

# Annual Financial Report 2015



**EL.EN. S.p.A.**

**ANNUAL FINANCIAL REPORT**

**as of December 31<sup>st</sup> 2015**

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 2015

## INTRODUCTION

To shareholders,

During the year 2015 the Group registered record results both in terms of sales volume (218 million Euros, an increase of 21% over 2014) and EBIT (21,5 million Euros, an increase of 41% over last year): these are extremely positive results which go well beyond the forecasts made at the beginning of the year and demonstrate the quality of the work conducted by the Group. The net income decreased with respect to last year and amounted to 14,4 million Euros with respect to the 16,5 million Euros registered for 2014; last year, in fact, the Group benefitted from a one-off amount of about 6 million Euros besides the greater differences in the exchange rates for an amount of about 3,5 million Euros with respect to that shown in 2015.

These results are, in the first place, due to the commercial success of several different products included in the wide range offered by the Group and they also benefitted from the macro-economic situation which is generally improving and the increased confidence of the economic operators working in our selling markets, a condition which is decisive in favouring the decision to invest in our technologies. The exchange rates have also remained at the favourable levels we had hoped for, in particular the US dollar which has hovered around 1.1 dollars per Euro continues to neutralize the competitive advantage that our American competitors had had until the middle of 2014. The Group, moreover, has been able to contain the impact of the financial crisis which hit the Chinese market last Summer, the effects of which, although hardly marginal, in particular for our activities of manufacture and marketing in China, did not prevent us from reaching and even exceeding the ambitious objectives set for 2015.

## REGULATORY FRAMEWORK

In compliance with the *European Regulation* n. 1606 of July 19<sup>th</sup> 2002, the El.En. Group has formulated the consolidated statement as of December 31<sup>st</sup> 2015 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 2015

On January 14<sup>th</sup> 2015 El.En. S.p.A. bought 500.000 shares worth about 3,5% of Epica International Inc., which is the distributor and majority partner of the associated company Imaginalis S.r.l.. The investment is part of the policy of supporting activities in the sector of *imaging* in which Imaginalis has developed a series of products whose potential we count on being able to use thanks to the collaboration with Epica and its ability to successfully conclude the growth programs.

The shareholders' meeting of the Parent Company El.En. S.p.A., which was held on April 28<sup>th</sup> 2015, approved the financial statement for 2014 and voted to distribute the net income for the year, for an amount of 23.529.094,00 Euros as follows:

- 18.704.726,00 Euros as extraordinary reserve;
- for the shares in circulation on the date that coupon 13 came due, May 25<sup>th</sup> 2015 – in compliance with art. 2357-ter, second subsection of the Civil Code – a dividend of one Euro gross for each share in circulation for an overall amount on the date of the vote of 4.824.368,00 Euros;
- to accrue, where necessary, in a special reserve of retained earnings, the residual dividend directed to treasury stock that is held by the company on the date that the coupon comes due.

The shareholders' meeting approved the report on the remuneration in compliance with art. 123-ter, sub-section 6, D.Lgs. 24 February 1998, n. 58, related to the remuneration policy including the incentive bonuses for 2015-2016.

Moreover, the shareholders' meeting appointed the Board of Directors for the three-year period 2015-2017 and, therefore, until the approval of the financial statement for the year 2017. The assembly established that there should be

six members on the board and appointed Gabriele Clementi as president. They also elected as the other members: Barbara Bazzocchi, Andrea Cangioli, Alberto Pecci, Fabia Romagnoli, Michele Legnaioli. The composition of the Board of Directors respects the balance of genders in compliance with Art. 147-ter, comma 1-ter del D.Lgs. 58/1998.

In conclusion, the Shareholders' Meeting of the Parent Company El.En. S.p.A. authorized the Board of Directors to purchase treasury stock. The purchase of the treasury stock as it has been proposed by the Board of Directors, will be made for the following concurrent or alternative purposes: to stabilize the stock, for assignment to employees and/or collaborators, and for exchange with equities during company acquisitions. Authorization has been granted for the purchase for a payment amounting to a maximum of 20.000.000,00 (twenty million/00) Euros, in one or more *tranches* for a maximum number of ordinary shares of the company, the only category of financial instrument currently issued by the company, and, in any case, for not more than a fifth of the capital stock. Now, 20% of the underwritten and paid capital of El.En. is equal to 964.873 shares. The authorization was granted for the maximum amount of time permitted by law which is 18 months from the date of the vote of the shareholders' meeting.

The purchase can be made on the regular stock markets for a price that is not more than 20% less nor over than 10% more than the official trade price for transactions registered on the day before the purchase. The Board of Directors has also been authorized to sell, within ten years of the purchase, the shares acquired at a price or equivalent in the case of company operations, which is not less than 95% of the average of the official prices for transactions registered in the five days preceding the sale or transfer.

On May 15<sup>th</sup> 2015 The Board of Directors of the Parent Company El.En. S.p.A. appointed as executive board members the President Gabriele Clementi and the board members Barbara Bazzocchi and Andrea Cangioli and assigned them, with separate and independent signature, all the ordinary and extraordinary power of administration for conducting all the activities that are part of the company mission, with the sole exception of those activities which in compliance with the law and with the company by-laws cannot be delegated. They also appointed the members of the committees in compliance with the Self-Disciplining Code for quoted companies and, in particular the remuneration committee, the risks and controls committee, and the nominating committee and since their term had expired, the members of the supervisory body in compliance with D.Lgs. 8<sup>th</sup> June 2001, n 231. The Board of Directors also evaluated on the basis of the information available, the independence of the non-executive Board Members, Fabia Romagnoli and Michele Legnaioli, with a positive outcome.

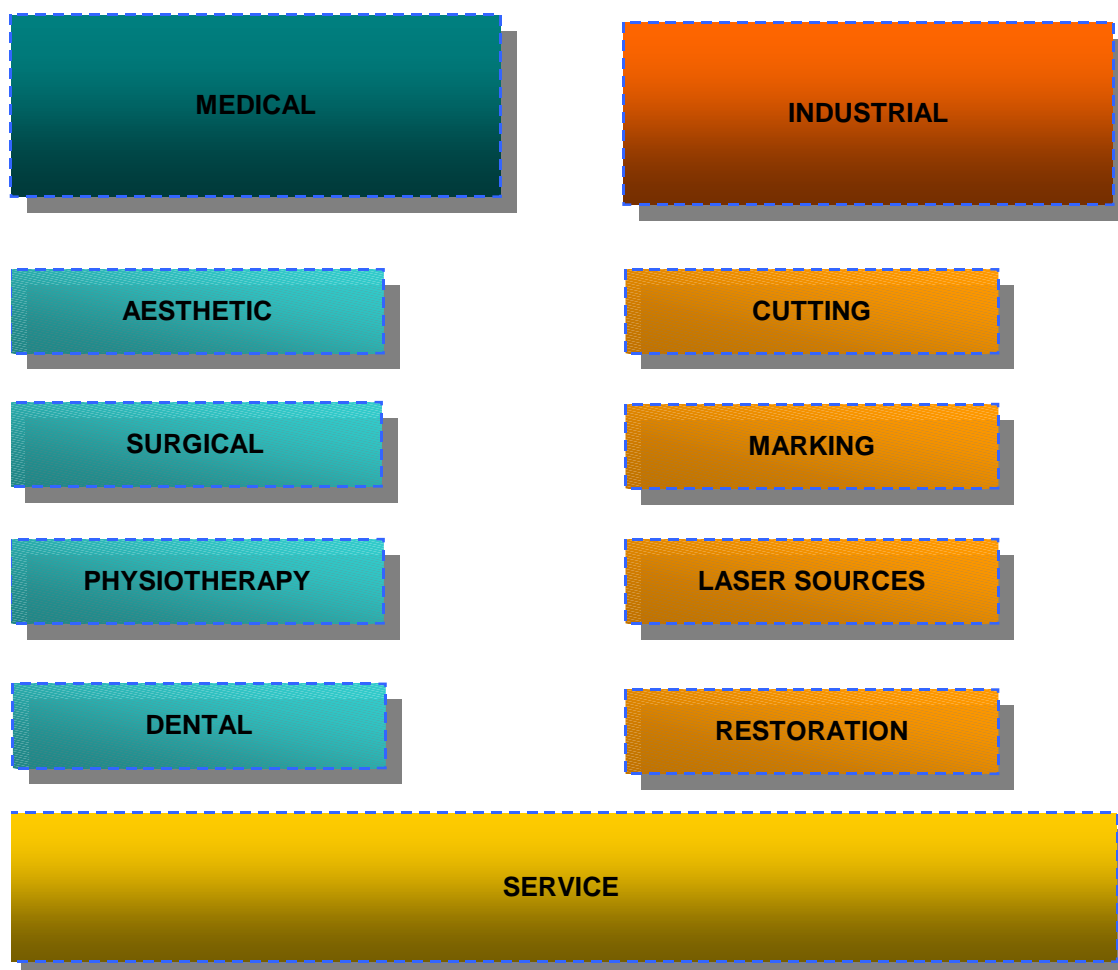


## DESCRIPTION OF THE ACTIVITIES OF THE GROUP

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 is determined by the geographical area it covers, by its technological specialization or by the particular position within one of the merchandise markets served by the Group.

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 different segments which are heterogeneous in the 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 and products 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:



