	-	1.964.722
Cash and cash equivalents	97.589.445	46.989.707	97.589.445	46.989.707
Financial debts and liabilities				
Non current financial liabilities	4.342.074	4.998.252	4.342.074	4.998.252
Current financial liabilities	10.612.756	14.363.064	10.612.756	14.363.064

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 2016, the Group holds the following securities evaluate at fair value:

	Level 1	Level 2	Level 3	Total
Investment contracts		10.846.332		10.846.332
Currency swap		-276.502		-276.502
Total		**10.569.830**		**10.569.830**

Other information (note 38)

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 2016 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	2016 fees (Euros)
Audit	Deloitte & Touche SpA	Parent Company		55.314
	Deloitte & Touche SpA	Italian subsidiaries		55.302
	Deloitte & Touche SpA	Foreign subsidiaries		18.090
	Deloitte network	Foreign subsidiaries		68.708
Other services	Deloitte network	Foreign subsidiaries	(1)	19.469
				216.883

(1) Services of agreed upon procedures

The honorariums shown in the chart related to Italian companies, include the annual adaptation on the basis of the ISTAT index; they are, moreover, net of reimbursements for the expenses sustained and the contributions for supervision of the Consob.

Average number of employees

Personnel	Average of the period	31/12/2016	Average of previous period	31/12/2015	Variation	Var. %
Total	1.029	1.093	958	965	128	13,26%

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. SpA, in conformity with art. 154-bis, comma 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 consolidated financial statement, during 2016.

2. No significant aspect emerged concerning the above

3. We also declare that:

3.1 the consolidated financial statement dated December 31st 2016:

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 activities as well as the situation of the quoted company and the group of companies included in the scope of consolidation, together with a description of the principal risks and uncertainties which they are exposed.

Calenzano, March 15th 2017

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

Deloitte & Touche S.p.A.
Corso Italia, 17
50123 Firenze
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INDEPENDENT AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of El.En. Group, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Company's Directors are responsible for the preparation of these 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 n° 38/05.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of El.En. Group as at December 31, 2016, and of its financial performance and 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 n° 38/05.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the consolidated financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of El.En. S.p.A., with the consolidated financial statements of El.En. Group as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance referred to above are consistent with the consolidated financial statements of El.En. Group as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.
Signed by
Gianni Massini
Partner

Florence, Italy
March 30, 2017

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

El. En. S.p.A.

Headquarters: Via Baldanzese 17 Calenzano (Florence, Italy)
Registry of companies, Florence n. 03137680488

Report of the Board of Statutory Auditors to the Shareholders' Meeting on the consolidated financial statement as of December 31st 2016

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

In compliance with Legislative Decree 58/1998 and D.Lgs. n. 39/2010, the legal auditing of the consolidated financial statement has been assigned to the Independent auditors charged with the legal auditing of the financial statement of the Parent Company El.En. S.p.A.

The Board of Statutory Auditors conducted its supervising activity on the financial statement as of December 31st 2016 and on the Management Report for 2016 (related also to the consolidated financial statement) in compliance with the standards issued by the *Consiglio Nazionale dei Dottori Commercialisti* (National Commission of Certified accountants) and by the *Consiglio Nazionale dei Ragionieri* (now called the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*).

The consolidated financial statement of the Group includes a certificate written by the managing director and the executive responsible for the preparation of the financial statements in compliance with 154-bis del D.Lgs n.58/1998.

The consolidated financial statement was submitted for auditing to Deloitte & Touche S.p.A., which expressed an opinion without criticism and declared that it was in conformity with the regulations which govern the criteria for drawing up financial statements, that it was clearly expressed and represented in a true and correct manner the financial situation, the result of the financial period and the cash flow of the El.En. Group.

We examined the financial reports of the companies included in the area of consolidation that had been examined by the respective controlling bodies and by the Independent auditors when the control procedures were implemented during the auditing phase of the consolidated financial statement.

The Board of Statutory Auditors verified the correspondence of the criteria utilized for determining the area of consolidation and the principles of consolidation now used; these principles are described in the Notes to the financial statement which supplies full and complete information concerning their application.

The Board of Statutory Auditors considers that the internal procedure adopted by the Parent Company in order to comply with the provisions of art. 36 of the Stock Market Regulations, is adequate.

The consolidated financial statement of the Group was drawn up in conformity with the IFRS international accounting principles. After European regulation n. 1606 of July 2002 came into effect, starting on January 1st 2005 the El.En. Group, in fact, adopted the International Accounting Principles (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Commission.

The Management Report is consistent with the data and results of the consolidated financial statement and supplies ample information on the economic and financial position of the Group.

In the Management Report the directors supply ample information concerning the significant events that involved the El.En. Group during 2016.

The Board of Statutory Auditors, within the limits of its area of competency and, on the basis of the results of the verifications conducted by the Independent auditors, believes that the consolidated financial statement of the Company is drawn up in conformity with the regulations that govern it.

Florence, March 31st 2017.

The Board of Statutory Auditors

Dr. Vincenzo Pilla, president of the Board of Statutory Auditors.

Dr. Paolo Caselli, auditor.

Dott.ssa Rita Pelagotti, auditor.

EL.EN. SpA SEPARATE FINANCIAL STATEMENT AS OF DECEMBER 31st 2016

ACCOUNTING CHARTS AND NOTES

Statement of financial position

Assets	Note		31/12/2016		31/12/2015
Intangible assets	1		216.684		199.464
Tangible assets	2		12.678.838		13.011.283
Equity investments	3				
- in subsidiary companies		15.569.217		15.920.781	
- in associated companies		388.405		490.258	
- other		577.647		41.439.838	
Total Equity investments			16.535.269		57.850.877
Deferred tax assets	4		2.736.861		2.361.373
Other non current assets	4		10.849.440		10.646.159
Total non current assets			**43.017.092**		**84.069.156**
Inventories	5		22.177.629		25.007.825
Accounts receivable	6				
- third parties		6.155.016		10.336.088	
- subsidiary companies		26.683.758		23.716.386	
- associated companies		753.074		886.999	
Total Accounts receivable			33.591.848		34.939.473
Tax receivables	7		2.489.021		4.617.272
Other receivables	7				
- third parties		678.295		647.591	
- subsidiary companies		5.640.319		4.621.540	
- associated companies		61.565		61.565	
Total Other receivables			6.380.179		5.330.696
Securities and other current financial assets	8		-		1.964.722
Cash and cash equivalents	9		57.213.388		12.583.225
Total current assets			**121.852.065**		**84.443.213**
Total Assets			**164.869.157**		**168.512.369**

Liabilities	Note		31/12/2016		31/12/2015
Share capital	10		2.508.671		2.508.671
Additional paid in capital	11		38.593.618		38.593.618
Other reserves	12		64.188.040		100.560.426
Treasury stock	13		-		-
Retained earnings / (accumulated deficit)	14		(984.283)		(984.282)
Net income / (loss)			41.510.952		6.307.307
Total shareholders' equity			**145.816.998**		**146.985.740**
Severance indemnity	15		945.174		895.156
Deferred tax liabilities	16		684.644		1.155.972
Other accruals	17		489.156		491.894
Financial debts and liabilities	18				
- third parties		488.285		-	
Total Financial debts and liabilities			488.285		-
Total non current liabilities			**2.607.259**		**2.543.022**
Financial liabilities	19				
- third parties		6		1.510.000	
Total Financial liabilities			6		1.510.000
Accounts payable	20				
- third parties		10.999.163		11.330.300	
- subsidiary companies		751.273		802.037	
- associated companies		-		26.700	
Total Accounts payable			11.750.436		12.159.037
Income tax payables	21		648.725		1.320.307
Other current payables	21				
- third parties		4.023.681		3.980.687	
- subsidiary companies		22.052		13.576	
- associated companies		-		-	
Total Other current payables			4.045.733		3.994.263
Total current liabilities			**16.444.900**		**18.983.607**
Total Liabilities and Shareholders' equity			**164.869.157**		**168.512.369**

Income Statement

Income Statement	Note		31/12/2016		31/12/2015
Revenues	22				
- third parties		22.178.924		31.108.657	
- subsidiary companies		34.676.494		30.459.828	
- associated companies		436.020		613.264	
Total Revenues			57.291.438		62.181.749
Other revenues and income	23				
- third parties		1.115.787		313.308	
- subsidiary companies		390.248		370.847	
- associated companies		4.903		4.282	
Total Other revenues and income			1.510.938		688.437
Revenues and income from operating activity			**58.802.376**		**62.870.186**
Purchase of raw materials	24				
- third parties		25.115.457		33.333.839	
- subsidiary companies		2.135.859		1.940.058	
Total Purchase of raw materials			27.251.316		35.273.897
Changes in inventory of finished goods			450.966		(1.278.548)
Change in inventory of raw material			2.192.551		(3.720.909)
Direct services	25				
- third parties		4.197.465		4.762.776	
- subsidiary companies		41.564		145.409	
Total Direct services			4.239.029		4.908.185
Other operating services and charges	25				
- third parties		6.083.389		6.090.428	
- subsidiary companies		37.115		96.397	
- associated companies		54.000		36.000	
Total Other operating services and charges			6.174.504		6.222.825
Staff cost	26		13.120.994		12.216.236
Depreciation, amortization and other accruals	27		1.357.916		1.406.306
EBIT			**4.015.100**		**7.842.194**
Financial charges	28				
- third parties		(21.924)		(119.863)	
- subsidiary companies		(11.773)		(110.818)	
Total Financial charges			(33.697)		(230.681)
Financial income	28				
- third parties		519.702		472.415	
- subsidiary companies		1.050.699		850.238	
- associated companies		304		315	
Total Financial income			1.570.705		1.322.968
Exchange gain (loss)	28		2.361.603		775.482
Other non operating charges	29		(428.315)		(921.507)
Other non operating income	29		36.507.176		224.632
Income (loss) before taxes			**43.992.572**		**9.013.088**
Income taxes	30		2.481.620		2.705.781
Income (loss) for the financial period			**41.510.952**		**6.307.307**

Statement of comprehensive income

	31/12/2016	31/12/2015
Income (loss) for the financial period (A)	41.510.952	6.307.307
Other income/(loss) that will not be entered in income statement net of fiscal effects:		
Measurement of defined-benefit plans	(64.610)	92.515
Other income/(loss) that will be entered in income statement net of fiscal effects:		
Unrealized gain (loss) on investment AFS	(37.083.465)	18.167.364
Unrealized gain (loss) on derivatives and other changes		500
Total other income/(loss), net of fiscal effectes (B)	(37.148.075)	18.260.379
Total comprehensive (loss) income (A)+(B)	4.362.877	24.567.686

Cash flow statement

Cash flows statement	Notes	31/12/2016	related parties	31/12/2015	related parties
Cash flow generated by operating activity:					
Profit (loss) for the financial period		41.510.952		6.307.307	
Amortizations and depreciations	27	1.185.118		1.138.024	
Capital gain on sale of equity investments	29	-36.507.176			
(Re)-Devaluations of equity investments	29	424.662	424.662	921.507	921.507
Stock Option		257.616			
Change of employee severance indemnity	15	-34.995		-83.971	
Change of provisions for risks and charges	17	-2.738		-110.758	-224.632
Change of provisions for deferred income tax assets	4	-355.085		334.392	
Change of provisions for deferred income tax liabilities	16	45.678		-191.246	
Inventory	5	2.830.196		-4.808.544	
Accounts Receivable	6	1.347.631	-2.833.447	-4.590.421	-611.971
Tax receivables	7	2.128.251		-1.364.240	
Other receivables	7	-332.523	-240.753	-66.898	-157.009
Accounts Payable	20	-408.602	77.464	2.380.748	-418.707
Income Tax payables	21	-671.582		1.318.636	
Other payables	21	51.469	-8.476	-855.060	-172.384
		-30.042.079		-5.977.831	
Cash flow generated by operating activity		11.468.873		329.476	
Cash flow generated by investment activity:					
(Increase) decrease in tangible assets	2	-692.333		-1.335.259	
(Increase) decrease in intangible assets	1	-177.559		-147.908	
(Increase) decrease in equity investments and non current assets	3-4	39.594.370	453.417	-11.197.679	-130.000
(Increase) decrease in financial receivables	7	-716.959	-778.026	133.965	-361.842
(Increase (decrease) in current financial assets	8	1.964.722		-1.964.722	
Cash flow generated by investment activity		39.972.240		-14.511.603	
Cash flow from financing activity:					
Increase (decrease) in non current financial liabilities	18	488.285		-1.340.000	
Increase (decrease) in current financial liabilities	19	-1.509.994		-10.581.986	
Dividends distributed	31	-5.789.242		-4.824.368	
Cash flow from financing activity		-6.810.950		-16.746.354	
Increase (decrease) in cash and cash equivalents		44.630.163		-30.928.481	
Cash and cash equivalents at the beginning of the financial period		12.583.225		43.511.706	
Cash and cash equivalents at the end of the financial period		57.213.388		12.583.225	

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 620 thousand Euros, of which 101 thousand Euros from subsidiary companies.
Income taxes for this financial year were 2.823 thousand Euros.

Changes in the Shareholders' equity

Total shareholders' equity	**31/12/2014**	**Net income allocation**	**Dividends distributed**	**Other movements**	**Comprehensive income (loss)**	**31/12/2015**
Share capital	2.508.671					2.508.671
Additional paid in capital	38.593.618					38.593.618
Legal reserve	537.302					537.302
Treasury stock						
Other reserves:						
Extraordinary reserve	42.045.117	18.704.726				60.749.843
Special reserve for grants received	426.657					426.657
Other reserves	20.586.259			-14	18.260.379	38.846.624
Retained earnings / (accumulated deficit)	-984.282	4.824.368	-4.824.368			-984.282
Net income / (loss)	23.529.094	-23.529.094			6.307.307	6.307.307
Total shareholders' equity	127.242.436	0	-4.824.368	-14	24.567.686	146.985.740

Total shareholders' equity	**31/12/2015**	**Net income allocation**	**Dividends distributed**	**Other movements**	**Comprehensive income (loss)**	**31/12/2016**
Share capital	2.508.671					2.508.671
Additional paid in capital	38.593.618					38.593.618
Legal reserve	537.302					537.302
Treasury stock						
Other reserves:						
Extraordinary reserve	60.749.843	518.065				61.267.908
Special reserve for grants received	426.657					426.657
Other reserves	38.846.624			257.624	-37.148.075	1.956.173
Retained earnings / (accumulated deficit)	-984.282	5.789.242	-5.789.242	-1		-984.283
Net income / (loss)	6.307.307	-6.307.307			41.510.952	41.510.952
Total shareholders' equity	146.985.740		-5.789.242	257.623	4.362.877	145.816.998

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 2017.

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

PRINCIPLES USED FOR DRAWING UP THE STATEMENT AND ACCOUNTING STANDARDS

PRINCIPLES USED FOR DRAWING UP THE FINANCIAL STATEMENT

The statement for the financial year 2016 which represents the separate 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 2016 and 2015. The financial information on the other hand refer to the situations on December 31st 2016 and December 31st 2015.

For information concerning the type of activities in which the company is involved and the significant events which occurred after the closing of the financial year, please refer to the Management Report.

Some details contained in the Explanatory notes that concern last year have been reclassified in order to offer a better comparison with the data for 2016.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The statement as of December 31st 2016 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 report are in compliance with the accounting standards used for drawing up the financial report on December 31st 2015 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 2016" which should be consulted for further details, with the exception of the following amendment, which applies only to the separate financial statement:

- On August 12th 2014 the IASB published an amendment to IAS 27 - *Equity Method in Separate Financial Statements*. This document introduces the option of using in the separate financial statement of a company the shareholders' equity method for the evaluation of the equity in a subsidiary company, in a joint venture or in an associated company. The adoption of this amendment did not have any effect on the separate financial statement of the Company.

USE OF ESTIMATES

In applying the IFRS, the drawing up of the Separate Financial Statement requires estimates and assumptions to be made which affect the assets and liability figures of the financial statement and relative information and potential assets and liabilities at the date of reference. The definitive results could differ from such estimates. The estimates are used to enter the provisions for risks on receivables, for obsolescence of stocks, amortization and depreciation, devaluation of assets, stock options, employee benefits, taxes and other provisions and funds. The estimates and assumptions are periodically reviewed and the effects of any variation are reflected in the Income statement.

ACCOUNTING POLICIES

A) INTANGIBLE FIXED ASSETS WITH A FINITE AND INDEFINITE LIFE

Intangible assets are those assets lacking an identifiable physical consistency able to produce future economic benefits. They are entered at the historical purchase cost, shown net of the amortization applied in the course of the financial years and directly ascribed to the single headings. The company has chosen to maintain historical cost, rather than fair value, as the measurement criteria for intangible fixed assets. In the case in which, independently of the amortization already entered, there should be a loss of value, the fixed asset is correspondingly devalued; if, in subsequent financial years the reasons for the devaluation should cease to exist, the value is restored to a maximum limit of its original value, adjusted only by the amortization.
The costs incurred internally for the development of new products and services constitute, depending on the individual case, tangible or intangible assets generated internally and are entered in the assets only where all the following conditions are satisfied: 1) where the technical possibility or intention to complete the asset so as to make it available for use or sale exists; 2) where there is a capacity for the company to use or sell the asset; 3) the existence of a market for the products and services deriving from the asset, or of utility for internal purposes; 4) the ability of the asset to generate future economic benefits; 5) the availability of sufficient technical and financial resources to complete the development and sale or internal use of the products and services deriving from it; 6) reliable assessment of the costs attributable to the asset during its development. The capitalization of development costs includes only the expenses incurred which may be directly attributed to the development process. Research costs are entered in the Income statement in the financial year in which they are incurred. The Other Intangible Fixed Assets with a finite useful life are assessed at purchase or production cost and amortized at a constant rate during their estimated useful life.
Goodwill and other activities which have an indefinite life are not subject to systematic amortization but to an annual impairment test.

B) TANGIBLE FIXED ASSETS

The assets have been entered at the purchase cost or production cost, inclusive of accessory charges, net of depreciation. Ordinary maintenance expenses have been entirely entered in the Income Statement. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and depreciated according to the residual possibility of use of the said item**.**
The company uses the method of original cost as opposed to fair value as the assessment criteria for tangible fixed assets. Specifically, in accordance with such standards, the value of land and of the buildings constructed on it is separated and only the building is depreciated.

The aliquots used for depreciation are shown on the chart below:

Description	*Depreciation percentage*
Buildings	
- buildings	3.00%
Plants and machinery	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
- other plants and machinery	15.50%
Industrial and commercial equipment	
- miscellaneous and minute equipment	25.00%
- kitchen equipment	25.00%
Other goods	
- motor vehicles	25.00%
- forklift	20.00%
- lightweight constructions	10.00%
- electronic office equipment	20.00%
- furniture	12.00%

C) FINANCIAL CHARGES

Financial charges are registered in the Income statement at the time in which they are sustained.

D) LOSSES IN VALUE OF ASSETS

At each date referred to in the financial year shown, the tangible and intangible assets with a finite life have been assessed for the purposes of identifying any indicators of loss in value. The recoverable value of the goodwill and intangible assets with an indefinite life, where present, have been estimated at each date of reference. If there is any indication of a reduction in value the presumed cashing-in value is estimated.
The presumed cashing-in value is the higher of the two variables, net sales price and utility value. In determining the utility value, expected future flows of funds are discounted using a pre-tax discount rate which reflects the current market value of the money rate referred to the investment period and specific risks of the business. For a business not generating highly independent flows of funds, the cashing-in value is determined in relation to the cash-generating unit which the said business belongs to. A loss of value is entered in the Income statement wherever the value entered for the asset or the relative cash generating unit which it is allocated to, is higher than the presumed cashing-in value. With the exception of goodwill, 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 IAS 39. 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 the time of purchase, among the financial assets "available for sale" or among the assets "evaluated at fair value through the Income statement" with the current or non-current assets. Changes in the value of equities that are classified as available for sale are entered into a reserve of the shareholders' equity which will be entered into the Income statement at the time of sale. Changes in the value of the equities classified as assets evaluated at fair value through the Income statement are entered directly into the Income Statement. These equities are evaluated at cost according to IAS 39.

Trade receivables

The receivables are entered at cost (identified using the nominal value) net of any value losses, corresponding to their presumed cashing-in value.

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.

Trade payables
Commercial payables, the due date of which falls within the normal commercial terms, are not actualized and are entered at cost (identified as their nominal value).

Financial liabilities
Financial liabilities are initially entered at fair value net of the transaction costs directly attributable to them. Subsequently, financial liabilities are estimated with the criteria of amortized cost, using the effective original interest rate method.

Derivatives and measurement of hedging operations
Fair value hedge: if a derivative financial instrument is designated as a hedge against fluctuations in the fair value of an asset or a liability that is entered in the statements, attributed to a particular risk which can affect the income statement, the profit or loss derived from the later evaluations of the current value of the hedging instrument are shown in the income statement. The profit or loss on the amount that is hedged that can be attributed to the risk that is hedged, modify the book value of that amount and are shown in the income statement.

Cash flow hedge: if an instrument is designated as a cash flow hedge against the variations in the cash flow of an asset or a liability entered into accounts or a planned operation that is highly likely to take place and which could have an effect on the income statement, the effective portion of the profits or losses is shown in the shareholders' equity. The profit or loss accumulated are subtracted from the shareholders' equity and entered into the income statement at the same time that the operation being hedged is recorded. The profit and loss associated with a hedge or with that part of the hedge that has become ineffective are immediately entered into the income statement. If a hedging instrument or a hedging relation are closed but the operation that is being hedged has not yet been concluded, the profits and losses accumulated and up to that time entered in the shareholders' equity, are registered in the income statement as soon as the operation is concluded. If the operation being hedged is no longer considered likely to take place, the profits and losses which have not yet been realized and are suspended in the shareholders' equity, are entered immediately in the income statement.

Held for trading: (instruments for negotiation) these are derivative financial instruments for the purpose of speculation or negotiation. They are evaluated at fair value and the variations must be entered in the income statement.

G) INVENTORY
Stocks of raw materials and finished products are evaluated at the cost or market value; the cost is determined using the method of average weighted cost. The evaluation of inventories is based on the basis of the direct costs of the raw materials and the labor and the indirect costs of production (variable and fixed). Devaluation provisions are also set aside for materials, finished products, spare parts and other supplies considered obsolete or with a slow turnover bearing in mind the possibilities of reuse and sale.
Inventory stocks of works in progress are evaluated on the basis of production costs, with reference to the average weighted cost.

H) RETIREMENT FUNDS AND EMPLOYEE BENEFITS

SEVERANCE INDEMNITY
Up until December 31st 2006 the severance indemnity fund was considered a defined benefit plan. The regulating of this fund was changed by law no. 296 of December 27th 2006 (*Legge Finanziaria* 2007) and later decrees and regulations issued during the first months of 2007. On the basis of these modifications, and with particular reference to companies with at least 50 employees, this institution is now considered a defined benefit plan exclusively for the amounts which matured before January 1st 2007 (and not yet liquidated in the financial statement) whereas for the quotas which mature after that date, it is considered a defined contribution plan.
For defined benefit plans, the amount already matured is projected to estimate the amount to be paid at the moment of termination of the employment contract and subsequently recalculated, using the "Projected unit credit method". This

kind of accounting methodology is based on theories of a demographic and financial nature so as to make a reasonable estimate of the amount of benefits which each employee has already matured on the basis of the work done.
By means of the actuarial estimate, the *current service cost* which defines the amount of rights matured during the financial year by employees is entered under the "staff costs" heading of the Income Statement and the interest cost, which constitutes the figurative charge which the company would have to pay if it took out a loan equal to the severance indemnity on the market, is entered among the "Financial income (charges)".
The actuarial gain and losses accumulated up until last year which reflect the effects of changes in the actuarial hypotheses used, were entered pro-quota in the Income Statement for the rest of the average working life of the employees when their net value not entered at the end of the preceding year exceeded the value of the liability by 10% (so-called corridor method).

In compliance with the transition rules stipulated by IAS 19 in paragraph 173, the Group applied the amendment to IAS 19 starting on January 1st 2013 retroactively, re-determining the amounts of the financial position shown on January 1st 2012 and December 31st 2012, as though the amendment had always been applied.

For defined contribution plans the company pays its contribution to a public or private pension fund on an obligatory, contractual or voluntary basis. Once the contributions have been paid, the company has no further obligations. The contributions they have paid are entered into the Income Statement when owed.