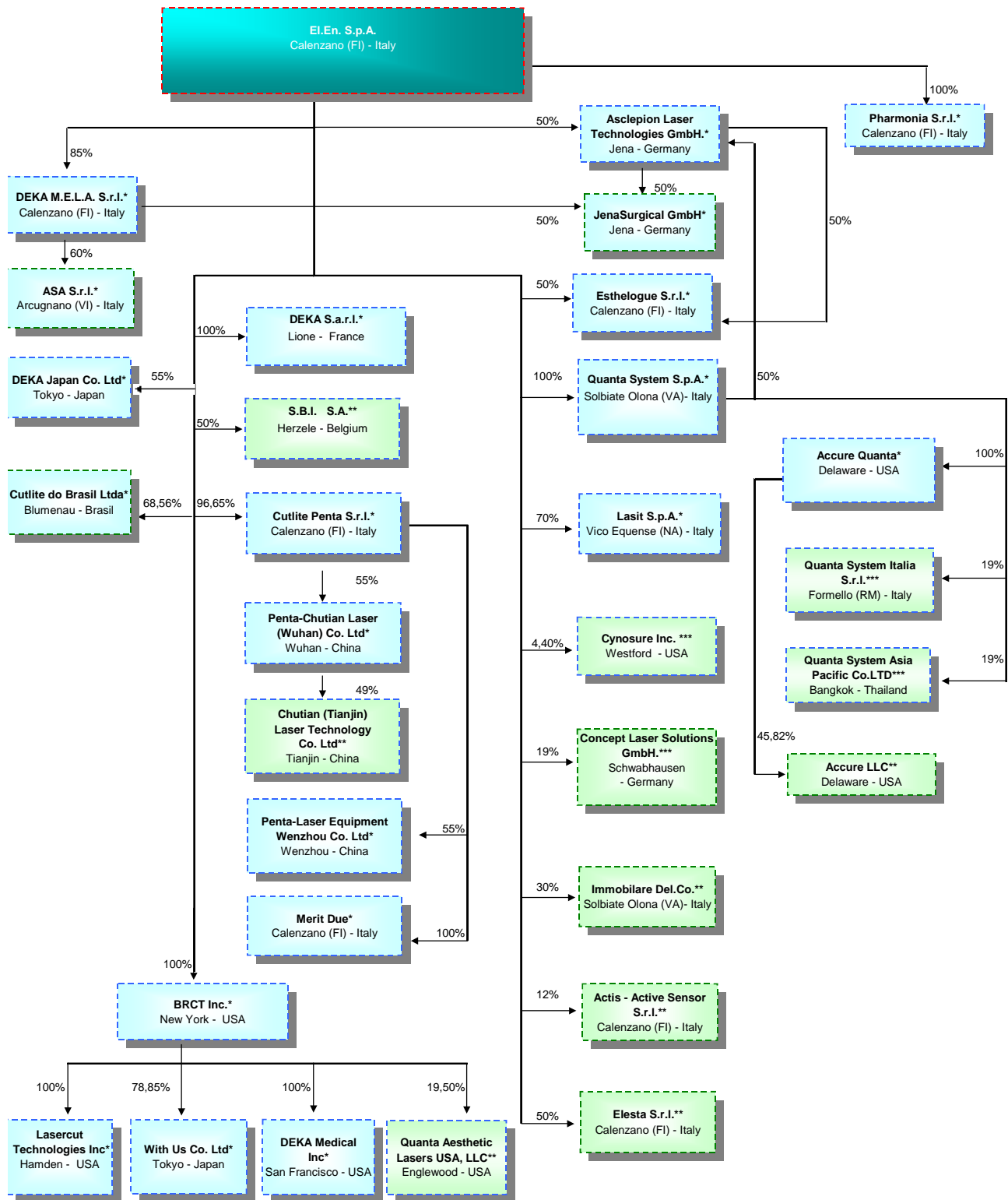
A transversal and integral part of the the main company activity of selling laser systems, is that of the post-sales customer assistance service which is not only indispensable for the installation and maintenance of our laser systems but also a source of revenue from the sales of spare parts, consumables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

We believe that the trend in the two main markets in which we operate will continue to be positive in the next few years. 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 while at the same time augmenting their effectiveness. In the industrial sector, laser systems represent flexible and innovative technologies and their use is increasingly widespread among manufacturers who must adapt their production standards to the evolution of the market.

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.

# DESCRIPTION OF THE GROUP

On December 31<sup>st</sup> 2015 the structure of the Group was as 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.

	31/12/15	31/12/14
<b>Profitability ratios:</b>		
ROE (Net income / Share Capital and Reserves )	9,2%	13,1%
ROI (EBIT / Total assets)	7,6%	6,1%
ROS (EBIT/ Revenues)	9,9%	8,5%
<b>Structure ratios:</b>		
Financial flexibility (Current assets / Total assets)	0,65	0,75
Leverage ((Shareholders' Equity + Financial liabilities) / Shareholders' Equity)	1,11	1,18
Current Ratio (Current assets / Current liabilities)	2,07	2,21
Acid ratio ((Current receivables + Cash and cash equivalents+ Securities)/ Current liabilities)	1,41	1,61
Quick ratio  ((Cash and cash equivalents + Investments) / Current liabilities)	0,55	0,87

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 services and operating 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 2015 ended with a record sales volume of 217,7 million, a growth of about 21% over 2014, and with an EBIT of 21,5 million, also the highest ever registered by the Group.

The net income of the Group was 14,4 million. The decrease with respect to the 16,5 million shown in 2014 is due to the fact that in 2014 the company benefited of the exceptional and one-off amounts of about 9,5 million which we will describe further on.

These results meet the most optimistic forecasts that had been made at the start of the year as well as the later up-dates envisioning a further improvement: the success achieved by our products on the market made it possible to maintain this level of growth and profitability even during transitory unfavourable conditions like that which occurred in the third quarter on the Chinese market which was hit by a financial crisis.

The factors which determined such a significant improvement in the EBIT with respect to the preceding years are to be found both within our organization, that is, related to the products being offered by the Group and their competitive position, as well as outside of it, that is, related to the trends of our traditional selling markets, the general economic situation, the availability of cash for investments, and the trend of currency exchange rates.

The position of the Group on the selling markets is presently characterized by the high level of competitiveness, thanks to capacity to create a competitive edge by means of a systematic research activity aimed not only at developing innovative products but also technical innovations and new applications for pre-existing products. By introducing these technical and applicative innovations, the general difficulties of the market are overcome by the unique features of the product being offered; the ability to offer a large number of products that are in the initial phase of their life cycle makes it possible for us to maintain a high level of appeal for the clientele and, consequently, a higher level of revenue from sales; this minimizes the effects of the ordinary dynamics of pressure on the markets for products in a more advanced phase of their life cycle to which even a hi-tech activity like ours is, any, case, subjected. This dynamic approach is clearly perceived by the markets and by the clients who are rewarding our continuous efforts in this direction and allowing us to obtain the results which we are now commenting on. Further on in this report we will analyze in detail the sectors and the products which have mainly contributed to the results of the Group.

General economic conditions have improved considerably during 2015, also on European markets. An evident factor in the improvement was the greater facility with which our clients had access to credit, in particular in the industrial sector. Their difficulty in procuring financing for investments from banks or through leasing had considerably limited our sales opportunities and had made the stipulation of contracts complicated and uncertain; these difficulties, thanks to the effects of the expansion policy adopted by the ECB, have been considerably reduced. In general, a climate of moderate confidence has permeated the markets and has contributed to the consolidation of the tendency to invest of our clients who base their investment decisions on their trust in the future outlook. The Euro/US Dollar Exchange rate has stayed around 1.10, a level that does not penalize our exports on the US market and does not favour our American competitors on the international market. The Group has been able to take advantage of this thanks to the significant volume of business developed with the United States. The turbulence of the Chinese financial markets last summer which interrupted what had looked like a state of perpetual growth, had a temporary effect on our plans for development in China; after a slowdown in the third quarter of 2015, our target market again showed the solid foundations on which we base our confidence in the growth of our important local activity. Worldwide, the markets which displayed the most crucial issues are the Brazilian one, which is afflicted by a systemic crisis which has evident negative effects on our local operations in the industrial sector and on the sales volume in the medical sector, and the Russian market, with a negative effect on the sales in the medical sector.

The growth in 2015 was exclusively structural and was obtained thanks to the improved performance of most of the business units which comprise the Group. The many applicative segments and various geographic and merchandise markets covered by the Group offer interesting opportunities for growth which can be pursued by our operating units thanks to the focus placed on market niches showing high potential and investments targeted for their development. These objectives are being successfully pursued in this period thanks to the dynamism shown in the development of new products and the overall management that makes financial resources available for both technical and marketing projects coordinated within the Group. The financing of the internal structural growth of the company in this phase represents the main use of the cash available to the Group.

In the analysis of the important progress registered with respect to 2014, it should be recalled that last year the results benefitted from some exceptional, non-repeatable amounts. In fact, in the month of March 2014, the Group sold a block of Cynosure shares with a consolidated capital gains of about 4,5 million Euros, and they concluded a multi-year law suit involving patent rights with a transaction that allowed for the release of about 1,5 million in funds deposited in case of adverse outcome. In 2014 the assets in particular those in dollars had also benefitted from the improvement in US

currency registering an exchange rate difference of over 3,5 million Euros with respect to those registered for 2015. These one-off amounts therefore had improved the EBIT for 2014 by about 1,5 million and the income before taxes by 9,5 million. Thanks to the extraordinary improvement in the EBIT this gap was almost entirely filled as far as the income before taxes are concerned, making up for 8 of the 9,5 million Euros mentioned above, while, if we subtract the non-recurring amounts from the 2014 EBIT, the EBIT for 2015 increased by about 55%.

The chart below shows the subdivision of the sales volume among the various sectors of activity in which the Group operates for 2015 compared with that for 2014.

	31/12/2015	Inc%	31/12/2014	Inc%	Var%
Medical	147.102	67,58%	122.307	67,95%	20,27%
Industrial	70.568	32,42%	57.701	32,05%	22,30%
<b>Total</b>	<b>217.670</b>	<b>100,00%</b>	<b>180.009</b>	<b>100,00%</b>	<b>20,92%</b>

Both sectors of activity of the Group show a growth of over 20%, with a slightly higher percentage in the industrial sector.

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

	31/12/2015	Inc%	31/12/2014	Inc%	Var%
Italy	38.475	17,68%	32.398	18,00%	18,76%
Europe	39.229	18,02%	36.898	20,50%	6,32%
Rest of the world	139.966	64,30%	110.713	61,50%	26,42%
<b>Total</b>	<b>217.670</b>	<b>100,00%</b>	<b>180.009</b>	<b>100,00%</b>	<b>20,92%</b>

All three geographical areas showed growth. Sales in the Rest of the world were very significant, in particular in the Chinese market where the Group operates in the sector of laser systems for flat cutting of sheet metal, and in the American market where some systems for aesthetic and surgical applications have met with great success. They Italian market was also very satisfactory; in 2015 access to credit for our clients improved greatly and we initiated investments intended to take advantage of the opportunities offered by this hint of economic recovery in our country.

The growth on the other European markets was less but still interesting; in some areas, particularly Russia and Turkey they are still afflicted by economic and geopolitical issues.

In the medical and aesthetic sector which represents 68% of the sales of the Group, the results of the sales in the various segments is shown on the following chart:

	31/12/2015	Inc%	31/12/2014	Inc%	Var%
Aesthetic	73.349	49,86%	74.299	60,75%	-1,28%
Surgical	36.490	24,81%	17.548	14,35%	107,94%
Physiotherapy	7.656	5,20%	7.550	6,17%	1,41%
Dental	478	0,32%	513	0,42%	-6,92%
Other medical lasers	92	0,06%	35	0,03%	160,11%
<b>Total medical systems</b>	<b>118.065</b>	<b>80,26%</b>	<b>99.946</b>	<b>81,72%</b>	<b>18,13%</b>
Medical service	29.037	19,74%	22.362	18,28%	29,85%
<b>Total medical revenue</b>	<b>147.102</b>	<b>100,00%</b>	<b>122.307</b>	<b>100,00%</b>	<b>20,27%</b>

The growth in this sector was over 20% and is mainly due to the three-digit increase in the surgical segment (+108%).

The applicative segments in which the Group operates in the surgical sector are: otolaryngology, urology, gynecology and vascular surgery. In urology, Quanta System has seen a phase of rapid growth thanks to the holmium systems for

lithotripsy, which are sold both under their own brand as well as through major OEM contracts with operators of primary standing: for this application, Quanta System detains a sizable portion of the world production of laser instruments. Also the laser systems for endovascular applications and for treatment of BPH (benign prostate hypertrophy) with high-powered holmium and thulium laser systems show a growth in sales volume thanks to the activities of Quanta System and Jena Surgical, which has been recently founded in order to better serve the clientele of this segment by increasing the range of products available. However, the extraordinary growth of the surgical sector is mainly due to the success of the Monna Lisa Touch system for the treatment of vaginal atrophy. Monna Lisa Touch is a laser system developed by Deka with unique characteristics which are derived from the CO<sub>2</sub> laser sources manufactured by El.En. in their highly specialized laboratories in Calenzano. This system meets a widespread need which corresponds to a potential market that is turning out to be quite sizeable. The system was initially sold only by the Deka distribution network but in November of 2014 it was turned over to Cynosure for distribution in the United States. As occurred in the past for other products marketed in the USA by Cynosure (all of the Smartlipo systems for laser lipolysis), it has turned out to be a partnership of great mutual satisfaction which, once again, is opening up new applicative segments for laser technologies.