STOCK OPTION PLANS
The costs of the work performed by the employees and paid for through stock option plans is determined on the basis of the fair value of the options granted to the employees at the date of assignment.
In comparison to other standard models, the stock option plan approved by El.En. S.p.A. may be considered as an "exotic" option since the right to pick up the option can be exercised only after the vesting period and may occur at any time during the exercise period.
The plan that is used at El.En. is, in concept comparable to two distinct options which could be defined as "*American forward start*". The fair value of an "*American forward start*" option can be obtained by combining a neutral risk approach to determine the value of the stock expected at the beginning of the exercise period and, afterwards, by using a model of the *binomial tree* type to exploit the American type option.
In order to evaluate it an estimate of the volatility of the stock must be made, as well as the risk-free interest rate and the expected dividend rate of the stock.
In compliance with the regulations described in the International Accounting Standard IFRS2, all the significant parameters of the model have been followed observing the conditions of the financial markets and the trend of the El.En. stock on the date that the option rights were assigned.

I) PROVISIONS FOR LIABILITIES AND CONTINGENCIES
The Company has shown the provisions for future contingencies wherever, in the face of a legal or implicit obligation to third parties, it is probable that the Company will have to use its resources to honor such an obligation and when a reliable estimate of the amount of the obligation itself can be made. Variations in such estimates are reflected in the Income statement for the financial year in which the variation takes place.

L) REVENUE RECOGNITION
The revenue from the sale of goods is recorded when the significant risks and benefits of the ownership of the goods are transferred to the purchaser, which is normally the time when they are delivered or shipped.
Financial revenue and charges are entered on the basis of interest matured on the net value of the relative financial asset or liability using the actual interest rate.
The dividends from equities are entered according to the cash basis.

M) ENTRIES IN FOREIGN CURRENCY
Assets and liabilities in foreign currency, with the exception of real estate, are entered at the exchange rate in effect on the day that the financial period was closed and the relative profits and losses are entered into the Income statement.

N) GRANTS
Contributions, from both public and third party private bodies are entered when there is reasonable certainty of receiving them and of satisfying the conditions for obtaining them. Contributions received for specific expenses are shown among the other liabilities and credited to the Income statement at the moment in which the conditions for entering them are satisfied. Contributions received for specific assets, the value of which is entered among the tangible or intangible assets, are shown either as direct reduction of the assets themselves or among the other liabilities and are credited to the Income statement in relation to the period of depreciation of the assets they refer to.
Grants in operating account are shown entirely in the Income Statement at the moment in which the conditions for entering them are satisfied.

O) TAXES

Current income taxes for the financial year have been entered according to the aliquots and regulations currently in force on the basis of a realistic estimate of taxable income for the period. The fiscal debts for these taxes are entered among the tax debts net of any down payments.

Deferred income tax assets and liabilities have been calculated on the basis of differences of a temporary nature between assets and liabilities recognized for tax purposes and the corresponding figures on the financial statements applying the current tax rate in force or essentially in force at the date of reference. Deferred tax assets have been entered as assets when it is probable that they will be recovered, in other words, when it appears likely that the entity of the taxable amount in the future will be sufficient to recover the assets. The possibility of recuperating the deferred tax assets is re-examined at the closing of each financial year.

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
		01/01/2016	01/01/2016 - 31/12/16	01/01/2016 - 31/12/16	01/01/2016 - 31/12/16	01/01/2016 - 31/12/16	31/12/2016	31/12/2016	
Plan 2016-2025	31-dic-25		800.000				800.000		€ 12,72

This plan has two different tranches which have different vesting and exercise periods and consequently is based on a concept equivalent to two distinct options which could be defined as "*American forward start*".
The fair value of an "*American forward start*" option can be obtained by combining a neutral risk approach in order to determine the expected value of the stock at the start of the exercise periods and, later, using a binomial tree type model to exploit the American type option.

For the purpose determining the fair value, the following hypotheses have been formulated:

Risk free rate: 0,338492%
Historical volatility: 0,28489
Interval of time used to calculate the volatility: last year of trading.

The overall *fair value* of the stock options is 2.942.080 Euros.

During 2016 the average price recorded for El.En. stock was about 14,47 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:

	31/12/2015	**Increase**	**Decrease**	**Revaluation / Devaluation**	**Other movements**	**Amortization**	**31/12/2016**
Research and development costs	106.266	85.575				-92.622	99.219
Patents and rights to use patents of others	30.472					-10.157	20.315
Concessions, licences, trade marks and similar rights	34.925	43.136			23.800	-46.411	55.450
Other intangible assets	2.801	25.047				-11.148	16.700
Intangible assets under construction and advance payments	25.000	23.800			-23.800		25.000
Total	**199.464**	**177.558**				**-160.338**	**216.684**

Under the heading of Research and Development Costs we have entered the costs sustained for the development of new prototypes; under the heading of “Patents and Rights to use patents of others” we have entered the cost for purchasing a patent.
Under the heading of Concessions, licenses, trademarks and similar rights” we have entered the costs sustained for the acquisition of new software licenses. The residual heading of “Other intangible assets” is mainly composed of the costs of creating new software.

Tangible fixed assets (note 2)

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

Cost	31/12/2015	Increase	(Disposals)	Revaluation / Devaluation	Other movements	31/12/2016
Lands	2.255.359					2.255.359
Buildings	11.606.672	82.283	-1.230		181.642	11.869.367
Plants & machinery	2.361.338	43.193	-38.702		92.927	2.458.756
Industrial and commercial equipment	5.062.636	213.928	-46.167			5.230.397
Other assets	1.915.557	197.028	-39.912		4.111	2.076.784
Assets under construction and advance payments	98.797	179.881			-278.678	
Total	**23.300.359**	**716.313**	**-126.011**		**2**	**23.890.663**

Accumulated depreciation	31/12/2015	Depreciations	(Disposals)	Revaluation / Devaluation	Other movements	31/12/2016
Lands						
Buildings	2.815.545	352.122	-462			3.167.205
Plants & machinery	1.611.049	199.122	-34.490			1.775.681
Industrial and commercial equipment	4.365.454	313.345	-27.733			4.651.066
Other assets	1.497.028	160.191	-39.346			1.617.873
Assets under construction and advance payments						
Total	**10.289.076**	**1.024.780**	**-102.031**			**11.211.825**

Net value	31/12/2015	Increase	(Disposals)	Revaluation / Devaluation / Depreciations	Other movements	31/12/2016
Lands	2.255.359					2.255.359
Buildings	8.791.127	82.283	-768	-352.122	181.642	8.702.162
Plants & machinery	750.289	43.193	-4.212	-199.122	92.927	683.075
Industrial and commercial equipment	697.182	213.928	-18.434	-313.345		579.331
Other assets	418.529	197.028	-566	-160.191	4.111	458.911
Assets under construction and advance payments	98.797	179.881			-278.678	
Total	**13.011.283**	**716.313**	**-23.980**	**-1.024.780**	**2**	**12.678.838**

According to the accounting standards being used, the value of the land is separated from the value of the buildings that are located on it and the land is not amortized because it is considered an element with an unlimited useful life. The value of the land on December 31st 2016 was 2.255 thousand Euros.
The heading of “Buildings” includes the building complex in Via Baldanzese a Calenzano (Florence), where the Company operates along with the four subsidiaries Deka M.E.L.A. Srl, Cutlite Penta Srl, Esthelogue Srl and Pharmonia Srl, the building complex in Via Dante Alighieri also in Calenzano, the first one purchased in 2008 and the second one acquired in 2014 and the building in the city of Torre Annunziata purchased in 2006 for the research, development and production activities of the subsidiary Lasit SpA. In the “Increase” column we have entered the costs for the completion of a building purchased in 2015 which is also located in via Baldanzese.

The increase under the heading of “Industrial and commercial equipment” is due mainly to the capitalization of lasers made by the Company, while the increases under the heading “Other assets” refers mainly to the purchase of new motor vehicles, furniture and electronic machinery.
The amounts entered in the column of “Disposals” in the category of “Industrial and Commercial equipment” and “Other assets” refers to the scrapping or sale of assets.

The amount entered in the column of “Other movements” refers to the transfer entry of the costs sustained by the Company for the completion of the work on the building in via Baldanzese acquired in 2015.

Equity investments (note 3)

Equities in subsidiary companies

Company name	Headquarters	Percentage held	Book value	Equity 31/12/2016	Result 31/12/2016	Share of equity	Difference
Cutlite Penta S.r.l.	Calenzano (ITA)	96,65%	2.488.045	3.602.414	449.279	3.481.733	993.688
Deka Mela S.r.l.	Calenzano (ITA)	85,00%	1.440.443	11.533.824	1.769.164	9.803.750	8.363.307
Esthelogue S.r.l.	Calenzano (ITA)	50,00%	258.220	528.562	388.699	264.281	6.061
Deka Sarl	Lione (FRA)	100,00%	134.500	306.385	-3.928	306.385	171.885
Lasit S.p.A.	Torre Annunziata (ITA)	70,00%	1.050.054	2.797.341	623.129	1.958.139	908.085
Quanta System S.p.A.	Milano (ITA)	100,00%	7.938.003	13.664.279	4.962.359	13.664.279	5.726.276
Asclepion GmbH	Jena (GER)	50,00%	1.038.921	11.533.575	1.996.693	5.766.788	4.727.867
BRCT Inc.	New York (USA)	100,00%	1.128.446	1.819.795	94.516	1.819.795	691.349
Deka Japan Co., Ltd	Tokyo (JAP)	55,00%	42.586	848.753	68.321	466.814	424.228
Cutlite do Brasil Ltda	Blumenau (BRAZIL)	68,56%	0	-99.589	-781.171	-68.278	-68.278
Pharmonia S.r.l.	Calenzano (ITA)	100,00%	50.000	282.528	11.063	282.528	232.528
Total			15.569.217	46.817.867	9.578.124	37.746.214	22.176.996

On December 31st 2016 the equity in Cutlite do Brasil was subjected to direct devaluation for an amount of about 425 thousand Euros, so that the amount entered into accounts is now equal to zero. With reference to Cutlite do Brasil it should also be noted that a further devaluation was effected on some of the accounts receivable entered into accounts.

Equities in associated companies

Company name	Headquarters	Percentage held	Book value	Equity 31/12/2016	Result 31/12/2016	Share of equity	Difference
Actis S.r.l. (*)	Calenzano (ITA)	12,00%	1.240	41.654	-42.151	4.998	3.758
Elesta S.r.l.	Calenzano (ITA)	50,00%	112.965	1.282.613	266.230	641.307	528.342
Immobiliare Del.Co. S.r.l.	Solbiate Olona (ITA)	30,00%	274.200	50.185	-13.067	15.056	-259.145
Total			388.405	1.374.452	211.012	661.360	272.955

(*) Data as of December 31st 2015

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.

On December 23rd 2016 the equity in the associated company SBI was sold for the amount of 98.200 Euros.

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 (*)	189.984	148.330	-42.151	72.601	114.752
Elesta Srl (ex IALT Scrl)	2.718.311	1.435.698	266.230	1.760.863	1.494.633
Immobiliare Del.Co. Srl	826.164	775.979	-13.066	101.978	115.044

(*)Data as of December 31st 2015

Equities in other companies

The decrease under te heading of “Other companies” is mainly due to the sale in the month of April of the remaining 998.628 shares of Cynosure Inc. (Nasdaq CYNO), at the average price of about 45,10 US dollars per share net of sales commissions, for a total amount of 45 million US dollars; after this transaction the Company no longer possesses shares in Cynosure Inc.