In the aesthetic segment which is the most important segment of the medical sector and represents about half of the sales volume, the revenue is substantially stationary. It should be noted that during this year there was an intense activity of up-dating of some types of systems already installed with the clientele (“upgrading”), which favoured the revenue for service over those for sales of systems.

A unique characteristic of the El.En. Group is their multi-brand approach to the market with three business units that are independent but coordinated. Using their own independent distribution networks these three units place on the market the results of the development and production activities that each of them conducts in their own factory. From the point of view of the characteristics of the products offered, this kind of organization assures the maximum availability of types of products and highlights the outstanding features of the technologies adopted by each research team, thus encouraging their creativity; from a marketing point of view it facilitates an in-depth penetration of the market thanks to the approval that each brand receives for the unique qualities that are distinctly perceived by the clientele. By co-existing on the market, each brand/business unit is able to effectively satisfy the clients’ most diverse requirements for quality, image and price.

The three units are Deka, which distributes worldwide the products of the Parent Company made in the factory at Calenzano, Quanta System with Headquarters at Solbiate Olona (Varese) and Asclepion with headquarters at Jena (Germany). As previously mentioned, the range of products is in continual evolution. Deka’s unique technology is represented by their CO<sub>2</sub> systems like Smartxide DOT and Smartxide Quadro for photo-rejuvenation, to which they have recently added the new Smartxide Touch, and the alexandrite systems, Replay for hair removal. The Motus AX, presented at the EADV (Associazione Europea di Dermatologia e Venereologia) congress held in October at Copenhagen did not contribute to the 2015 results since it only received the CE brand authorization for sale in February of 2016. Quanta System has its strong points in the Q-switched Q-Plus systems for the removal of tattoos and pigmented lesions and the alexandrite Light and EVO systems for hair removal. The Discovery Pico system with picoseconds technology which makes the removal of tattoos of every colour even more effective has recently been placed on the market. Asclepion’s strong point is in the diode laser systems Mediostar Next and XP for hair removal and it is the main point of reference on the market for the technology for ablative dermatological and aesthetic treatments with its Dermablade erbium systems. Besides their products, each of the three units has areas of excellence in the distribution: Deka has a position of leadership with its direct distribution network in Italy for medical sector, Asclepion traditionally in Germany and increasingly in Italy in the professional aesthetics sector thanks to the Esthelogue brand; Quanta System on the other hand, is showing strong growth in the American market with its distributor, Quanta Aesthetic Usa, in which the Group has held an equity since 2014 in order to sustain the collaboration and improve the effectiveness of the distribution.

The physical therapy sector showed a slight decrease. The Group operates in this sector with ASA of Vicenza, leader in this market niche in which it excels for both the quality of its products and the support services offered to the clientele. The dental sector, which is by now a marginal area for the Group, declined.

The rise in the sales volume for after-sales service and sale of consumables was very important. The increase in the number of units installed determined an increase in the sales of spare parts and customer assistance which are sometimes supplied in the form of “full risk” contracts. In 2015, as mentioned earlier, there was a particularly intense activity in improving the performance of some of the systems installed, an upgrading service which increased the revenue for service and which is related in particular to systems used for aesthetic applications for hair removal. In the area of service supporting the surgical sector, there was an increase in the revenue from the sales of optical fibres which are a consumable that contributes increasingly to the overall margins of the segment thanks to the large number of procedures performed with our laser systems.



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

	31/12/2015	Inc%	31/12/2014	Inc%	Var%
Cutting	47.665	67,55%	38.549	66,81%	23,65%
Marking	11.914	16,88%	11.533	19,99%	3,30%
Laser sources	2.631	3,73%	398	0,69%	560,61%
Conservation	522	0,74%	213	0,37%	145,08%
<b>Total industrial systems</b>	<b>62.732</b>	<b>88,90%</b>	<b>50.694</b>	<b>87,86%</b>	<b>23,75%</b>
Industrial service	7.836	11,10%	7.007	12,14%	11,82%
<b>Total industrial revenue</b>	<b>70.568</b>	<b>100,00%</b>	<b>57.701</b>	<b>100,00%</b>	<b>22,30%</b>

The main segment is cutting which represents two-thirds of the sales volume. In 2015 this segment showed a growth of over 20%, and the results could have been even better if there had not been a temporary slowdown in the growth of our Chinese joint ventures, Wuhan and Wenzhou. It should be recalled that these two companies were founded in order to serve the Chinese market for flat cutting of sheet metal with a local production based on technology developed mainly in Italy. The turbulence that afflicted the Chinese financial markets during the summer, in fact, had an impact on our clientele's inclination to invest; the negative influence that this effect has had seems to be waning and the outlook for growth remains good thanks to the fundamental solidity of this, the most important manufacturing market in the world. The results of Cutlite Penta were excellent. This company operates in the cutting segment and is specialized in the niche of cutting flat and rotary dies and in the cutting of plastic for which it detains a large portion of the market in Italy and the rest of Europe. Results of the company have progressively improved following the economic recovery of sales of investment goods for industry and the demand for machine tools in general in Italy and the rest of Europe.

There was a slight increase in the marking sector, a segment in which the Group holds important technologies both from a point of view of radio frequency laser sources and for beam delivery optic scanners. It should be recalled that the Group companies operate in two distinct sectors, that for marking and decorating on large surfaces (prevalently Cutlite Penta with the Ot-las brand systems for textiles and leathers) and marking for identification in which the Lasit company in Torre Annunziata operates successfully; this company is increasingly dynamic in its ability to offer customized solutions to the clientele and was able again this year to show a growth in sales volume and revenue.

The growth shown in the sector of laser sources was significant thanks to the characterization for specific applications of the new medium-power RF sources which determined the conclusion of contracts for the sale of large volumes, for now of a non-repeatable entity, which took place in early 2015. Besides the success of the sales volume registered in 2015, the performance of the RF sources developed at El.En. S.p.A. allow the Group to excel in the manufacture of cutting and marking systems equipped with medium-power laser sources.

During this year the volume of business for systems dedicated to restoration increased. This is a minor segment for the Group which, however, represents an activity of great prestige. Enormous satisfaction has been obtained from contributing to the restoration of great masterpieces and the coverage in the mass media that has derived from it has been extremely important. During 2015 we contributed to the restoration of the Egyptian sarcophaguses in the *Musées Royaux d'Art et d'Histoire di Bruxelles*, we participated in important ministerial missions in Cuba and in Sudan, and we completed the restorations of the doors of the Baptistery of Florence. We are continually experimenting with new technologies that are able to offer more effective conservation techniques in the full respect of the artistic artefact.

The sales volume for after-sales service grew consistently with the increase in installations.

## CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 31<sup>st</sup> 2015

The chart below shows the consolidated income statement for the year ending December 31<sup>st</sup> 2015 compared with that for 2014.

Income Statement	31/12/15	Inc. %	31/12/14	Inc. %	Var. %
Revenues	217.670	100,0%	180.009	100,0%	20,9%
Change in inventory of finished goods and WIP	1.569	0,7%	3.114	1,7%	-49,6%
Other revenues and income	2.326	1,1%	2.380	1,3%	-2,2%
<b>Value of production</b>	<b>221.566</b>	<b>101,8%</b>	<b>185.502</b>	<b>103,1%</b>	<b>19,4%</b>
Purchase of raw materials	114.201	52,5%	89.136	49,5%	28,1%
Change in inventory of raw material	(6.177)	-2,8%	366	0,2%	
Other direct services	17.224	7,9%	14.151	7,9%	21,7%
<b>Gross margin</b>	<b>96.318</b>	<b>44,2%</b>	<b>81.849</b>	<b>45,5%</b>	<b>17,7%</b>
Other operating services and charges	28.515	13,1%	25.658	14,3%	11,1%
<b>Added value</b>	<b>67.803</b>	<b>31,1%</b>	<b>56.191</b>	<b>31,2%</b>	<b>20,7%</b>
For staff costs	42.136	19,4%	38.228	21,2%	10,2%
<b>EBITDA</b>	<b>25.666</b>	<b>11,8%</b>	<b>17.963</b>	<b>10,0%</b>	<b>42,9%</b>
Depreciation, amortization and other accruals	4.167	1,9%	2.661	1,5%	56,6%
<b>EBIT</b>	<b>21.499</b>	<b>9,9%</b>	<b>15.301</b>	<b>8,5%</b>	<b>40,5%</b>
Net financial income (charges)	1.346	0,6%	4.638	2,6%	-71,0%
Share of profit of associated companies	278	0,1%	40	0,0%	601,9%
Other net income (expense)	(10)	-0,0%	4.430	2,5%	
<b>Income (loss) before taxes</b>	<b>23.113</b>	<b>10,6%</b>	<b>24.409</b>	<b>13,6%</b>	<b>-5,3%</b>
Income taxes	7.064	3,2%	6.409	3,6%	10,2%
<b>Income (loss) for the financial period</b>	<b>16.049</b>	<b>7,4%</b>	<b>18.000</b>	<b>10,0%</b>	<b>-10,8%</b>
Minority interest	1.678	0,8%	1.480	0,8%	13,4%
<b>Net income (loss)</b>	<b>14.371</b>	<b>6,6%</b>	<b>16.520</b>	<b>9,2%</b>	<b>-13,0%</b>

The gross margin was 96.318 thousand Euros, an increase of 17,7% with respect to the 81.849 thousand Euros for the same period last year; there was a slight drop in the incidence on the sale volume which decreased to 44,2% from 45,5% for last year on account of an unfavourable mix and a decrease in the grants for research received this year.

Again in 2015, 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, more significant for the Italian market where this practice is widespread.

The costs for operating services and charges were 28.515 thousand Euros, an increase of 11,1% with respect to last year, but the increase in the sales volume makes it so that their incidence on the sales volume decrease from 14,3% to 13,1%.

In the same way, the costs for personnel, amounting to 42.136 thousand Euros, shows an increase of 10,2% with respect to the 38.228 thousand Euros for last year but, thanks to the growth in the sales volume, the productivity is increased with an incidence that decreased from 21,2% of the volume in 2014 to 19,4% in 2015.

The improved productivity of the two cost aggregates just discussed is at the basis of the improvement in the profitability of the Group thanks to the operating leverage which the significant increase in sales volume determined.

On December 31<sup>st</sup> 2015 there were 965 employees in the Group with respect to the 951 on December 31<sup>st</sup> 2014. The Italian companies of the Group registered the greatest increase in personnel with respect to 2014, mainly to meet the increased demand of the local market.

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. As of December 31<sup>st</sup> 2015 these amounted to 397 thousand Euros, a decrease with respect to the 465 thousand Euros registered for the same period last year.

On account of the trends described above the EBITDA showed an improvement of 42,9% and reached 25.666 thousand Euros, as opposed to the 17.963 thousand Euros shown for last year.

Costs for amortizations, depreciations and accruals were 4.167 thousand Euros, as opposed to the 2.661 thousand Euros registered on December 31<sup>st</sup> 2014; in this regard, it should be recalled that in March of 2014 this category benefitted from the release of 1.478 thousand Euros in funds accrued for risks and charges as a result of the transaction concluding the patent dispute with Palomar Inc. so that the funds set aside in case of an adverse outcome were no longer needed. Net of this one-off amount for last year, the costs for amortizations depreciations and accruals increased by 0,7%, again in this case, to an extent that was much less than the increase in revenue.

The EBIT amounted to 21.499 thousand Euros, an increase with respect to the 15.301 thousand Euros shown on December 31<sup>st</sup> 2014 also in the incidence on the sales volume which was 9,9% as opposed to 8,5% for last year. If we exclude the one-off amount of 1,5 million described above, the EBIT for 2014 was about 14 million Euros with an incidence on the sale volume of 7,7% which further highlights the extraordinary growth in 2015.

Financial income amounted to 1.346 thousand Euros with respect to the 4.638 thousand Euros for last year, which had benefitted from the favourable trend in the exchange rates, in particular that of the US dollar, and the relative exchange gains registered under this heading on amounts held in this currency.

It should be recalled that the other net income on December 31<sup>st</sup> 2014, amounting to 4.430 thousand Euros, was mainly due to the capital gains of 4,5 million Euros assigned to El.En. S.p.A from the sale of a block of 1.100.000 shares of Cynosure Inc. which took place in the month of March for which the company received 32 million dollars.

The pre-tax income was 23.113 thousand Euros, with respect to the 24.409 thousand Euros registered in 2014. The comparison between the results for the two years should be interpreted separating from the 2014 amounts the extraordinary sums of about 9,5 million Euros, due to the Palomar transaction (for about 1,5 million), to the capital gains for the sale of the Cynosure shares (about 4,5 million) and to the greater exchange gains (about 3,5 million). Net of these amounts the result of the current assets for 2015 is greater than that registered for 2014 by about 8 million Euros.

The costs for current and deferred taxes this year was 7.064 thousand Euros, with an overall tax-rate of 31%; for details, please refer to the chart in the Explanatory Notes.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL POSITION AS OF DECEMBER 31<sup>st</sup> 2015

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

	31/12/2015	31/12/2014	Var.
<b>Statement of financial position</b>			
Intangible assets	3.858	3.613	245
Tangible assets	32.621	26.927	5.694
Equity investments	44.556	25.549	19.007
Deferred tax assets	6.085	5.682	402
Other non current assets	10.646	3	10.643
<b>Total non current assets</b>	<b>97.766</b>	<b>61.775</b>	<b>35.991</b>
Inventories	58.061	50.481	7.581
Accounts receivables	61.327	47.947	13.379
Tax receivables	7.826	6.618	1.208
Other receivables	7.262	8.415	-1.152
Financial instruments	1.965		1.965
Cash and cash equivalents	46.990	73.804	-26.814
<b>Total current assets</b>	<b>183.431</b>	<b>187.264</b>	<b>-3.834</b>
<b>TOTAL ASSETS</b>	<b>281.197</b>	<b>249.039</b>	<b>32.158</b>
Share capital	2.509	2.509	
Additional paid in capital	38.594	38.594	
Other reserves	86.875	50.291	36.584
Retained earnings / (deficit)	28.117	35.043	-6.925
Net income / (loss)	14.371	16.520	-2.149
<b>Share Capital and Reserves attributable to the Shareholders' of the Parent Company</b>	<b>170.466</b>	<b>142.957</b>	<b>27.509</b>
Share Capital and Reserves attributable to non-controlling interests	9.073	7.579	1.494
<b>Total equity</b>	<b>179.539</b>	<b>150.536</b>	<b>29.003</b>
Severance indemnity	3.376	3.700	-325
Deferred tax liabilities	1.638	1.461	177
Other accruals	2.890	2.695	195
Financial liabilities	4.998	5.907	-909
<b>Non current liabilities</b>	<b>12.902</b>	<b>13.763</b>	<b>-861</b>
Financial liabilities	14.363	21.494	-7.131
Accounts payables	42.065	35.267	6.798
Income tax payables	3.842	2.223	1.619
Other payables	28.487	25.756	2.731
<b>Current liabilities</b>	<b>88.756</b>	<b>84.740</b>	<b>4.016</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>281.197</b>	<b>249.039</b>	<b>32.158</b>

In compliance with the Consob communication of July 28<sup>th</sup> 2006 and in conformity with the CESR recommendations of February 10<sup>th</sup> 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 31<sup>st</sup> 2015 is the following:

<b>Net financial position</b>	<b>31/12/2015</b>	<b>31/12/2014</b>
Cash and bank	46.990	73.804
Financial instruments	1.965	0
<b>Cash and cash equivalents</b>	<b>48.954</b>	<b>73.804</b>
<b>Short term financial receivables</b>	<b>222</b>	<b>714</b>
Bank short term loan	(11.593)	(17.634)
Part of financial long term liabilities due within 12 months	(2.770)	(3.861)
<b>Financial short term liabilities</b>	<b>(14.363)</b>	<b>(21.494)</b>
<b>Net current financial position</b>	<b>34.813</b>	<b>53.023</b>
Bank long term loan	(1.831)	(2.604)
Other long term financial liabilities	(3.167)	(3.303)
<b>Financial long term liabilities</b>	<b>(4.998)</b>	<b>(5.907)</b>
<b>Net financial position</b>	<b>29.815</b>	<b>47.116</b>

The net financial position of the Group decreased by about 17 million Euros with respect to the end of 2014. For an amount of 10,5 million Euros, the cash was used for temporary financial investments, the nature of which required that they be entered among the non-current assets and excluded from the net financial position; the purchase of a minority share of Epica International Inc. by the Parent Company El.En. spa was also concluded for an amount of 500 thousand US dollars.

During the last 12 months the investments in fixed tangible assets amounted to about 8 million Euros. In the second quarter, dividends were paid to third parties by the Parent Company El.En. S.p.A. for about 4,8 million Euros and by the subsidiaries Deka Mela S.r.l., Lasit S.p.A., and ASA S.r.l. for a total amount of 566 thousand Euros.

The other changes are due to the use of net working capital created by the rapid growth of the volume of business.

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

	<b>31/12/15 Income statement</b>	<b>31/12/15 Capital and reserves</b>	<b>31/12/14 Income statement</b>	<b>31/12/14 Capital and reserves</b>
<b>Balance per parent company statement</b>	<b>6.307.307</b>	<b>146.985.740</b>	<b>23.529.094</b>	<b>127.242.436</b>
Elimination of investments in subsidiary companies:				
- share of profit (loss) of subsidiary companies	9.171.685		8.931.609	
- share of profit (loss) of associated companies	277.731		39.566	
- elimination of rectification of value of equities	680.495		1.096.413	
- elimination of dividends	(1.218.481)		(1.289.221)	
- value adjustment of the Cynosure equity and rectification of the capital gains			(14.862.742)	
- other (charges) income	(625.515)		(1.083.550)	
Total contribution of subsidiary companies	8.285.915	26.389.706	(7.167.925)	18.401.433
Elimination of intercompany profits on inventory	(152.124)	(2.458.308)	269.888	(2.306.184)
Elimination of intercompany profits from sales of fixed assets	(70.248)	(451.204)	(110.947)	(380.956)
<b>Balance as per consolidated statement – Group quota</b>	<b>14.370.850</b>	<b>170.465.934</b>	<b>16.520.110</b>	<b>142.956.729</b>
<b>Balance as per consolidated statement – Third party quota</b>	<b>1.678.257</b>	<b>9.072.966</b>	<b>1.479.821</b>	<b>7.578.945</b>
<b>Balance as per consolidated statement</b>	<b>16.049.107</b>	<b>179.538.900</b>	<b>17.999.931</b>	<b>150.535.674</b>

## 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.

	<b>31/12/2015</b>	<b>Inc%</b>	<b>31/12/2014</b>	<b>Inc%</b>	<b>Var%</b>
Medical	51.578	82,95%	37.214	79,16%	38,60%
Industrial	10.604	17,05%	9.799	20,84%	8,22%
<b>Total</b>	<b>62.182</b>	<b>100,00%</b>	<b>47.013</b>	<b>100,00%</b>	<b>32,27%</b>

The company registered a record sales volume of 62 million Euros, with a growth of 32% most of which can be attributed to the medical sector, thanks to the success of some of its products.

## Income statement as of December 31<sup>st</sup> 2015

Income Statement	31/12/15	Inc. %	31/12/14	Inc. %	Var. %
Revenues	62.182	100,0%	47.013	100,0%	32,3%
Change in inventory of finished goods and WIP	1.279	2,1%	42	0,1%	2909,5%
Other revenues and income	688	1,1%	837	1,8%	-17,7%
<b>Value of production</b>	<b>64.149</b>	<b>103,2%</b>	<b>47.892</b>	<b>101,9%</b>	<b>33,9%</b>
Purchase of raw materials	35.274	56,7%	22.284	47,4%	58,3%
Change in inventory of raw material	(3.721)	-6,0%	116	0,2%	
Other direct services	4.908	7,9%	3.799	8,1%	29,2%
<b>Gross margin</b>	<b>27.688</b>	<b>44,5%</b>	<b>21.692</b>	<b>46,1%</b>	<b>27,6%</b>
Other operating services and charges	6.223	10,0%	6.237	13,3%	-0,2%
<b>Added value</b>	<b>21.465</b>	<b>34,5%</b>	<b>15.455</b>	<b>32,9%</b>	<b>38,9%</b>
For staff costs	12.216	19,6%	11.634	24,7%	5,0%
<b>EBITDA</b>	<b>9.249</b>	<b>14,9%</b>	<b>3.821</b>	<b>8,1%</b>	<b>142,0%</b>
Depreciation, amortization and other accruals	1.406	2,3%	1.726	3,7%	-18,5%
<b>EBIT</b>	<b>7.842</b>	<b>12,6%</b>	<b>2.096</b>	<b>4,5%</b>	<b>274,2%</b>
Net financial income (charges)	1.868	3,0%	5.355	11,4%	-65,1%
Other net income (expense)	(697)	-1,1%	18.199	38,7%	
<b>Income (loss) before taxes</b>	<b>9.013</b>	<b>14,5%</b>	<b>25.650</b>	<b>54,6%</b>	<b>-64,9%</b>
Income taxes	2.706	4,4%	2.120	4,5%	27,6%
<b>Income (loss) for the financial period</b>	<b>6.307</b>	<b>10,1%</b>	<b>23.529</b>	<b>50,0%</b>	<b>-73,2%</b>

The gross margin was 27.688 thousand Euros, an increase of 27,6% with respect to the 21.692 thousand Euros for the same period last year and with an incidence on the sales volume decreasing from 46,1% on December 31<sup>st</sup> 2014 to 44,5% on December 31<sup>st</sup> 2015, and therefore with a slight decrease in the sales margin.