Composition of equity investments

Investments	31/12/2015			Movements of the period			31/12/2016		
	Cost	Reval./ (Deval.)	Balance 31/12/2015	Changes	Reval./ (Deval.)	Other movements	Balance 31/12/2016	Reval./ (Deval.	Cost
- in subsidiary companies									
Deka Mela S.r.l.	1.431.587		1.431.587	8.856			1.440.443		1.440.443
Cutlite Penta S.r.l.	2.788.452	-309.746	2.478.706	9.339			2.488.045	-309.746	2.797.791
Esthelogue S.r.l.	1.829.583	-1.574.583	255.000	3.220			258.220	-1.574.583	1.832.803
Deka Sarl	2.841.681	-2.710.401	131.280	3.220			134.500	-2.710.401	2.844.901
Lasit S.p.A.	1.043.614		1.043.614	6.440			1.050.054		1.050.054
Quanta System S.p.A.	7.909.021		7.909.021	28.982			7.938.003		7.938.003
BRCT Inc.	1.128.446		1.128.446				1.128.446		1.128.446
Asclepion GmbH	1.025.879		1.025.879	13.042			1.038.921		1.038.921
Cutlite do Brasil Ltda	3.384.919	-2.960.257	424.662		-424.662		0	-3.384.919	3.384.919
Deka Japan Co., Ltd	42.586		42.586				42.586		42.586
Pharmonia S.r.l.	50.000		50.000				50.000		50.000
Total	23.475.768	-7.554.987	15.920.781	73.099	-424.662	0	15.569.217	-7.979.649	23.548.867

Investments	31/12/2015			Movements of the period			31/12/2016		
	Cost	Reval./ (Deval.)	Balance 31/12/2015	Changes	Reval./ (Deval.)	Other movements	Balance 31/12/2016	Reval./ (Deval.	Cost
- in associated companies									
Actis S.r.l.	1.240		1.240				1.240		1.240
Elesta S.r.l.	741.712	-628.747	112.965				112.965	-628.747	741.712
Immobiliare Del.Co. S.r.l.	274.200		274.200				274.200		274.200
SBI S.A.	600.000	-498.147	101.853	-101.853					
Total	1.617.152	-1.126.894	490.258	-101.853	0	0	388.405	-628.747	1.017.152

Investments	31/12/2015			Movements of the period			31/12/2016		
	Cost	Reval./ (Deval.)	Balance 31/12/2015	Changes	Reval./ (Deval.)	Other movements	Balance 31/12/2016	Reval./ (Deval.	Cost
- other									
Cynosure Inc.	3.373.822	37.600.470	40.974.292	-3.373.822		-37.600.470			
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
Imaginalis S.r.l.	17.000		17.000				17.000		17.000
EPICA International Inc.	424.628		424.628				424.628		424.628
Total	4.204.054	37.235.784	41.439.838	-3.261.722	0	-37.600.470	577.647	-364.686	942.332

Financial charges during this year on amounts entered among the assets

No financial charges were entered for the items listed among the assets.

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

Other non current assets	31/12/2016	31/12/2015	Variation	Var. %
Deferred tax assets	2.736.861	2.361.373	375.488	15,90%
Other non current assets	10.849.440	10.646.159	203.281	1,91%
Total	**13.586.301**	**13.007.532**	**578.769**	**4,45%**

The entries under the heading of "Other non-current assets" refer to temporary uses of cash made by the company for life insurance policies which are based on a management that is separate with securities with guaranteed capital and with the possibility of cashing them in, either totally or partially, during the period of the contract, on the condition that at least one year has elapsed since the policies have been stipulated. Since this is a mid-term investment the company has decided to classify them among the non-current assets held for sale and enter them into accounts at the fair value of the policies in the assets and the re-evaluation of the policies in the income statement and, consequently, to exclude them from the net financial position.

For an analysis of the entry "Deferred tax assets", refer to the chapter on "deferred tax assets and liabilities".

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory:

	31/12/2016	31/12/2015	Variation	Var. %
Raw materials, consumables and supplies	12.192.848	14.385.399	-2.192.551	-15,24%
Work in progress and semi finished products	6.224.585	7.244.652	-1.020.067	-14,08%
Finished products and goods	3.760.196	3.377.774	382.422	11,32%
Total	**22.177.629**	**25.007.825**	**-2.830.196**	**-11,32%**

The chart shows a decrease in inventory of about 11%; it should be recalled that the amounts shown in the chart are net of the devaluation fund as shown in the chart below:

	31/12/2016	31/12/2015	Variation	Var. %
Gross amount of Inventory	28.272.932	29.574.779	-1.301.847	-4,40%
Devaluation provision	-6.095.303	-4.566.954	-1.528.349	33,47%
Total	**22.177.629**	**25.007.825**	**-2.830.196**	**-11,32%**

The fund is calculated in order to align the inventory value with that with which the inventory could presumably be sold by recognizing obsolescence or slow turnover The incidence of the obsolescence fund on the gross value of the inventory on December 31st 2016 was about 22% and represents an increase of 15% with respect to the incidence registered on December 31st 2015. This increase is due to a greater devaluation on articles that were considered obsolete.

Accounts receivable (note 6)

Receivables are composed as follow:

	31/12/2016	31/12/2015	Variation	Var. %
Accounts receivable from third parties	6.155.016	10.336.088	-4.181.072	-40,45%
Accounts receivable from subsidiaries	26.683.758	23.716.386	2.967.372	12,51%
Accounts receivable from associated	753.074	886.999	-133.925	-15,10%
Total	**33.591.848**	**34.939.473**	**-1.347.625**	**-3,86%**

Accounts receivable from third parties	31/12/2016	31/12/2015	Variation	Var. %
Italy	1.315.329	1.462.004	-146.675	-10,03%
EEC	1.170.170	1.279.515	-109.345	-8,55%
ROW	4.279.297	8.156.887	-3.877.590	-47,54%
minus: allowance for doubtful accounts	-609.779	-562.318	-47.461	8,44%
Total	**6.155.016**	**10.336.088**	**-4.181.072**	**-40,45%**

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.

	2016
At the beginning of the period	562.318
Provision	191.725
Amounts utilized and Unused amounts reversed	-144.264
At the end of the period	**609.779**

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

Accounts receivable in:	**31/12/2016**	**31/12/2015**
Euros	2.702.526	2.779.903
USD	3.452.491	7.556.185
Total	**6.155.016**	**10.336.088**

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 2016 and December 31st 2015.

The chart below shows the analysis of the accounts receivable from third parties and from subsidiary companies for 2016 and for 2015:

Accounts receivable from third parties	**31/12/2016**	**31/12/2015**
To expire	3.733.895	6.538.561
Expired:		
0-30 days	1.088.658	2.623.383
31-60 days	248.479	414.851
61-90 days	64.979	59.460
91-180 days	279.512	193.407
Over 180 days	739.495	506.426
Total	**6.155.016**	**10.336.088**

Account receivables from subsidiaries:	**31/12/2016**	**31/12/2015**
To expire	7.780.111	7.704.643
Expired:		
0-30 days	798.907	36.988
31-60 days	472.903	194.972
61-90 days	717.600	682.486
91-180 days	1.920.340	1.806.125
Over 180 days	14.993.897	13.291.172
Total	**26.683.758**	**23.716.386**

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:

	31/12/2016	31/12/2015	Variation	Var. %
Tax receivables				
VAT receivables	2.018.332	4.241.381	-2.223.049	-52,41%
Income tax receivables	470.689	375.891	94.798	25,22%
Total	**2.489.021**	**4.617.272**	**-2.128.251**	**-46,09%**
Current financial receivables				
Financial receivables - third parties	63.292	124.359	-61.067	-49,11%
Financial receivables - subsidiaries	5.242.192	4.464.166	778.026	17,43%
Financial receivables - associated	61.565	61.565		0,00%
Total	**5.367.049**	**4.650.090**	**716.959**	**15,42%**
Other current receivables				
Security deposits	21.350	9.276	12.074	130,16%
Down payments	141.655	185.620	-43.965	-23,69%
Other receivables	451.998	328.336	123.662	37,66%
Other receivables from subsidiary companies	398.127	157.374	240.753	152,98%
Total	**1.013.130**	**680.606**	**332.524**	**48,86%**
Total Current financial receivables e Other current receivables	**6.380.179**	**5.330.696**	**1.049.483**	**19,69%**

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 decrease with respect to the amount shown on December 31st 2015 is due to the different mix of sales made during the year.

The "income tax receivables", with specific reference to IRAP, mostly refer to the entry of tax credits derived from the difference between the pre-existing tax credits/down payments and the tax debt which came due on the date of the financial statement; it also includes the amount of the reimbursement from the tax authorities for the excess IRES taxes paid due to the failure to deduct the IRAP related to the expenses for employees and similar in conformity with art. 2, sub-section 1-quater, D.L. 201/2011

The financial receivables are related to short-term financing issued to subsidiary and associated companies in order to provide for normal operational activities. The main financial receivables issued to subsidiary companies are the following:

Group companies	amount (/1000)	Currency	Annual rate
Asclepion Laser Technologies GmbH	985	Euro	BCE + 1%
Cutlite Penta S.r.l.	500	Euro	BCE + 1%
Esthelogue S.r.l.	2.307	Euro	BCE + 1% (up to 1.065 thousand Euros) 4% (over 1.065 thousand Euros)
BRCT Inc.	1.141	USD	2,50%
Deka Medical Inc.	320	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 transfer made, respectively, by Cutlite Penta srl for 200.497 Euros and by Esthelogue srl for 197.630 Euros, as part of the adhesion to the national fiscal consolidated (procedure as per articles 117 and following of the TU 917/86 and D.M. activated June 9th 2004), for the amount owed by them for IRES for the year.

Securities and other current financial assets (note 8)

	31/12/2016	31/12/2015	Variation	Var. %
<u>*Securities and other current financial assets*</u>				
Other current financial assets		1.964.722	-1.964.722	-100,00%
Total		**1.964.722**	**-1.964.722**	**-100,00%**

The amount entered under the heading of "Securities and other current financial assets" last year was made up of mutual funds that had been acquired by the Company during 2015 for the purpose of a temporary use of cash; these funds were disposed of during 2016.

Cash and cash equivalents (note 9)

Cash and cash equivalents is composed as follows:

	31/12/2016	31/12/2015	Variation	Var. %
Bank and postal current accounts	57.205.579	12.577.990	44.627.589	354,81%
Cash on hand	7.809	5.235	2.574	49,17%
Total	**57.213.388**	**12.583.225**	**44.630.163**	**354,68%**

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

Net financial position as of December 31st 2016

The net financial position as of December 31st 2016 is composed as follows (in thousands of Euros).

Net financial position	31/12/2016	31/12/2015
Cash and bank	57.213	12.583
Financial instruments	0	1.965
Cash and cash equivalents	**57.213**	**14.548**
Current financial receivables	**63**	**124**
Bank short term loan	(0)	(1.510)
Financial short term liabilities	**(0)**	**(1.510)**
Net current financial position	**57.277**	**13.162**
Other long term financial liabilities	(488)	0
Financial long term liabilities	**(488)**	**0**
Net financial position	**56.788**	**13.162**

The net financial position shows an increase of about 43,6 million Euros with respect to December 31st 2015 and is equal to about 56,8 million Euros thanks to the sale of the Cynosure Inc (Nasdac CYNO) shares which occurred in the month of April and amounted to about 45 million US dollars.

As already mentioned in the preceding note, 10,5 million Euros will be used for temporary financial investments, the nature of which require that they be entered among the non-current assets and be excluded from the net financial position.
The Company paid about 5,8 million Euros in dividends this year.
Financial receivables from subsidiaries and associated companies for an amount of 5.304 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 2016, the capital stock of El.En. was as follows

Authorized (to stock option plan service)	Euros	2.612.671
Underwritten and deposited	Euros	2.508.671

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

Category	**31/12/2015**	**Increase**	**Decrease**	**31/12/2016**
No. of Ordinary Shares	4.824.368	19.297.472	-4.824.368	19.297.472
Total	**4.824.368**	**19.297.472**	**-4.824.368**	**19.297.472**

Shares are nominal and indivisible and each of them gives the holder the right to one vote in all the ordinary and extraordinary assemblies as well as the other financial and administrative rights granted in accordance with the law and the Statute. At least 5% of the net operating profits of the financial year must be set aside for the legal reserve in accordance with art. 2430 of the civil code. The remainder is distributed to the shareholders, unless the assembly votes otherwise. The Statute does not allow advance payments on the dividends. Dividends not cashed within five years from the date of emission are returned to the Company. No special statutory clauses exist with regard to the participation of shareholders in the remaining assets in the event of liquidation. No statutory clauses exist granting special privileges.

In implementation of the decision of the Extraordinary Shareholders' meeting of the El.En. S.p.A. on May 12th 2016, starting on May 30th 2016 operations were begun for the splitting of 4.824.368 ordinary shares of El.En. S.p.A by cancellation of the ordinary shares with a nominal value of 0,52 Euros and issuing of new ordinary shares with a value of 0,13 Euros each.
The splitting operation took place on June 1st 2016 by assigning 4 new ordinary shares of El.En. S.p.A stock for each old ordinary share of El.En. SpA.
The capital stock that remains unchanged at a nominal value of 2.508.671,36 Euros, is therefore represented by 19.297.472 ordinary shares having a nominal value of 0,13 Euros each.

Increase in the capital in the stock option plan service
The extraordinary shareholders' meeting of the El.En. S.p.A. held on May 12th 2016, in compliance with art. 2443, II sub-section, CC., voted to authorize the Board of Directors to increase, in one or more operations and even separately, within five years after the authorization, the capital stock up to a maximum of nominal 104.000,00 Euros by issuing new shares intended for underwriting by the beneficiaries of the stock option plan for 2016-2025.
On September 13th 2016, the Board of Directors of the Company, following a recommendation of the Remuneration Committee, voted on the implementation of the stock option plan for 2016-2025 ("Stock Option Plan 2016-2025") in compliance with the mandate conferred to them by the Shareholders' meeting mentioned above and identified the beneficiaries of the plan, the number of options to be assigned, the temporal limits for picking up the options, and the price of underwriting them.
The Board, in compliance with art. 2443, II sub-section, CC., also executed the mandate conferred upon them by the Assembly, to increase, upon payment, entirely and exclusively for use in the stock option plan, separately and with the exclusion of the option right described in art. 2441, sub-section V, CC, the capital stock, by 104.000,00 Euros by issuing 800.000 ordinary shares which can be underwritten by the administrators, collaborators and employees of El.En. S.p.A. and the companies it controls who are the beneficiaries of the stock options included in the above mentioned Plan.

The options may be picked up by the beneficiaries in conformity to the terms and conditions stated in the regulations of the Plan which was definitively approved on September 13th in two equal sections: the first from September 14th 2019 until December 31st 2025, and the second from September 14th 2020 until December 31st 2025.
The plan will terminate on December 31st 2025 and the options that have not been picked up before that date will expire permanently; the capital will be definitively increased for the amount actually underwritten and released by that date.

Additional paid in capital (note 11)

On December 31st 2016 the share premium reserve amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2015.

Other reserves (note 12)

	31/12/2016	31/12/2015	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	61.267.908	60.749.843	518.065	0,85%
Stock option reserve	2.068.895	1.811.278	257.617	14,22%
Special reserve for grants received	426.657	426.657		0,00%
Other reserves	-112.722	37.035.346	-37.148.068	-100,30%
Total	**64.188.040**	**100.560.426**	**-36.372.386**	**-36,17%**

On December 31st 2016 the "extraordinary reserve" amounted to 61.268 thousand Euros; the increase with respect to December 31st 2015 is due to the allocation of part of the net income for the year by the company, in compliance with the resolution taken by the Shareholders' meeting on May 12th 2016.

The reserve for stock options includes the costs that had been determined in compliance with IFRS 2 of the stock option plans assigned by El.En. S.p.A. The increase is due to the quota that matured on December 31st 2016 for 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 last year.

The decrease in the category of "other reserves" is mainly due to the release of the reserve initially created for the adaptation to fair value of the amount of the equity held in Cynosure Inc.; this equity was sold this year. This heading includes among other things the reserve related to the evaluation of the severance indemnity fund in conformity with IAS 19.

Treasury Stock (note 13)

The resolution taken by the Shareholders' meeting of the company on April 28th 2015 to authorize the Board of Directors to purchase treasury stock definitively expire in the month of October 2016 without any purchase having been made. Consequently, at this time, the Company does not own any treasury stock.

Retained earnings (note 14)

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

Availability and possibility of utilization of the reserves

SHAREHOLDERS' EQUITY:	**31/12/2016**	**Possibility of utilization**	**Portion available**	**Utilized in the previous two periods for covering losses**	**Utilized in the previous two periods for other purposes**
Share capital	2.508.671				
Additional paid in capital	38.593.618	ABC	38.593.618		
Legal reserve	537.302	B	537.302		
Reserve for treasury stock					
Other reserves:					
Extraordinary reserve	61.267.908	ABC	61.267.908		
Reserve for contribution on capital account	426.657	ABC	426.657		
Retained earnings	-984.283	ABC	-984.283		
Other reserves	1.956.173	AB	13.392		
			99.854.594	**0**	**0**
Portion not distributable					
Portion distributable			**99.854.594**		

Non-current liabilities

Severance indemnity (note 15)

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

31/12/2015	Provision	(Utilization)	Payment to complementary pension forms, to INPS fund and other movements	31/12/2016
895.156	562.459	-44.347	-468.094	945.174

The severance indemnity represents an indemnity which is matured by the employees during their period of employment and which is paid upon termination of employment.

For IAS purposes the payment of a severance indemnity represents a "long term benefit subsequent to the termination of employment"; this is an obligation of the "defined benefit" type which entails entering a liability similar to that entered for defined benefit pension plans. After the modifications to the severance indemnity in conformity with the Law of December 27th 2006 (and later modifications), for IAS purposes, only the liability relative to the matured severance fund left in the company has been evaluated because the quota maturing has been paid to a separate entity (complementary pension type). Also for employees who have explicitly decided to keep the indemnity fund in the company, the indemnity matured since January 1st 2007 has been paid into the treasury Fund managed by INPS. This fund, according to the financial law 2007, guarantees the employees working in the private sector the payment of the severance indemnity for the amount corresponding to the payments deposited to the latter.

The current value of the severance fund indemnity remaining with the company as of December 31st 2016 was 947 thousand Euros.

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

Financial hypotheses	Year 2015	Year 2016
Annual implementation rate	2,03%	1,31%
Annual inflation rate	1,50%	0,5% (from 2017 to 2020) 1% (from 2021 to 2023) 1,5% (for the remainder of the projection period)
Annual increase rate of salaries (including inflation)	Executives 2,00% White collar workers 0,50% Blue collar workers 0,50%	Executives 2,00% White collar workers 0,50% Blue collar workers 0,50%

The interest rate used to determine the current value of the liability was based on the rate of iBoxx AA 10+ for the amount of 1,31% 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.

	31/12/2015	Provision	(Utilization)	Other movements	31/12/2016
Deferred tax assets on inventory devaluation	1.078.226	357.554	-	-	1.435.780
Deferred tax assets on warranty reserve	129.368	-	(11.630)	-	117.738
Deferred tax assets on bad debt reserve	1.023.341	27.596	-	-	1.050.937
Other deferred tax assets and on IAS adjust.	130.438	-	(18.435)	20.403	132.406
Total	**2.361.373**	**385.150**	**(30.065)**	**20.403**	**2.736.861**
Deferred tax liabilities on advance depreciations	136.565	-	(1.451)	-	135.114
Deferred tax liabilities on grants on capital account	176.356	59.693	-	-	236.049
Other deferred tax liabilities and on IAS adjust.	843.051	-	(12.564)	(517.006)	313.481
Total	**1.155.972**	**59.693**	**(14.015)**	**(517.006)**	**684.644**
Net	1.205.401	325.457	(16.050)	537.409	2.052.217

Deferred tax assets amounted to about 2,7 million Euros. The main variations this year are due to the increase in deferred tax assets calculated on devaluations of the inventory and the devaluation of some receivables.

Deferred tax liabilities amounted to 685 thousand Euros. The increase in the liabilities for deferred taxes on grants is due 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” for both categories we have entered, among other things, the deferred taxes on the value adjustments made on the Cynosure equity and 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.

	31/12/2015	Provision	(Utilization)	Other movements	31/12/2016
Reserve for pension costs and similar	59.893	26.763		-19.501	67.155
Warranty reserve on the products	412.001	10.000			422.001
Other minor reserves	20.000		-20.000		
Total	**491.894**	**36.763**	**-20.000**	**-19.501**	**489.156**

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 product guarantee fund 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.

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 2015	Year 2016
Annual implementation rate	2,03%	1,31%
Annual inflation rate	1,50%	0,5% (from 2017 to 2020) 1% (from 2021 to 2023) 1,5% (for the remainder of the projection period)

Financial debts and liabilities (note 18)

The chart below shows the breakdown of the amounts owed:

Financial m/l term debts	31/12/2016	31/12/2015	Variation	Var. %
Amounts owed to other financiers	488.285		488.285	
Total	**488.285**		**488.285**	

The amount entered under the heading of "Amounts owed to other financers" is related to the facilitated financing for applied research (MILORD project), issued by FidiToscana to the Company and reimbursable in 6 quarterly installments, with the last installment on October 31st 2022.

Current liabilities

Financial debts (note 19)

Financial short term debts	31/12/2016	31/12/2015	Variation	Var. %
Amounts owed to banks	6	1.510.000	-1.509.994	-100,00%
Total	**6**	**1.510.000**	**-1.509.994**	**-100,00%**

Last year, the entry under the heading of "Amounts owed to Banks" included financing granted by the Cassa di Risparmio di Firenze which was extinguished this year.

Accounts Payable (note 20)

For a detailed analysis of the accounts payable to the subsidiary and associated companies, refer to the chapter with the information sheet relative to related parties.

	31/12/2016	31/12/2015	Variation	Var. %
Accounts payable	10.999.163	11.330.300	-331.137	-2,92%
Accounts payable to subsidiary companies	751.273	802.037	-50.764	-6,33%
Accounts payable to associated companies		26.700	-26.700	-100,00%
Total	**11.750.436**	**12.159.037**	**-408.601**	**-3,36%**

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

Accounts payable in:	31/12/2016	31/12/2015
Euros	9.991.635	10.471.916
USD	924.464	825.363
Other currencies	83.063	33.021
Total	**10.999.163**	**11.330.300**

On the chart, the value in Euros of the debts originally expressed in US dollars or other currencies represents the amount of currency converted at the exchange rate in force on December 31st 2016 and on December 31st 2015.

Income tax payables /Other current payables (note 21)

The breakdown of the other current payables is the following:

	31/12/2016	31/12/2015	Variation	Var. %
Social security debts				
Debts to INPS	934.868	915.388	19.480	2,13%
Debts to INAIL	64.967	59.547	5.420	9,10%
Debts to other Social Security Institutions	122.841	113.040	9.801	8,67%
Total	**1.122.676**	**1.087.975**	**34.701**	**3,19%**
Other debts				
Debts to the tax authorities for withholding	672.935	760.303	-87.368	-11,49%
Other tax liabilities	2.204	690	1.514	219,42%
Debts to staff for wages and salaries	1.536.474	1.521.010	15.464	1,02%
Down payments	45.631	104.635	-59.004	-56,39%
Other debts to subsidiary companies	22.052	13.576	8.476	62,43%
Other debts	643.761	506.074	137.687	27,21%
Total	**2.923.057**	**2.906.288**	**16.769**	**0,58%**
Total Social security debts e Other debts	**4.045.733**	**3.994.263**	**51.470**	**1,29%**

The “Debts owed to staff for wages and salaries” includes, among other things, the debts for deferred salaries matured by employees as of December 31st 2016.

Analysis of debts according to due date

	31/12/2016			31/12/2015		
	<= 1 year	>1 year <= 5 years	> 5 years	<= 1 year	>1 year <= 5 years	> 5 years
Amounts owed to banks	6			1.510.000		
Amounts owed to other financiers		325.523	162.762			
Accounts payable	10.999.163			11.330.300		
Amounts owed to subsidiary companies	773.325			815.613		
Amounts owed to associated companies				26.700		
Income tax payables	648.725			1.320.307		
Social security debts	1.122.676			1.087.222		
Other debts	2.901.004			2.893.465		
Total	**16.444.899**	**325.523**	**162.762**	**18.983.607**	**-**	**-**

Information on the Income Statement

Revenue (note 22)

	31/12/2016	31/12/2015	Variation	Var. %
Medical	46.935.635	51.577.540	-4.641.905	-9,00%
Industrial	10.355.803	10.604.209	-248.406	-2,34%
Total revenue	**57.291.438**	**62.181.749**	**-4.890.311**	**-7,86%**

Revenue was 57 million Euros, a decrease of 7.9% with respect to the record sales volume that was registered on December 31st 2015. The reduction of about 5 million Euros is mainly attributable to two factors that can be easily identified: the non-repeatability of an important order in the industrial sector which was completed in the first months of 2015 and the substantial termination of the manufacture of a line of product that was in the final life phase but which, in any case, had substantially contributed to the sales volume in 2015. Net of these two factors the activity showed an improvement in almost all of its segments, but without being able to offset the effects of the drop in sales volume.