Costs for operating services and charges were 6.223 thousand Euros, showing a decrease of 0,2% with respect to last year and with an incidence on the sales volume which fell from 13,3% on December 31<sup>st</sup> 2014 to 10,0% for this year.

The staff cost was 12.216 thousand Euros, an increase of 5,0% with respect to the 11.634 thousand Euros for last year and with an incidence on the sales volume which fell from 24,7% in 2014 to 19,6% for this year. As of December 31<sup>st</sup> 2015 there were 207 employees in the company, an increase with respect to the 198 shown on December 31<sup>st</sup> 2014.

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 31<sup>st</sup> 2015 amounted to 122 thousand Euros, whereas last year they amounted to 314 thousand Euros.

For the reasons explained above, the EBITDA was 9.249 thousand Euros, an improvement with respect to the 3.821 thousand Euros for last year, with an incidence on the sales volume which rose from 8,1% for last year to 14,9% for this year.

The costs for amortizations, depreciations and accruals were 1.406 thousand Euros, a decrease of 18,5% with respect to the 1.726 thousand Euros for 2014 and with an incidence on the sales volume for this year of 2,3% as opposed to 3,7% last year. This decrease is mainly due to the lower accruals made for credit risks.

The EBIT therefore rose from 2.096 thousand Euros on December 31<sup>st</sup> 2014 to 7.842 thousand Euros for this year.

Net financial income was 1.868 thousand Euros. This represents a decrease with respect to the 5.355 thousand Euros for the year ending on December 31<sup>st</sup> 2014, when the cash in American dollars created by the sale of the Cynosure shares benefitted from the appreciation of the US dollar. The incidence on the sales volume fell from 11,4% to 3,0% as of

December 31<sup>st</sup> 2015. The results of the financial area remain positive above all thanks to the trend of the exchange gains and the dividends cashed in by the subsidiaries, DEKA MELA S.r.l. for 349 thousand Euros, Quanta System S.p.A. for 300 thousand Euros, Lasit S.p.A. for 140 thousand Euros and Concept Laser Solution GmbH for 4 thousand Euros.

The other net charges amounted to 697 thousand Euros; this amount is due to the 922 thousand Euros for the devaluation of the equity in Cutlite do Brasil and SBI, an accrual that is partially mitigated by the reversals made on some of the accruals effected in the preceding years for Deka Laser Technologies, which was liquidated this year.

The pre-tax income therefore was 9.013 thousand Euros, with respect to the 25.650 thousand Euros for last year, in which we had entered the capital gains of 19.330 thousand Euros from the sale of the block of Cynosure stock.

The fiscal costs for this year were 2.706 thousand Euros as opposed to the 2.120 thousand Euros for last year.

The tax rate for this year was 30,02%, an increase with respect to the 8,27% for last year which, it should be recalled, benefitted from the PEX partial tax exemption on the capital gains from the sale of the Cynosure stock.



## STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL POSITION AS OF DECEMBER 31<sup>st</sup> 2015

	31/12/2015	31/12/2014	Var.
<b>Statement of financial position</b>			
Intangible assets	199	164	35
Tangible assets	13.011	12.701	310
Equity investments	57.851	39.797	18.054
Deferred tax assets	2.361	2.735	-373
Other non current assets	10.646	3	10.643
<b>Total non current assets</b>	<b>84.069</b>	<b>55.401</b>	<b>28.669</b>
Inventories	25.008	20.199	4.809
Accounts receivables	34.939	30.349	4.590
Tax receivables	4.617	3.253	1.364
Other receivables	5.331	5.398	-67
Financial instruments	1.965		1.965
Cash and cash equivalents	12.583	43.512	-30.928
<b>Total current assets</b>	<b>84.443</b>	<b>102.711</b>	<b>-18.268</b>
<b>TOTAL ASSETS</b>	<b>168.512</b>	<b>158.111</b>	<b>10.401</b>
Share capital	2.509	2.509	
Additional paid in capital	38.594	38.594	
Other reserves	100.560	63.595	36.965
Retained earnings / (deficit)	-984	-984	
Net income / (loss)	6.307	23.529	-17.222
<b>Total equity</b>	<b>146.986</b>	<b>127.242</b>	<b>19.743</b>
Severance indemnity	895	1.111	-215
Deferred tax liabilities	1.156	1.094	62
Other accruals	492	603	-111
Financial liabilities		1.340	-1.340
<b>Non current liabilities</b>	<b>2.543</b>	<b>4.147</b>	<b>-1.604</b>
Financial liabilities	1.510	12.092	-10.582
Accounts payables	12.159	9.778	2.381
Income tax payables	1.320	2	1.319
Other payables	3.994	4.849	-855
<b>Current liabilities</b>	<b>18.984</b>	<b>26.722</b>	<b>-7.738</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>168.512</b>	<b>158.111</b>	<b>10.401</b>

<b>Net financial position</b>		
	31/12/2015	31/12/2014
Cash and bank	12.583	43.512
Financial instruments	1.965	0
<b>Cash and cash equivalents</b>	<b>14.548</b>	<b>43.512</b>
<b>Short term financial receivables</b>	<b>124</b>	<b>620</b>
Bank short term loan	(1.510)	(10.866)
Part of financial long term liabilities due within 12 months	0	(1.227)
<b>Financial short term liabilities</b>	<b>(1.510)</b>	<b>(12.092)</b>
<b>Net current financial position</b>	<b>13.162</b>	<b>32.039</b>
Bank long term loan	0	(1.340)
<b>Financial long term liabilities</b>	<b>0</b>	<b>(1.340)</b>
<b>Net financial position</b>	<b>13.162</b>	<b>30.699</b>

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 2015.

	Revenues 31-dic-15	Revenues 31-dic-14	Var. %	EBIT 31-dic-15	EBIT 31-dic-14	Net income 31-dic-15	Net income 31-dic-14
Deka Mela Srl	29.893	28.242	5,85%	1.062	552	1.086	660
Cutlite Penta Srl	19.609	14.989	30,82%	282	280	175	140
Esthelogue Srl	7.934	6.259	26,75%	206	-169	35	-167
Deka Sarl	3.636	3.779	-3,79%	16	159	16	160
BC Tech GmbH (ex Deka Lasertechnologie GmbH)	0	0		0	2.016	0	2.016
LT Tech of Carlsbad Inc. (ex Deka Laser Technologies Inc.)	0	57	-100,00%	1.929	43	1.929	36
Deka Medical Inc.	276	320	-13,69%	-44	-130	-56	-155
Quanta System SpA	34.005	30.126	12,87%	3.985	3.188	2.521	2.069
Asclepion Laser Technologies GmbH	28.049	24.755	13,31%	2.427	3.299	1.573	2.227
Asa Srl	7.539	7.307	3,16%	1.582	1.481	1.194	1.041
AQL Srl	0	40	-100,00%	0	-11	0	-14
Lasit Spa	8.411	8.063	4,31%	726	787	398	495
Lasercut Technologies Inc.	22	36	-38,61%	11	4	6	1
BRCT Inc.	0	0		-29	204	52	240
With Us Co LTD	19.635	23.155	-15,20%	2.129	1.763	1.256	1.041
Deka Japan Co LTD	1.550	1.721	-9,95%	-45	-109	-26	-94
Penta Chutian Laser (Wuhan) Co Ltd	28.624	26.844	6,63%	590	613	614	777
Penta Laser Equipment (Wenzhou) Co Ltd	27.561	25.274	9,05%	1.442	1.130	1.069	797
Lenap Inc. (ex Lasit Usa Inc.)	0	0		0	-3	0	-3
Cutlite do Brasil Ltda	2.386	3.720	-35,86%	-802	-705	-915	-824
Pharmonia Srl	180	2.480	-92,73%	-20	62	-23	37
Quanta France Sarl	718	709	1,27%	-16	4	-18	4
JenaSurgical GmbH	1.779	30	5828,89%	21	-33	22	-33
Merit Due Srl	15	0		0	0	0	0
Accure Quanta Inc.	0	0		-3	0	-3	0

### 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. In the past two years, 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<sub>2</sub> laser systems during its first years of activity. Thanks in part to the decisive contribution of this segment, in 2015 the Deka distribution network registered an increase in their volume of business in Italy and on the international markets with a growth in sales volume close to 6%, despite the stationary situation of both its main foreign market, Japan, and one of the main European markets, Russia.

The company also showed an improvement in the sales margins, which was obtained thanks to a favourable mix of products sold, which was of a quantity greater than the increase in the operating costs necessary to sustain the sales with opportune marketing operations and clinical supports; consequently, they registered a significant increase, almost doubling the EBIT, and an increase in the net income which is, once again, over one million Euros.

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.

#### **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. The year 2015 represented the completion of the phase of re-organization of the company and rewarded their activities of rationalization of the main functions with an excellent response from the market, in particular the commercial and selling activities. In fact, the sales volume was close to 20 million with the excellent result of a growth in the volume of business of the 30%. The outlook for 2016 is good.

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<sub>2</sub> laser sources (principally manufactured by El.En. SpA) for power cutting applications. On the other hand, the contribution of El.En. SpA’s 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 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.

The impetuous growth that was registered in the first semester of 2015 subsequently cooled off due to the turbulent vicissitudes of the Chinese financial markets and their effects on the commercial markets and, above all, in the confidence in future development. The uncertainty of the economic outlook in fact penalizes the inclination to invest in technological equipment for manufacturing like our laser systems which are sold almost exclusively for flat cutting of sheet metal. In any case, the company was able to withstand the impact of the crisis and show an increase in sales volume in local currency considering the consolidation with **Penta Laser Equipment (Wenzhou)**, which reflects an increase of 20% of the sales volume in Euros thanks to the strengthening during the year (notwithstanding the drop in the month of August) of the Yuan over the Euro. As far as the activity started at Wenzhou is concerned, in 2015 this involved only sales while the construction of the factory continued; it will be inaugurated in 2016 and will amplify the production capacity destined for the Chinese market, thus living new impetus for growth. It should be noted that the improved position on the market and the consequent growth were obtained thanks to the up-dated composition of the products being offered which was adapted to the changes in the technological pattern of the metal cutting segment with the use of laser sources in fibre, thanks to the collaboration of primary operators in this sector.

#### **Quanta System S.p.A.**

Quanta System has its Headquarters in Solbiate Olona (VA). The company is recognized for its excellence at an international level for innovation, technological research and solutions for the market in the field of medical lasers, and has also done outstanding work in the sector of restoration of art works that are “heritage of humanity”. Since the company was acquired 100% in 2012 by the parent company, El.En. has watched its subsidiary develop a constant and significant sales volume and profits, thanks to the new managerial structure which has been able to capitalize on their superior knowledge of some laser technologies and gain new and significant quotas of the market in specific sectors of application for aesthetic and surgical lasers. For example, in the surgical sector, in particular for mid-powered holmium systems for lithotripsy, Quanta detains a large quota of the market worldwide, as it does also for thulium systems for the removal of benign prostate hypertrophy (BPH). Along with the alexandrite systems for hair removal and the Q-switched systems for the removal of tattoos and pigmented lesions, these are the strong points in their range which, thanks to the Quanta System innovation, continue to be suited for the requirements of the market as the brilliant results clearly demonstrate: sales volume 34 million (+13%) and EBIT 3,9 million Euros, with a growth of about 25% .