Subdivision of revenue by geographical area

	31/12/2016	31/12/2015	Variation	Var. %
Italy	35.086.629	31.182.680	3.903.949	12,52%
Europe	6.518.079	6.281.531	236.548	3,77%
ROW	15.686.730	24.717.538	-9.030.808	-36,54%
Total revenue	**57.291.438**	**62.181.749**	**-4.890.311**	**-7,86%**

The Italian market remained the most prevalent and is composed mainly of the Italian companies belonging to the Group, although it should be noted that a large part of the production invoiced to the Italian companies of the Group is exported abroad.

Other income (note 23)

Analysis of the other income is as follows:

	31/12/2016	31/12/2015	Variation	Var. %
Insurance refunds		13.938	-13.938	-100,00%
Recovery of expenses	106.764	83.530	23.234	27,82%
Capital gains on disposal of fixed assets	15.973	75.717	-59.744	-78,90%
Other income	1.388.201	515.252	872.949	169,42%
Total	**1.510.938**	**688.437**	**822.501**	**119,47%**

Under the heading of "Other income" we have entered grants of about 956 thousand Euros, 32 thousand Euros of which for the co-financed research project BI-TRE – Biophotonics Technologies for Tissue Repair – which was accepted by the *Bando Regionale* 2012 approved by the Regione Toscana with *Decreto Dirigenziale* n. 5160 on November 5th 2012; 253 thousand Euros on the research project "MILORD", which was accepted by the *Bando Regionale* 2012 approved by the Regione Toscana with *Decreto Dirigenziale* n. 5160 on November 5th 2012, with expiration date in February 2018 and the rest for the FORTE research project, which was accepted by the *Bando Unico R&S* for 2012 and approved by the Regione Toscana with decree n.5874 on December 10th 2012 and decree n. 2746 of June 17th 2014.

Costs for the purchase of goods (note 24)

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

	31/12/2016	31/12/2015	Variation	Var. %
Purchases of raw materials and finished products	26.291.266	34.123.506	-7.832.240	-22,95%
Packagings	450.223	551.791	-101.568	-18,41%
Shipping charges on purchases	243.072	278.124	-35.052	-12,60%
Other purchase expenses	251.249	304.478	-53.229	-17,48%
Other purchases	15.506	15.998	-492	-3,08%
Total	**27.251.316**	**35.273.897**	**-8.022.581**	**-22,74%**

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

Breakdown of this category is shown on the chart below:

	31/12/2016	31/12/2015	Variation	Var. %
Direct services				
Outsourced processing	3.214.260	3.620.163	-405.903	-11,21%
Technical services	117.605	121.185	-3.580	-2,95%
Shipment charges on sales	237.646	206.584	31.062	15,04%
Commissions	112.354	223.526	-111.172	-49,74%
Royalties	3.817		3.817	
Travel expenses for technical assistance	155.907	144.737	11.170	7,72%
Other direct services	397.440	591.990	-194.550	-32,86%
Total	**4.239.029**	**4.908.185**	**-669.156**	**-13,63%**
Other operating services and charges				
Maintenance and technical assistance on equipment	253.897	247.481	6.416	2,59%
Commercial services and consulting	79.067	192.608	-113.541	-58,95%
Legal and administrative services and consulting	324.583	272.132	52.451	19,27%
Audit fees	86.528	79.182	7.346	9,28%
Insurances	223.486	246.767	-23.281	-9,43%
Travel and accommodation expenses	429.737	406.044	23.693	5,84%
Trade shows	339.448	329.437	10.011	3,04%
Promotional and advertising fees	206.058	161.978	44.080	27,21%
Expenses related to real estate	641.386	600.804	40.582	6,75%
Other taxes	74.728	75.740	-1.012	-1,34%
Vehicles maintenance expenses	241.580	227.701	13.879	6,10%
Office supplies	50.053	48.274	1.779	3,69%
Hardware and Software assistance	176.151	151.936	24.215	15,94%
Bank charges	50.111	70.736	-20.625	-29,16%
Leases and rentals	247.040	233.764	13.276	5,68%
Salaries and indemnity to the Board of Directors and Board of Auditors	891.214	745.662	145.552	19,52%
Temporary employment	62.611	125.317	-62.706	-50,04%
Other services and charges	1.796.826	2.007.262	-210.436	-10,48%
Total	**6.174.504**	**6.222.825**	**-48.321**	**-0,78%**

Under the heading of “Other services and charges” we have included the costs for technical and scientific consulting and costs for studies and research for the amount of 411 thousand Euros. For the costs of research and development, please consult the relative paragraphs in the Management Report.

Future commitments for use of goods belonging to others

The chart below shows a summary of the obligations that the Company will have for the use of goods belonging to others.

Operating lease commitments	31/12/2016	31/12/2015
<= 1 year	277.181	236.065
>1 year <= 5 years	406.588	362.527
> 5 years	53.586	-
Total	737.355	598.592

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

Staff costs (note 26)

The chart below shows the costs for staff:

	31/12/2016	31/12/2015	Variation	Var. %
Wages and salaries	9.567.090	8.904.097	662.993	7,45%
Social security contributions	2.865.039	2.795.567	69.472	2,49%
Severance indemnity	544.278	516.572	27.706	5,36%
Staff costs for stock options	144.587		144.587	
Total	**13.120.994**	**12.216.236**	**904.758**	**7,41%**

Depreciation, amortization and other accruals (note 27)

The table below shows the breakdown for this category:

	31/12/2016	31/12/2015	Variation	Var. %
Amortization of intangible assets	160.338	112.890	47.448	42,03%
Depreciation of tangible assets	1.024.780	1.025.134	-354	-0,03%
Accrual for bad debts	182.798	158.282	24.516	15,49%
Accrual for risks and charges	-10.000	110.000	-120.000	-109,09%
Total	**1.357.916**	**1.406.306**	**-48.390**	**-3,44%**

Financial income and charges (note 28)

The breakdown of the category is as follows:

	31/12/2016	31/12/2015	Variation	Var. %
Financial income				
Interests on bank and postal deposits	257.513	303.072	-45.559	-15,03%
Dividends	950.000	788.500	161.500	20,48%
Dividends from other investments		4.171	-4.171	-100,00%
Financial income from subsidiary companies	100.699	61.738	38.961	63,11%
Financial income from associated companies	304	315	-11	-3,49%
Interests from current securities and financial assets	203.281	165.104	38.177	23,12%
Capital gain and other income from current securities and financial assets	50.163		50.163	
Other financial income	8.745	68	8.677	12760,29%
Total	**1.570.705**	**1.322.968**	**247.737**	**18,73%**
Financial charges				
Interests on bank debts and on short term loans	757	31.290	-30.533	-97,58%
Interests on bank debts and on other m/l term loans		29.847	-29.847	-100,00%
Capital losses and other charges on current securities and financial assets	899	35.090	-34.191	-97,44%
Financial charges - subsidiary companies	11.773	110.818	-99.045	-89,38%
Other financial charges	20.268	23.636	-3.368	-14,25%
Total	**33.697**	**230.681**	**-196.984**	**-85,39%**
Exchange gain (loss)				
Exchange gains	3.342.160	1.452.324	1.889.836	130,12%
Exchange losses	-856.648	-294.266	-562.382	191,11%
Other exchange gains (losses)	-123.909	-382.576	258.667	-67,61%
Total	**2.361.603**	**775.482**	**1.586.121**	**204,53%**

During this year dividends from subsidiaries were entered into accounts for an amount of about 950 thousand Euros distributed by the subsidiary Deka M.E.L.A. S.r.l. for 510 thousand Euros, by the subsidiary Lasit S.p.A. for 140 thousand Euros, by Quanta System S.p.A. for 300 thousand Euros.

The entry “other financial charges” includes the entering into accounts of interest charges derived from the application of IAS 19 to the severance indemnity for an amount of about 18 thousand Euros.

The entry “Financial charges – subsidiary companies” represents the cost of the actuarial discounting of the inter-Group accounts receivable from Cutlite Penta S.r.l., which we expect will be paid in several years.

Other net income and charges (note 29)

	31/12/2016	31/12/2015	Variation	Var. %
Other non operating charges				
Capital losses on equity investments	3.653		3.653	
Devaluation of equity investment	424.662	921.507	-496.845	-53,92%
Total	**428.315**	**921.507**	**-493.192**	**-53,52%**
Other non operating income				
Capital gains on equity investments	36.507.176		36.507.176	
Use of fund for losses of group companies		224.632	-224.632	-100,00%
Total	**36.507.176**	**224.632**	**36.282.544**	**16151,99%**

The amount entered under the heading of “Devaluation of equity investments” is related to the devaluation operated directly on the value of the equity held in Cutlite do Brasil while the amount entered as “Capital losses on equity investments” refers to the capital loss registered on the sale of the quota owned in SBI SA.

The “Other non-operating income” are related to the capital gains that were a result of the sale of the 998.628 Cynosure shares which has been mentioned above.

Income taxes (note 30)

	31/12/2016	31/12/2015	Variation	Var. %
IRES and other foreign income taxes	2.586.304	2.199.813	386.491	17,57%
IRAP Tax	236.283	389.104	-152.821	-39,28%
Deferred IRES taxes	-311.240	140.616	-451.856	-321,34%
Deferred IRAP taxes	1.833	2.529	-696	-27,52%
Income tax receivable		-26.281	26.281	-100,00%
Other income tax	-4.987		-4.987	
Previous years tax	-26.573		-26.573	
Total	**2.481.620**	**2.705.781**	**-224.161**	**-8,28%**

Income taxes for this year were 2.482 thousand Euros as opposed to the 2.706 thousand Euros for last year.

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

	2016	2015
Profit/loss before taxes	43.992.572	9.013.088
Theoretical IRES Aliquot	27,50%	27,50%
Theoretical IRES	12.097.957	2.478.599
One time income tax charges	(26.573)	
Tax receivables		(26.281)
Pex Benefit	(9.537.500)	
Higher (lower) fiscal incidence with respect to the theoretical aliquot	(290.381)	(138.170)
Actual IRES	2.243.504	2.314.148
Actual IRES aliquot	5,10%	25,68%

The fiscal cost for this year was particularly influenced by the partial PEX exemption which benefits most of the capital gains earned by the sale of the Cynosure shares previously mentioned.

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 met on April 28th 2015 voted to distribute dividends for the amount of 1 Euro per share in circulation on the date the coupon came due. The total amount of the dividend that was paid was 4.824.368 Euros.
The shareholders' meeting of El.En. Spa which met on May 12th 2016 voted to distribute dividends for the amount of 1,20 Euros per share in circulation on the date the coupon came due. The total amount of the dividend that was paid was 5.789.241,60 Euros.

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

For the year 2016 and 2015 the company did not conduct any non-recurring, significant, atypical or unusual operations as specified by the Consob Communcation 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 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 Parent company, by a member of the Board of Directors of the 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 El. En. S.p.A, 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.

Subsidiary and associated companies
El. En. SpA controls a Group of companies which operate in the same macro-sector of lasers, to each of which is reserved a special field of application and a particular function on the market.

The integration of different products and services offered by the Group generates frequent commercial transactions between the various companies belonging to the Group. Most of the inter-Group commercial transactions involve the production by El. En. SpA of mid- and high-powered CO_2 laser sources which constitute a fundamental component in the products manufactured by Cutlite Penta Srl, and Lasit SpA. Medical laser equipment manufactured by El. En. SpA is also involved in inter-Group commercial transactions which are, in part, sold to Deka M.E.L.A. Srl, to Esthelogue Srl, to Deka Sarl, to ASA Srl and to Asclepion Laser Technologies GmbH, which organize their distribution.
The prices for the transfer of goods are established on the basis of what normally occurs on the market. The intercompany transactions therefore reflect market trends, from which they may different slightly in accordance with the commercial policies of the company.
It should be mentioned that in October of 2002 El. En. SpA acquired, free of charge, from Deka Mela Srl a license for the use of the same brand name for marketing the laser equipment produced by El. En. for the dental-medical and aesthetic sector in some European and non-European countries.
The tables below show an analysis of the transactions which have taken place with the subsidiary and associated companies both for sales and financial payables and receivables.

	Financial receivables		Other receivables		Commercial receivables	
Subsidiary companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Asclepion Laser Technologies GmbH	984.966				808.825	
Deka MELA Srl					5.520.744	
Cutlite Penta Srl	500.000		200.497		12.397.015	
Esthelogue Srl	2.307.193		197.630		2.859.958	
Deka Sarl					1.298.965	
BRCT Inc.	1.082.696				13.645	
Lasit Spa					146.266	
Quanta System SpA					3.627	
ASA Srl					210.312	
Lasercut Technologies Inc.	63.761				358.210	
Cutlite do Brasil Ltda					260.907	
Penta-Chutian Laser (Wuhan) Co. Ltd					3.648.296	
Penta-Laser Equipment (Wenzhou) Co. Ltd					147.572	
Deka Medical Inc	303.577				3.291.313	
Pharmonia Srl					5.734	
JenaSurgical GmbH					34.864	
- Bad debt reserve					-4.322.493	
Total	**5.242.192**	**0**	**398.127**	**0**	**26.683.758**	**0**

Associated companies:	Financial receivables < 1 year	> 1 year	Commercial Receivables < 1 year	> 1 year
Actis Srl	30.000		6.239	
Immobiliare Del.Co. Srl	31.565			
Elesta Srl			746.835	
Total	**61.565**	**-**	**753.074**	**-**

Subsidiary companies:	Financial payables < 1 year	> 1 year	Other payables < 1 year	> 1 year	Commercial Payables < 1 year	> 1 year
Asclepion Laser Technologies GmbH					189.722	
Deka MELA Srl					12.721	
Cutlite Penta Srl			20.575		27.190	
Esthelogue Srl			1.477		29.822	
Deka Sarl					5.000	
Lasit Spa					191.393	
Quanta System SpA					162.174	
Cutlite do Brasil Ltda					16.608	
Deka Medical Inc					106.958	
Penta-Chutian Laser (Wuhan) Co. Ltd					9.686	
Total			**22.052**		**751.273**	

Subsidiary companies:	Purchase raw materials	Services	Other	Total
Deka MELA Srl	27.485	10.754		38.239
Cutlite Penta Srl	750.133	36.551		786.683
Esthelogue Srl	17.420			17.420
Deka Sarl	5.000	26.361		31.361
Lasit Spa	335.787			335.787
Quanta System SpA	648.471	1.140		649.611
Asclepion Laser Technolohies GmbH	338.169	3.873		342.042
Deka Medical Inc.	4.394			4.394
With Us Co Ltd	3.000			3.000
Penta-Chutian Laser (Wuhan) Co. Ltd	6.000			6.000
Total	**2.135.859**	**78.679**	**-**	**2.214.539**

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl		54.000		54.000
Total	**-**	**54.000**	**-**	**54.000**

Subsidiary companies:	Sales	Services	Total
Deka MELA Srl	25.430.037	641.828	26.071.865
Cutlite Penta Srl	3.797.426	844.010	4.641.436
Esthelogue Srl	364.524	67.496	432.020
Deka Sarl	1.409.338	29.332	1.438.670
Lasit Spa	109.143	1.500	110.643
Asclepion Laser Technologies GmbH	229.344	454.726	684.070
Quanta System SpA	34.344		34.344
ASA Srl	835.892	1.560	837.452
Penta-Chutian Laser (Wuhan) Co. Ltd	2.692	2.940	5.632
Penta-Laser Equipment (Wenzhou) Co. Ltd	147.572		147.572
Cutlite do Brasil Ltda	82.291		82.291
With Us Co Ltd	608		608
Pharmonia Srl		2.000	2.000
Jena Surgical GmbH	175.245	12.647	187.892
Total	**32.618.454**	**2.058.040**	**34.676.495**

Associated companies:	Sales	Service	Total
Elesta Srl	416.197	19.823	436.020
Total	**416.197**	**19.823**	**436.020**

Subsidiary companies:	Other revenues
Deka MELA Srl	114.446
Cutlite Penta Srl	127.520
Esthelogue Srl	1.329
Deka Sarl	420
Lasit Spa	105.536
Quanta System SpA	244
Asclepion Laser Technologies GmbH	2.879
With Us Co Ltd	130
JenaSurgical GmbH	37.744
Total	**390.248**

Associated companies:	Other revenues
Elesta Srl	2.503
Actis Srl	2.400
Total	**4.903**

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

The other revenue refers, among other things to the rents charged to Deka M.E.L.A. Srl and to Cutlite Penta Srl for the portions of the buildings in Calenzano which they occupy and to Lasit Spa for the factory at Torre Annunziata.

Moreover, we have entered into accounts approx. 101 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 Cutlite Penta S.r.l. and Esthelogue S.r.l. for an amount of 398 thousand Euros.

<u>The Members of the Board of Directors and the Board of Statutory Auditors and other strategic executives</u>

The Members of the Board of Directors, the Board of Statutory Auditors and other managers with strategic responsibilities of El.En. S.p.A. receive the salaries shown in the chart below:

Name	Position	Term duration	Fees in:	Fees	Remuneration for partecipation on committees	Bonus and other incentives	Non monetary benefits	Other rewards	Total	Fair Value of the equity remuneraton	Indemnity for termination of mandate or employment
Clementi Gabriele	Chairman of the BoD	Approval of the financials for 12/31/2017	El.En. SpA	134.232		291.053	3.768		429.053	17.067	6.500
			Subsidiaries/associates	12.480					12.480		
Barbara Bazzocchi	Managing Director	Approval of the financials for 12/31/2017	El.En. SpA	134.232		35.475	3.768		173.475	5.786	6.500
			Subsidiaries/associates	12.000					12.000		
Andrea Cangioli	Managing Director	Approval of the financials for 12/31/2017	El.En. SpA	134.399		45.526	3.601		183.526	11.271	6.500
			Subsidiaries/associates	12.480					12.480		
Michele Legnaioli	Director	Approval of the financials for 12/31/2017	El.En. SpA	12.000					12.000		
			Subsidiaries/associates								
Alberto Pecci	Director	Approval of the financials for 12/31/2017	El.En. SpA	12.000					12.000		
			Subsidiaries/associates								
Fabia Romagnoli	Director	Approval of the financials for 12/31/2017	El.En. SpA	12.000					12.000		
			Subsidiaries/associates								
Vincenzo Pilla (*)	President of the Board of Statutory Auditors	Approval of the financials for 12/31/2018	El.En. SpA	31.200					31.200		
			Subsidiaries/associates	21.526					21.526		
Paolo Caselli (*)	Statutory Auditor	Approval of the financials for 12/31/2018	El.En. SpA	20.800				9.360	30.160		
			Subsidiaries/associates	24.368				6.032	30.400		
Rita Pelagotti (*)	Statutory Auditor	Approval of the financials for 12/31/2018	El.En. SpA	20.800					20.800		
			Subsidiaries/associates								
Other managers with strategic responsibilities (n. 1)			El.En. SpA	103.607		33.110	13.180	27.177	177.074	17.067	
			Subsidiaries/associates								

Note: the salaries shown on the chart are determined on the accrual basis.
(*) amounts including CAP

Fixed salaries:
- The amounts paid to the directors of the Company for their roles in other companies included in the area of consolidation are as follows: Barbara Bazzocchi, as chairman of the Board of Directors of Cutlite Penta Srl received a salary of 12.000 Euros; Gabriele Clementi as member of the Board of Directors of With Us received a salary of 1.500 thousand yen from that company; Andrea Cangioli as member of the Board of Directors of With Us received a salary of 1.500 thousand yen from that company.
- The salaries of members of the Board of Statutory Auditors for carrying out their functions in other companies included within the area of consolidation are as follows: Vincenzo Pilla as President of the Board of Statutory Auditors of Lasit SpA and Quanta System received from these companies a total salary of 21.526 Euros; Paolo Caselli as sole Auditor of Deka Mela Srl and Auditor of Lasit SpA received from these companies a total salary of 24.368 Euros.

Bonuses and other incentives:
In this column the chart shows the amounts received by some of the members of the Board of Directors as an incentive bonus for achieving certain goals which were set by the Board in accordance with the vote of the Shareholders' meeting held on April 28th 2015, which, when determining the amount of remuneration of the Board of Directors, had established at the maximum amount 1 million Euros the variable part of the overall bonuses to be assigned and to assign to the managing directors, including the president with powers of attorney, and the board members with special positions as described in art. 21 of the by-laws and art. 2389, sub-section 3 Civil Code. These bonuses will be paid in 2017.

Non-monetary benefits:
- The heading "Non-monetary benefits" refers to a fringe benefits paid to the President of the Board of Directors and the executive directors in accordance with the vote of the shareholders' meeting held on April 28th 2015.

Other rewards:
- The acting auditor Dott. Paolo Caselli received a bonus of 9.360 Euros as President of the Controlling body of El.En. S.p.A., in compliance with ex D.Lgs. 231/01 and 6.032 Euros at President of the Controlling body of the subsidiary Quanta System S.p.A. in compliance with ex D.Lgs. 231/01

Fair value of equity remuneration:
- The heading is related to the fair value for the year of the options assigned to the President of the Board of Directors Gabriele Clementi, the Board members Barbara Bazzocchi and Andrea Cangioli and the managers with strategic responsibilities. For details on the 2016-2025 stock option plan, please consult the information document drawn up in conformity with art. 84-*bis* del RE 11971/1999.

Indemnity for termination of mandate or employment:
-An annual indemnity of 6.500 Euros each, in compliance with art. 17 of T.U.I.R., is attributed to the president of the Board of Directors Gabriele Clementi and to the managing directors Barbara Bazzocchi and Andrea Cangioli.

Prof. Leonardo Masotti, President of the Scientific Committee, received a fixed remuneration of 6000 Euros, besides an incentive bonus of 33.110 Euros. Moreover, as President of the Board of Directors of Deka M.E.L.A. Srl he received a salary of 21.000 Euros and as a member of the Board of Directors of With Us he received 1.500 thousand Yen from that company. He is also one of the recipients of the options assigned according to the 2016-2025 stock option plan. For information on this plan please consult the document drawn up in conformity with art. 84-bis, mentioned above.

At this time the Company does not have a general director.

Physical persons possessing an equity in El.En. SpA
Partner Carlo Raffini to whom the Company El.En. assigned a specific professional task for the entire year, received a salary of 32.000 Euros; moreover, for a similar task carried out for the subsidiaries Deka M.E.L.A. Srl and Cutlite Penta Srl he received 20.000 Euros.

The chart below shows the incidence of transactions with related parties 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	16.535.269	15.957.622	96,51%
Accounts receivable	33.591.848	27.436.832	81,68%
Other current receivables	6.380.179	5.701.884	89,37%
Non current financial liabilities	488.285	-	0,00%
Current financial liabilities	6	-	0,00%
Accounts payable	11.750.436	751.273	6,39%
Other current payables	4.045.733	22.052	0,55%
Impact of related parties transactions on the income statement			
Revenues	57.291.438	35.112.514	61,29%
Other revenues and income	1.510.938	395.151	26,15%
Purchase of raw materials	27.251.316	2.135.859	7,84%
Direct services	4.239.029	41.564	0,98%
Other operating services and charges	6.174.504	91.115	1,48%
Financial charges	33.697	11.773	34,94%
Financial income	1.570.705	1.051.003	66,91%
Income taxes	2.481.620		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 represent about 9% of the total trade receivables from third parties. For an analysis of receivables overdue from third parties, see the description in the relative note (6) of the financial statement.

As far as financial receivables are concerned, they refer mostly to financing granted to subsidiaries and associated companies.

The Company has underwritten:
- in 2013 a bank guarantee for a maximum of 50 thousand Euros as a guarantee for customs duties as per ex art. 34 of T.U.L.D., which affects temporary imports, and expire in June 2017 and is renewable annually;
- in 2014, a bank guarantee for a maximum of 253 thousand Euros for the reimbursement of the amount requested as a down payment on the "BI-TRE" research project granted by the *Bando Regionale* 2012 approved by the Regione Toscana with *Decreto Dirigenziale* n. 5160 of November 5th 2012, with expiration date in February 2018;
- in 2015 a bank guarantee for a maximum of about 6 thousand Euros as a guarantee for the delivery and functioning of the laser supplied for the restoration project approved by the Ministry of Culture, which included the foundation of a center for the restoration and conservation of art works with headquarters in Sassari, approved by decree of the regional secretary n.59 on September 29th 2015, and which has been deferred until May 20th 2017;
- during this year, a bank guarantee for a maximum of 11.368 Euros as a guarantee for the delivery and functioning of the laser CO2 for a cutting and piercing system to be added to a proto-type station at the Department of Industrial Engineering of the University of Salerno, project PON03PE_00129_1 in execution of *Decreto Direttoriale* rep.n.3118/2016, expiring in July 2017.