The outlook for 2016 is solid and corroborated by the launch of new products, in particular the Discovery Pico picosecond system which, with its ingenious and original solution makes Quanta system one of the world technological leaders in the field of removal of tattoos and pigmented lesions.

One should also take note of the increasingly important position occupied by Quanta on the American market for medical systems for aesthetics thanks to its distributor, Quanta Aesthetic Usa, in which the Group has acquired a minority share in order to sustain the development of Quanta on the US market.

The present market conditions bode well for the continued positive trend of the activities in 2016, especially in consideration of the re-enforcement of the operating structures which will increase after the move to the new factory in Samarate (VA) this year.

**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 position with a gradual increase in their sales volume which make it one of the most brilliant companies in the Group. The capacity to identify and satisfy the needs of the clientele permits the company to operate on a healthy market thanks to the increased need of manufacturing companies to equip themselves with identification and personalization systems for their products, components and semi-finished products.

In 2016 the company registered an increase in sales volume of almost 4% .

### **Asclepion Laser Technologies GmbH**

This company was acquired in 2003 from Carl Zeiss Meditec and represents one of the main companies of the Group; 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 for aesthetic and medical applications.

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 also 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 gynaecological applications.

The consensus of the markets for the Quadro Star PRO Yellow system for vascular applications has also continued. During 2016, for the first time **Jena Surgical GmbH** made a tangible contribution to the development of the sales volume; the company was created as a joint venture with Deka for the purpose of promoting and distributing together systems for surgical applications on the International markets and, looking to the future, represents one of Asclepion's most important clients and a significant driver in its development.

Thanks, in fact, to the quality of its products and their opportune positioning, in 2015 the company registered a growth of over 13% and a significant improvement in the EBIT (which fell to 2,4 million from the 3,3 registered in 2014, but without the benefit of the 1,8 million one-off amount that had been registered in 2014).

The market position at this time bodes well for a profitable continuation of the company activities in 2016.

### **With Us Co Ltd**

With Us Co was created to distribute Deka system on the Japanese market and now represents one of the most dynamic companies in the Group. Many systems have been developed specifically for the Japanese market by identifying their particular applicative and operative needs and coming up with highly effective technical solutions which generated significant sales volumes for Deka. There are around few thousand systems installed and the number increases every year; consequently the "all inclusive" contracts that are supplied to the numerous clientele who are offered regular upgrades on their systems, represent a significant portion of the sales volume.

The second semester was characterized by the phase of transition of an important client who sold his business during that period and this comported a temporary reduction in the entity of the service being supplied, with a consequent reduction in the sales volume during the semester and for the year (-19% in Japanese Yen). Thanks to the excellent results in the first semester and the profitability from the mix of products and services offered, the EBIT remained quite satisfactory (11% on the sales volume) and showed significant growth with respect to 2014 (+21%). The excellent position of the company on the market and the re-launching of the client mentioned above leave hope for optimism for the trend of the company also in 2016.

### **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 perfect balance between the innovation of products and the clinical and commercial activities directed towards the support of the therapeutic methods of the systems developed has consolidated the quality of their offer and along with it their position on the market so that the company has been able to register a constant growth rate, even in these years of crisis. This positive trend continued in 2015 with a sales volume that improved slightly and an EBIT that is still significant and growing. For 2016 we expect a further increase in the sales volume connected to important investments for the marketing aimed at a mid-term growth on the international markets which will comport a reduction in the EBIT. During 2015 ASA distributed dividends for 805 thousand Euros.

### **Other companies, medical sector**

**Deka Sarl** distributes the range of Deka laser systems in France. In 2015 they registered a volume of business that was sufficient to register a small net income and, above all, to maintain interest in the Deka brand in France and in the French-speaking countries of North Africa.

**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 the latest generation systems, a very complex process because of the laborious procedures required to register a new product. In 2015 the volume of business did not grow and the company did not break even. This highlighted the necessity for a reorganization of the activities with specific investments aimed at the amplification of the range of products that can be sold in order to return to profits.

**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.** in the past few years has taken on an increasingly important role in the distribution of the systems to the professional aesthetics market in Italy and leadership in the sector of lasers for hair removal. The Mediostar Next laser system, produced by Asclepion di Jena, and the professionalism and quality of the training services that Esthelogue offers to its clientele are at the base of its success in a market segment that is quite complex because of its particular nature but represents numerous users. The Group counts on mid-term benefits from the solid market position that they have reached and the confidence of the clientele in the Esthelogue technologies, also for moving new and different applicative technologies in this interesting market.

**Pharmonia S.r.l.** has terminated their distribution activity of aesthetic systems specifically created for use in Pharmacies. Since the operating activity connected to it has effectively ceased, in 2015 the parent company Asclepion sold their equity in the company to the Parent Company El.En.

**Quanta France** is the French distributor for Quanta System and was controlled by it 60% until the month of December 2015 when the equity was sold to a minority partner.

### **Other companies, industrial sector**

With the sale by **BRCT Inc.** of the little factory in Branford, Connecticut, where **Lasercut Technologies Inc.** conducted its residual activity of after-sales service for some industrial systems in the USA, its activity has effectively ceased. BRCT Inc. continues in its role as a financial sub-holding which, in fact, has intensified after the acquisition in 2014 of the quotas of Quanta USA LLC.

**Cutlite do Brasil Ltda** with a factory in Blumenau in the state of Santa Catarina has 27 employees and produces laser systems for industrial applications and distributes laser systems produced by their Italian partners. The improvement that was hoped for in 2015 did not arrive and the company results remain negative, in large part due to the hopeless political situation which afflicts the country.

## Research and Development activities

During 2015 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.

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 and clinical for surgical applications of the devices and sub-systems for the SMARTXIDE<sup>2</sup> 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 aesthetic medicine and surgery. 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 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; in particular, we have been able to obtain a high consistency between the focal distance in those cases where they are using different wave lengths of the laser beam at the same time, as occurs in surgical applications with the visible guide light being used with the laser light that the surgeon uses for cutting and vaporizing with micro-manipulators seen under the microscope.

For some of the versions of this type of instruments we have developed a way to install a second semiconductor laser source in which the wave length can be selected by the client when ordering.

For the semiconductor sources we are now conducting research in collaboration with medical specialists for the development of uses in other fields in which it is necessary to place the wave length at different settings in the various

phases of an operation on the same organ. 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 of 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, 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.

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<sub>2</sub> 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 the lesions with a laser which leaves the treated portion practically sterile.

As part of this research we have developed a mono-mirror scanner accessory for CO<sub>2</sub> 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.

Among the applied research activities with mid- to long term objectives we can mention the BI-TRE project co-financed by the Region of Tuscany with European Union funds, for which we conducted research on the anastomosis methods of blood vessels using laser beams with 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 continued research activity as part of the FORTE project, approved by the Region of Tuscany and co-financed with funds from the EU with the Parent Company El.En. The FORTE project is related to the development of new systems for minimally invasive surgical operations for controlled local and partial ablation of the spinal cord for the reduction of herniated discs. Along with this research, which is related to orthopaedics, we are developing an innovative device to separate the vertebrae and maintain the distance between them. Part of this project includes other types of research in the field of eye surgery assisted by a robot and spinal surgery using a new, high resolution three-dimensional X-ray vision system assisted by a robot attached to the vision system of the operating table.

Another project is the development of a device for the laser ablation of breast tumours, 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.

An important part of the FORTE project is the research sector related to ablative, minimally invasive neurosurgery. The technique now being developed is based on the use of a small-diameter inserter to be placed in the brain by using a robot arm which is attached to the bed of the patient. The inserter is moved through a hole of just a few millimetres in diameter that has been made in the skull or through the palate, in order to place an optic fibre laser energy dispenser; the surgeon uses high resolution 3D X-ray images acquired with Cone Beam technology attached to the patient's bed and plans the operation by using the robot arm in order to program the path and the final position of the inserter. The project has outstanding partners from specialized research centers in Tuscany and companies associated with multinationals active in the field of robotics. The research of this type is part of the trend involving development of systems for minimally invasive surgery which has a major impact both on the quality of life of the patient and on the reduction of expenses for the health care agencies.

In particular, in recent years we have developed a system for obtaining 3D images of X rays with CONEBEAM technology as part of the MILORDS project. The performance in terms of speed of acquisition and spatial resolution place it among the top devices of this type in the world. We are developing dedicated software and improved hardware components in order to improve it as much as possible; there is also the interesting possibility of a study of the distribution of the blood vessels in the ankle for the development of laser treatment of diabetic feet.

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.

We have concluded the development of an alexandrite mono-source system called Motus AX, for 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;
- minimizing the size/ weight/ energy use /costs of consumables for the doctor.

We have completed the study and planning phase of an innovative system for “Body Shaping”(reduction of the adipose layer) based on the use of a new form of energy that is able to apoptosis of the adipose tissue more effectively than that used in other systems now on the market.

In collaboration with the associated company Elesta Srl, founded by El.En. together with Esaote, we conducted technological research and development activity on miniaturized percutaneous applicators which are cooled by circulating liquid and dispenser terminals.

Research and experimentation have continued *in vitro* and *in vivo* on animal subjects for new devices and methods for the percutaneous laser ablation of the liver, thyroid, breast, prostate and lungs.

We have continued research and experimentation in collaboration with the university clinics of Pisa and Florence and with the Department of Engineering and Telecommunications of the University of Florence; we have also continued research to improve the precision in recording the margins of ablation.

Important certifications and approvals from International regulatory agencies for the sale of products we have developed at Deka, Asclepion, Quanta System, ASA, have been obtained.

We are now conducting clinical trials and industrial development of laser equipment and devices for the laser treatment of cutaneous ulcers. Brilliant clinical results were obtained consisting a reduction in the lists of patients requiring amputation. The LUC study authorized by the Ministry of Health, is now being completed. The first results on the elaboration of the statistics for the safety “end point” of the laser and the use during the cleaning (debridement) phase of diabetic ulcers are positive.

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 PHOTBIOLAB 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.

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.

At Quanta System they are conducting intense research on instruments for use in aesthetic medicine and medical therapies in urology. In particular, they have introduced incremental innovations to the Q-switched systems with fractional hand-pieces, universal adaptors with different spot shapes and 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 begun producing a system on picosecond, nanoseconds and in free running: the Discovery Pico system is distinguished by its peak power at 1064 nm and 532 nm, the highest among the systems now available on the market and its technical characteristics are protected by two patents.

Also as part of the Q-switched systems, they conducted the development and initiated the production of the *è stato* Q-Plus C MT system which, for the first time, simultaneously mixes in Q-switch 1064 nm + 694 nm e 532 nm + 694 nm. They completed the Q-scale project. They also completed the planning of the Phocas project of Horizon 2020 and defined the group of European partners.

In the aesthetic sector they implemented an important improvement of Icoone, transformed in energy based device with the addition of laser and LED in the Robosolo handpiece.

At Asclepion Laser Technologies they have completed the final stages for the certification of the Ho 140W holmium laser, for the surgical treatment of benign prostate hypertrophy, which will be sold by Jena Surgical. They also conducted preliminary activities for the improvement of lasers for the removal of tattoos and pigmented lesions and on the methods and devices to be used for “body shaping”.

They continued their activity of evaluation of new concepts of fibre optics and ferrules; they conducted studies for the use in the medical field of technologies for the recognition and cataloguing of images.

In collaboration with ACTIS, an associated company of El.En. we continued a European project on the therapy of tumours using nano-particle activation through laser light and ultrasound, the LUS BUBBLE (Light and Ultrasound Activated micro-bubbles for cancer treatment).



### **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.

For the development of laser sources we have concluded the project on the 850W source and are beginning the experimentation of a sealed 300W source, and designed and tested a new delivery system on the Bright 30 source of the Milord project. We have developed a focusing head for lasers in fibre and dedicated process sensors. We have also studied and added new sensors on metal cutting machines.

The activity for the development of radio frequency distributors and laser sources is aimed at increasing the maximum power available in the range of products while maintaining a high quality and modulability of the beam in order to make innovative applications possible for 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),

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 the activities for the verification and experimentation of focusing and scanning heads for lasers in fibre for remote-controlled welding plants for metal materials and the mass production of furniture parts. As part of this project we have begun to develop a new dynamic focalizing system with high-speed response.

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.

We are now working on solutions that would eliminate most of the optical itineraries of the CO<sub>2</sub> laser beam which would include mounting the new sources with radio frequency pumping directly on the mobile portal of the machine.

In the sector of cutting Plexiglas we have developed and tested the combination of a matrix on the cutting machine and we are now continuing further experiments necessary for perfecting the innovations that have been adopted.

At El.En. we have conducted research on remote control welding of sheet metal with superficial treatments and applications with optical retroaction systems.

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

<i>thousands of euros</i>	<b>31/12/2015</b>	<b>31/12/2014</b>
Costs for staff and general expenses	6.669	6.154
Equipment	202	102
Costs for testing and prototypes	1.790	1.421
Consultancy fees	461	732
Other services	72	73
Intangible assets	14	0
<b>Total</b>	<b>9.207</b>	<b>8.482</b>

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 6% of its sales volume.

## RISK FACTORS AND PROCEDURES FOR THE MANAGEMENT OF FINANCIAL RISKS

### *Operating risks*

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

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

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

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

### *Currency risk*

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

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

With US Co. Ltd. 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.

<i>Operation</i>	<i>Notional value</i>	<i>Fair value</i>
Currency swap	€ 1.550.000	€ 16.071
Currency swap	€ 1.950.000	-€ 91.870
Currency swap	€ 2.650.000	-€ 17.087
<b>Total</b>	<b>€ 6.150.000</b>	<b>-€ 92.886</b>

### *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.

In relation to guarantees granted to third parties, it should be recalled that the Parent Company El.En. in 2009 underwrote, along with a minority partner, a bank guarantee for a maximum of one million Euros as a guarantee for the loan of the subsidiary Quanta System owed to the Banca Popolare di Milano for facilitated financing for a total amount of 900 thousand Euros, for which the reimbursement installments expire up to 84 months from the date of issuance, which occurred in the second half of 2009. After the acquisition of the entire equity from the minority shareholder which took place on October 8<sup>th</sup> 2012, El.En. promised to free this partner from all financial obligations towards the Banca Popolare di Milano.

The parent company El.En. S.p.A. has also underwritten:

- in 2011 a bank guarantee, together with the companies that participate in the ATS specifically created for this purpose for a maximum amount of 3.074 thousand Euros as a guarantee against the repayment of the amount required as an advance payment on the MILORD research project, issued as a grant by the Bando Regionale 2010 approved by the Regione Toscana with Managerial Decree n. 670 on February 25<sup>th</sup> 2011, with expiration date September 2014 extended to March 9<sup>th</sup> 2016;

- 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 2016 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 5<sup>th</sup> 2012, with expiration date in February 2018.
- during this year, 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 29<sup>th</sup> 2015, expiring on November 20<sup>th</sup> 2016.

#### *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.

## **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 951 people on December 31<sup>st</sup> 2014 to 965 on December 31<sup>st</sup> 2015. The chart below shows the division by company:

Company	2015 Average	31-dec-15	31-dec-14	Var.	Var. %
El.En. S.p.A.	202,50	207	198	9	4,55%
Cutlite Penta Srl	44,50	48	41	7	17,07%
Esthelogue Srl	11,50	13	10	3	30,00%
Deka M.E.L.A. Srl	16,00	16	16	0	0,00%
Quanta System SpA	101,50	107	96	11	11,46%
AQL Srl	0,00	0	0	0	0,00%
Lasit SpA	45,50	48	43	5	11,63%
Asa Srl	39,50	40	39	1	2,56%
Deka Sarl	7,50	9	6	3	50,00%
Deka Medical Inc	0,50	0	1	-1	-100,00%
Asclepion Laser T. GmbH	89,50	89	90	-1	-1,11%
Jena Surgical GmbH	1,00	1	1	0	0,00%
Lasercut Technologies Inc	0,00	0	0	0	0,00%
LT Tech of Carlsbad Inc. (ex Deka Laser Technologies Inc)	0,00	0	0	0	0,00%
With Us Co Ltd	40,00	40	40	0	0,00%
Wuhan Penta Chutian Laser Equipment Co Ltd	167,00	156	178	-22	-12,36%
Penta-Laser Equipment Wenzhou Co. Ltd	154,50	157	152	5	3,29%
Lenap Inc. (ex Lasit Usa Inc)	0,00	0	0	0	0,00%
BRCT Inc.	0,00	0	0	0	0,00%
Cutlite do Brasil Ltda	28,50	27	30	-3	-10,00%
Quanta France Sarl	1,50	0	3	-3	-100,00%
Deka Japan Ltd	7,00	7	7	0	0,00%
<b>Total</b>	<b>958,00</b>	<b>965</b>	<b>951</b>	<b>14</b>	<b>1,47%</b>

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

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

Since March 31<sup>st</sup> 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 12<sup>th</sup> 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](http://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 24<sup>th</sup> 2010. The procedures contained in the "*Regolamento per la disciplina delle operazioni delle parti correlate*" went into force on January 1<sup>st</sup> 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 3<sup>rd</sup> 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 28<sup>th</sup> 2006, we wish to state that during the year 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 31<sup>st</sup> 2015 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 9<sup>th</sup> 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 of the sales volume and the EBIT obtained during 2015, the best in the history of the Group, were achieved thanks to the launching of new products which were very well received on the market and represent a point of reference which will be difficult to excel.

The good competitive position along with the generally favourable conditions, in particular for the dollar/Euro exchange rate, let us set for 2016 the objective of a further growth in sales volume of around 5%. As far as the EBIT is concerned we have set ourselves the ambitious target of repeating the EBIT achieved in 2015.

## **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 31<sup>st</sup> 2015, we propose to allocate the net income for this year, for an amount of 6.307.307,00, Euros as follows:

- 518.065,40 as extraordinary reserve;
- to distribute to the shares in circulation on the date that coupon 14 becomes due, May 23<sup>rd</sup> 2016,– in compliance with art. 2357-ter, second sub-section of the Civil Code– a dividend of 1,20 Euros gross for each share in circulation for an overall amount of 5.789.241,60 Euros as of today's date;
- to accrue, where possible, in a special reserve of retained earnings the residual dividend destined for treasury stock that may be held by the company when the coupon becomes due.

*For the Board of Directors*

Managing Director– Ing. Andrea Cangioli

**REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP**

in compliance with art. 123-bis D. Lgs. February 24<sup>th</sup> 1998, n. 58

Approved by the Board of Directors during the meeting held on March 15<sup>th</sup> 2016

Financial year 2015

Internet site: [www.elengroup.com](http://www.elengroup.com)

## GLOSSARY

**Codice:** the self-disciplining code of the companies quoted on the stock market which was approved in July 2014 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 31<sup>st</sup> 2015 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 24<sup>th</sup> 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 in 2002, 2006, 2011 and in 2014, and identified as the “best practice”, since it represents a unique opportunity to increase their reliability and reputation in relation to the market.

The company has been part of the Techstar segment since the founding of the segment in 2004 and has been quoted in the Star segment since 2005.

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 17<sup>th</sup> 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 format, V edition specifically prepared by the Borsa Italian spa and refers to a fiscal year of the company which was still governed by the transitory regime pursuant to Title IX of the paragraph titled “Main guidelines and transitory regime” of the Self-disciplining Code of July 2015.

### **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 28<sup>th</sup> 2015 and, after the vote of approval of the Board of Directors on May 15<sup>th</sup> 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 15<sup>th</sup> 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 5<sup>th</sup> 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 13<sup>th</sup> 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 15<sup>th</sup> 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 12<sup>th</sup> 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 21<sup>st</sup> 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 13<sup>th</sup> 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 15<sup>th</sup> 2012, the newly appointed Board of Directors 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 13<sup>th</sup> 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 5<sup>th</sup> 2000, and they were revised in order to adapt them to the new regulations or new structural reorganization in the company.

On September 5<sup>th</sup> 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 of Directors 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 15<sup>th</sup> 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 28<sup>th</sup> 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 15<sup>th</sup> 2012, article 19 of the by-laws was adapted to L. July 12<sup>th</sup> 2011, n. 120 in terms of the balance between genders.

Moreover, the shareholders' meeting of May 15<sup>th</sup> 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 27<sup>th</sup> 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, elected by the assembly on May 15<sup>th</sup> 2013 will remain in office until the approval of the financials for 2015.

After the resignation of Dott. Gino Manfredi which was accepted in order to enable the company to reorganize the composition of the acting members of the Board of Auditors in compliance with 148, sub-section 1-bis, T.U.F. in relation to the balance of genders, and the appointment of Dott.ssa Pelagotti to replace him in conformity with 2401 c.c., the shareholders' meeting in 2014 added two female members to the Board of Auditors, one to be acting auditor and the other as alternate auditor.

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 15<sup>th</sup> 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 15<sup>th</sup> 2012 the company adapted art.25 of the by-laws to L. July 12<sup>th</sup> 2011, n. 120 in terms of the balance between genders.

The shareholders meeting called to approve the financial statement for the year must also proceed with the appointment of the new Board of Auditors.

Pursuant to art. 144-*septies*, sub-section 2, Registry of Companies, the minimum amount of the equity in the capital stock that is required 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 28<sup>th</sup> 2016, no. 19499.

### **Auditing of Accounts**

The auditing of accounts (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 31<sup>st</sup> 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 SpA.

The shareholders' meeting which meets in order to approve the financials 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 30<sup>th</sup> 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 1<sup>st</sup> 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 18<sup>th</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> 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 31<sup>st</sup> 2006 and later modified on November 13<sup>th</sup> 2006 and November 13<sup>th</sup> 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.

## **2.0 INFORMATION ON OWNERSHIP (ex art. 123-bis, sub-section 1, TUF) on December 31<sup>st</sup> 2015**

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

The capital stock which is approved, underwritten and paid out is 2.508.671,36 Euros divided into 4.824.368 ordinary shares for a nominal value of 0,52 Euros each.