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

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

Financial Instruments (note 35)

Fair value

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

	Book value 31/12/2016	Book value 31/12/2015	Fair value 31/12/2016	Fair value 31/12/2015
Equity investments available for sale				
Equity investment in Cynosure Inc.	-	40.974.292	-	40.974.292
Financial assets				
Current financial receivables	5.367.049	4.650.090	5.367.049	4.650.090
Securities and other non-current financial assets	10.846.332	10.643.051	10.846.332	10.643.051
Securities and other current financial assets	-	1.964.722	-	1.964.722
Cash and cash equivalents	57.213.388	12.583.225	57.213.388	12.583.225
Financial debts and liabilities				
Non current financial liabilities	488.285	-	488.285	-
Current financial liabilities	6	1.510.000	6	1.510.000

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 2016 the Company possesses the following securities evaluated at fair value:

	Level 1	Level 2	Level 3	Total
Investment contracts		10.846.332		10.846.332
Total	**0**	**10.846.332**	**0**	**10.846.332**

Other information (note 36)

Remuneration of directors and statutory auditors

	31/12/2016	31/12/2015	Variation	Var. %
Remuneration of directors	810.918	653.362	157.556	24,11%
Remuneration of statutory auditors	72.800	72.800	-	0,00%
Total	883.718	726.162	157.556	21,70%

***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 2016 related to auditing services.

	Company providing the service	Receiver	note	2016 fees (Euros)
Audit	Deloitte & Touche SpA	El.En. SpA		55.314
				55.314

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

Average number of employees subdivided by category

Personnel	Average of the period	31/12/2016	Average of previous period	31/12/2015	Variation	Var. %
Executives	14	15	13,5	13	2	15,38%
Middle managers	16	16	15,5	16	0	0,00%
White collar workers	104	103	101,0	104	-1	-0,96%
Blue collar workers	77,5	81	72,5	74	7	9,46%
Total	**211**	**215**	**202,5**	**207**	**8**	**3,86%**

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 2016.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the separate financial statement dated December 31st 2016:

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 2017

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

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INDEPENDENT AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

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

Report on the Financial Statements

We have audited the accompanying financial statements of El.En. S.p.A., which comprise the statement of financial position as at December 31, 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation of these 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 n° 38/05.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of El.En. S.p.A. as at December 31, 2016, and of its financial performance and 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 n° 38/05.

Deloitte.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of El.En. S.p.A., with the financial statements of El.En. S.p.A as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance referred to above are consistent with the financial statements of El.En. S.p.A as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.
Signed by
Gianni Massini
Partner

Florence, Italy
March 30, 2017

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

El. En. S.p.A.
Headquarters: Via Baldanzese 17 Calenzano (Florence, Italy)
Registry of companies, Florence n. 03137680488

Report of the Board of Statutory Auditors to the Shareholders' Meeting on the separate financial statement as of December 31st 2016 in conformity with art. 2429 c.c. and art. 153 of D. Lgs. n. 58 /1998

To shareholders,
the Board of Directors of El.En. S.p.A. herewith presents to the Assembly of the company the proposed company report as of December 31st 2016 which was consigned to the Board of Statutory Auditors on March 15th 2017.

During the financial year 2016 the Board of Statutory Auditors conducted its activity in compliance with the regulations of the "*Testo Unico delle disposizioni in materia di intermediazione finanziaria*" (rules for financial intermediaries) D. Lgs. February 24th 1998 n. 58, D.Lgs. January 27th 2010 n. 39 and in conformity with the operating principles of the Board of Statutory Auditors recommended by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (National Council of Business Administrators and Accountants) for the companies quoted on the stock market and with Consob Communication of April 6th 2001, modified and integrated with communication DEM/ 3021582 of April 4th 2003 and subsequently with communication DEM/6031329 of April 7th 2006.

In compliance with D.Lgs. n.58 of February 24th 1998 and D. Lgs. Of January 27th 2010 no. 39, it should be noted that the activity of auditing of the accounts and the financials is the responsibility of the Independent auditor 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, subject to the approval of the Board of Statutory Auditors.

For the financial statement as of December 31st 2016, the Independent auditor expressed an opinion without criticism and declared that the financial statement was in conformity with the rules that govern the criteria for drawing up financial statements, that it is was clearly expressed and that it represented in a true and correct manner the financial situation, the result of the financial period and the cash flow of El.En. S.p.A.. The Independent auditor also found that the information contained in the Management Report and the report on corporate governance was consistent with the financial statement.

The financial statement as of December 31st 2016 was drawn up in conformity with the International Accounting Principles (IFRS).

In conformity with the recommendations given by Consob, with their communication of April 6th 2001, we declare that the Board of Statutory Auditors:

- Supervised the respect of the law and the certificate of incorporation.
- Obtained from the directors, at least once every quarter, information on the activity conducted and on the operations of major economic and financial significance made by the Company (and by its subsidiaries) and 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. In this regard in the Annual Financial Report as of December 31st 2016, the following significant events occurred in 2016 are described.
- They have been informed about and have supervised, within the limits of their competency, the adequacy of the organizational structure of the Company, of the respect of the principles of correct administration, and the adequacy of the instructions given by the company to the subsidiaries in conformity with art. 114, sub-section 2 of D.Lgs. 58/98, through the gathering of information from the persons responsible for the organizational functions. As far as the inter-group operations are concerned, the directors, in the explanatory notes, illustrate and describe the relations

between the Company and the companies of the Group, stating that the operations took place under normal market conditions. These operations are consistent with and respond to the interests of the company.

- They have initiated an exchange of information with the Independent auditors, by meeting with their staff in conformity with art. 150, sub-section 2, D.Lgs. 58/98, and from these meetings no information emerged that needed to be mentioned in this report. From this exchange of information it emerged that the Independent auditor found no irregularities or errors in reference to the regular bookkeeping and the correct reporting of facts related to the management in the entries in the accounts which required notification to the competent authorities.

- They have initiated an exchange of information with the corresponding bodies of the Italian subsidiary companies concerning the administration and control and the general trend of the activities and no negative aspects emerged.

- They have evaluated and supervised the adequacy of the internal controls system and the administrative and accounting system as well as its reliability in correctly representing management events by (i) obtaining information from the managers of the respective functions, (ii) inspecting the company documents and the analysis of the results of the work conducted by the Independent auditor, (iii) supervising the activity of the provosts for internal controls and (iv) as part of the Internal controls Committee they participated in the activities conducted by the Controls and Risks Committee, instituted by the Company in compliance with the *Codice di Autodisciplina* for companies quoted on the stock market. In relation to this no particular observations were reported. The Board of Statutory Auditors, moreover has taken note of the contents of the communication from the manager in charge of preparing the company's financial statements regarding the fulfilling of his duties and the declarations made by him and by the managing director in conformity with the law.

- From the Supervising Body, instituted in conformity with D.Lgs 231/2001, of which the statutory auditor Paolo Caselli is an acting member, they have received information concerning the activities conducted by this body. From this information no anomalies or reprehensible facts emerged.

- They reported that from the information received from the directors and from the conversations had with representatives of the Independent auditing company, the existence of atypical or unusual operations conducted with companies of the Group, related or third parties during 2016 or after the closure of the financial year, did not emerge.

- On the basis of the findings communicated by the Independent auditors concerning their separate report, they did not report any critical points or errors in information.

- The Board of Statutory Auditors has not received any reports of violations of ex art. 2408 of the Civil Code nor other protests from third parties.

- They have taken note of the fact that the Company has substantially adhered to the *Codice di Autodisciplina* set up by the Commission for corporate governance of companies quoted on the stock market. The Board of Directors has appointed two independent directors and has instituted the following commissions: Nominations Committee, Remuneration Committee, and Control and Risk Commission. Concerning the activities conducted and the state of implementation of the regulations contained in the above mentioned code, the Board of Directors has provided ample information in the annual report on corporate governance (*Relazione Annuale sul sistema di corporate governance).*

- They have taken note of the approval of the Board of Directors of the ethics code for operations made on financial instruments by the El.En. Group (*Codice di "Comportamento per operazioni compiute su strumenti finanziari del Gruppo El.En. da persone rilevanti")* in effect starting on January 1st 2003, in compliance with the stock market regulations ("*Regolamento dei mercati organizzati e gestiti da Borsa Italiana S.p.A.")* approved on July 9th 2002.

- In compliance with art. 4 sub-section 6 of the Consob regulation (*Regolamento Consob*) containing provisions related to operations with related parties (adopted after vote 17221 of March 12th 2010 and subsequently modified by vote 17389 of June 23rd 2010), they supervised the compliance of the procedures adopted by the company through the approval of the specific regulation, to the principles indicated in the *Regolamento Consob* mentioned above as well as to the application of these same principles.

- In conformity with art.19 first sub-section letter d) of D.Lgs. 39/2010, they supervised the independence of the legal auditors, in particular in relation to the performance of non-auditing services and in compliance with art.17 sub-section 9 D.Lgs 39/2010, the Independent Auditors gave written confirmation of their independence. In the Explanatory notes of the financial statement the amounts paid to the Auditing company for their auditing services for 2016 are listed (55.314,00 Euros for El.En s.p.a.).

- In compliance with art. 17 of D.Lgs n. 39/2010, they discussed with the Independent auditors the risks related to the independence of the company as well as the measures that had been taken to limit these risks.

- In compliance with art. 19 of D.Lgs n. 39/2010, in their role as Commission for Internal Controls and auditors, they supervised the process of financial information, on the effectiveness of the internal controls system, of internal auditing and risk management.

- In compliance with art. 19 of D.Lgs n. 39/2010, they supervised the auditing of the annual accounts and the consolidated accounts by obtaining from the legal auditors a report on the fundamental questions which emerged during the legal auditing from which no significant faults emerged regarding to the internal controls system in relation to the process of financial information.

- The Board of Statutory Auditors did not find any critical aspects in relation to the independence of the Independent Auditors.

During the supervising activity conducted and, on the basis of information obtained from the Independent auditors, no omissions or reprehensible facts emerged of a nature that would require them to be reported to the controlling bodies or mentioned in this report.

After the appointment by the Board of Directors of the manager in charge of preparing the Company's financial statements, the Board of Statutory Auditors expressed their favorable opinion in conformity with art. 154-bis D. Lgs. 58/98.

The Board of Statutory Auditors issued opinions related to the salaries of the Administrators as per ex art. 2389 n. 3 c.c.

The Board verified the adequacy, as far as the evaluation method was concerned, of the impairment tests being used in order to evaluate the existence of losses in value of the assets entered in the accounts.

On March 15th 2016 the Board of Directors approved the report on remuneration in compliance with art. 123 ter TUF.

The Board of Statutory Auditors believes that the internal procedure adopted by the Company in order to comply with art. 36 of the stock market regulations (*Regolamento Mercati*) approved by Consob with vote 16191/2007 concerning information and suitability of the systems of transmission of data by the subsidiary companies governed by countries not belonging to the European Union, is adequate.

The supervising activity described above was conducted in six meetings of the Board of Statutory Auditors, attending six meetings of the Board of Directors and the one shareholders' meeting in 2016 and participating in the activities of the Committee for controls and risks.

The Board of Statutory Auditors has verified the correct application by the Board of Directors of the criteria and of the procedures adopted to evaluate the independence of the independent directors in conformity with art. 3.C.5 of the *Codice di Autodisciplina*. The Board of Statutory Auditors has also verified the compliance with the criteria for independence of its own members both in the phase of appointment and afterwards, in conformity with art. 10.C.2 of the *Codice di Autodisciplina.*

The Board of Statutory Auditors, in consideration of the results of the verifications conducted and the positive opinion of the Independent auditors, expresses their favorable opinion for the approval of the financial report as it has been presented by the Board of Directors, and of the proposal by the same body in relation to the destination of the net income for the financial year.

Florence, March 31st 2017.

The Board of Auditors

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

Dott. Paolo Caselli, auditor.

Dott.ssa Rita Pelagotti, auditor.

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