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

There are no particular restrictions on the transfer of stock.

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

From the information and data available on December 31<sup>st</sup> 2015 the shareholders listed on the attached Table 1 have significant ownership (over 5%) of the capital stock of El.En.

### **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)**

None.

In relation to the regulations contained in the by-laws regarding offers of public acquisition (OPA), the shareholders' meeting voted on May 13<sup>th</sup> 2011 to include among the prerogatives of the Board of Directors, 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)**

At this time no authorization to increase the capital has been assigned to the Board.

As far as the treasury stock is concerned, on April 28<sup>th</sup> 2015 the shareholders' meeting authorized the board of directors to purchase treasury stock for the following concurrent or alternative reasons: to stabilize the stock, to assign stock to employees and/or collaborators, to use in exchange for equities during company acquisitions. The authorization was granted for the purchase, in exchange for payment of 20.000.000 (twenty million) Euros in one or more instalments, of a maximum number of ordinary shares, the only type of financial instrument currently issued by the company, which in any case, may not exceed one-fifth of the share capital. At this time twenty percent of the share capital underwritten and paid out by El.En. amounts to 964.873 shares.

The authorization was granted for the maximum period permitted by law, that is, 18 months after the resolution taken by the assembly.

The purchase may take place on the regular market for a price that is not more than 20% less nor more than 10% more than the official trading price registered the day before the purchase.

The board was also authorized to sell, within ten years after the purchase, the shares acquired at a price or equivalent in case of company transactions, that is not less than 95% of the average of the official trading prices registered during the five days preceding the sale or disposal of the stock.

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 of Directors (Section 4.1).

\* \* \*

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

Until the ordinary stock of El.En. was quoted on the stock market organized and managed by the Borsa Italiana S.p.A. on December 11<sup>th</sup> 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/borsaitaliana/regolamenti/corporategovernance/codice2015.pdf>.

This report is compiled bearing in mind Code 2014 which is accessible to the public at <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2014clean.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.

\* \* \*

## 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 15<sup>th</sup> 2007 in compliance with art. 147-ter comma 1 TUF and the *Regolamento Emittenti* 11971/1999, and then by the assembly held on October 28<sup>th</sup> 2010 in compliance with art. 147-ter sub-section 1-bis introduced most recently by art. 3 D. Lgs. January 27<sup>th</sup> 2010, n. 27 and by the one which met on May 15<sup>th</sup> 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 15<sup>th</sup> 2013, in consideration of the change in legislation and regulations concerning the validation of the right to present lists of candidates as per D. Lgs. 18<sup>th</sup> 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 24<sup>th</sup> 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 24<sup>th</sup> 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 24<sup>th</sup> 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 24<sup>th</sup> 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 26<sup>th</sup> 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. Emissanti* 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 of an actual succession plan for the executive board members since it is clear that any new board members that are chosen to replace one or more of the members who have ceased must be persons who have a profound knowledge of the functional and organizational characteristics of the company.

The Board has also based its evaluation on the fact that over time, thanks to the investment that the company has made in this sector, qualified personnel of the Company has acquired the managerial capacity which in any case would make it possible at any time to find a temporary replacement in case of necessity.

## **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 31<sup>st</sup> 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 – 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 28<sup>th</sup> 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 28<sup>th</sup> 2015 and, after the vote of the Board of Directors on May 15<sup>th</sup> 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 28<sup>th</sup> 2015 is listed below:

GABRIELE CLEMENTI – president and managing director of the board, born in Incisa Valdarno (Florence) on July 8<sup>th</sup> 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 President of the Board of Directors. Since 2000 he has also been executive director.

BARBARA BAZZOCCHI – managing director of the board, born in Forlì on June 17<sup>th</sup> 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 executive board member.

ANDREA CANGIOLI – managing director, born in Florence in December 31<sup>st</sup> 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 executive board member of the company and of numerous companies belonging to the Group.

ALBERTO PECCI – non-executive board member, born in Pistoia on September 18<sup>th</sup> 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 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 El.En. since 2002.

FABIA ROMAGNOLI – independent board member, born in Prato on July 14<sup>th</sup> 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.

MICHELE LEGNAIOLI – independent board member – born in Florence on December 19<sup>th</sup> 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 28<sup>th</sup> 2004 until 2010, president of the company Aeroporto di Firenze Spa. He has been an independent board member of the company since 2000.

At the end of their terms as members of the board, Paolo Blasi and Stefano Modi both became members of the Scientific Commission of the company. Their personal data is shown below.

STEFANO MODI – was born in Borgo San Lorenzo (Florence), on January 16<sup>th</sup> 1961. He is considered an executive member of the Board in compliance with applicative criteria 2.C.1 because he is director of the Research and Development department of the Company. In 1989, he received his degree in Electronic Engineering from the University of Florence and up until 1990 collaborated with the Institute of Quantistic Electronics on projects related to the technical and functional specifications as well as the design and engineering of diode lasers. Since 1990 he has been an employee of the Company and has worked on projects related to the technical and functional specifications engineering and development of various types of laser systems intended for use primarily in medical and aesthetic applications. Since 1999 he has been an officer of the company with management responsibilities in the medical research and development department. He was a board member from 2006 to 2015.

PAOLO BLASI – independent board member, born in Florence on February 11<sup>th</sup> 1940. He received his degree in Physics from the University of Florence in 1963, in 1971 received a teachers certificate for teaching General Physics. From 1979 o 1982 he was director of the National Laboratories of Legnaro of the I.N.F.N. (*Istituto Nazionale di Fisica*

*Nucleare*); from 1985 to 1989 he was a member of the Directing Committee of the I.N.F.N. and from 1989 to 1991 at the executive joint commission of the same institute; from 1987 to 1996 he was Vice President of the I.N.O. (*Istituto Nazionale di Ottica*). Since 1980 he has been Professor of the "Physics Laboratory" for the university course in physics. From November 1<sup>st</sup> 1991 until October 31<sup>st</sup> 2000 he was president (Magnifico Rettore) of the University of Florence. From 1994 to 1998 he was president of the *Conferenza dei Rettori delle Università Italiane* (C.R.U.I.), for two consecutive terms. He is a member of the *International Association of Universities* (I.A.U.) and during the "10<sup>th</sup> I.A.U. General Conference in New Delhi", in February 1995, he was elected member of the Administrative Board for the five year term from 1995-2000, and in 2000 re-appointed until 2004. In August of 1998 he was elected board member of CRE (Association of European Universities) and later was appointed vice president of the same association, up until March 2001. By decree of the Ministry of the University and Scientific Research on February 25<sup>th</sup> 1999 he was appointed member of the Board of Directors of the C.N.R. (*Consiglio Nazionale delle Ricerche*), and served on the board until 2003. He was elected executive board member of the Banca d'Italia representing the headquarters of Florence and Leghorn, during the Assembly of July 15<sup>th</sup> 1999 and reappointed in 2003. He has been a member of the Board of Directors of the *Ente Cassa di Risparmio* of Florence since and was re-elected in November of 2000 and in November of 2003. With a decree of the Ministry of Health on October 31<sup>st</sup> 2001 he was appointed member of the ministerial commission on University Hospitals and served in this position until 2002. From 2000 to 2004 he was a member of EURAB (*European Research Advisory Board*). Since 2003 he has been a member of the *Comité national d'Evaluation des établissements publics à caractère scientifique culturel et professionnel* upon appointment by the President of France.

Since 1970 he has collaborated in the elaboration and discussion of the Proposals for Laws on the University and on Research.

From 1974 to 1977 he was a member of the Board of Directors of the University of Florence.

Since 1981 he has been a member of the *Fondazione Internazionale Nova Spes* (for the Global Development of People and Society) and director of the *Istituto per una Scienza Aperta* of the same Foundation.

From 1983 to 1988 he was director of the Physics Department of the University of Florence and promoted and directed the creation of the *Laboratorio Europeo di Spettroscopie non Lineari* (L.E.N.S.) and of the *Centro Eccellenza Optronica* (C.E.O.).

He was a member of the Board of Directors of the consortium promoting study and research (*Consorzio per l'Incremento degli Studi e delle Ricerche*) of the Physics Institute of the University of Trieste from 1985 to 1991.

From 1988 to 2002 he was president of the technical and scientific committee for the evaluation of requests for financing of applied research projects for the development of Southern Italy in collaboration with the *Ministero per gli Interventi Straordinari nel Mezzogiorno* and presently with the ministry for Economic Planning (*Ministero del Tesoro, del Bilancio e della Programmazione Economica*).

In 1993-'94 he was a member of the Committee of Experts of MURST for the formulation of an agreement on Scientific and Technological parks in Southern Italy.

From 1994 to 2000 he was president of the consortium "Ortelius", that created the Data Base for all the institutes of advanced education in the European Union.

From 1994 to 1996 he was a member of the Technical and Scientific Commission of the Ministry of the University and Scientific and Technological Research aimed at identifying the types of intervention required in the economically depressed areas in Italy.

He is a member of the *National Geographic Society*, of the *Forum per i Problemi della Pace e della Guerra*, of the *Centre for the Study of Decorative Arts*, and the *Director's Advisory Committee* of the *Italian Academy for Advanced Studies in America* at Columbia University.

He is now or has been a member of the Board of Directors of various institutions including: *Officine Galileo*, from 1985 to 1988; *Società Galileo Vacuum Tec*, from 1988 to 1990; *Istituto Nazionale di Ottica (INO)*, from 1987 to 1996; *Fondazione Scienza e Tecnica*, from 1987 to 2000; *Fondazione "Progettare Firenze"*, since 1995; *Conservatorio di Santa Maria degli Angeli*, since 1985; *British Institute of Florence*, since 1995; *Scuola di Musica di Fiesole*, since 1996.

He has received several awards like the title of *Commendatore della Repubblica Italiana* (N° 8073 dell'elenco Nazionale sez. V), on December 27<sup>th</sup> 1992; the honorary degree of *Doctor of Humanae Litterae* conferred on May of 1997 by the University of New York; in May of 2000 he received the Sir Harold Acton Award from New York University; the title of *Chevalier de l'Ordre National de la Légion d'Honneur* was awarded to him in June of 2000 by the President of France; the honorary degree of *Doctor of Humanae Litterae* was awarded to him in December 2003 by the University of Arizona. He was an independent board member of the Company from 2000 to 2015.

### **Number and composition 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 28<sup>th</sup> 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.

The previous board, this year, during the meeting held on March 13<sup>th</sup>, conducted a self-evaluation on the activities conducted and on the indications concerning the composition and consistency of the new board.

The present board, during a self-evaluation process conducted during the inaugural meeting on May 15<sup>th</sup> 2015, deemed the members of their board as having the necessary expertise and professionalism.

The self-evaluation process is repeated once a year, normally during the approval of the financials for the preceding year.

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

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

Name	Position and name of company	Number of large size companies or those quoted on the stock market (also foreign)
Michele Legnaioli	<ul style="list-style-type: none"> <li>• Sole director of Valmarina s.r.l.</li> <li>• President of Braccialini s.r.l</li> <li>• Sole director of Webravo s.r.l.</li> </ul>	0
Fabia Romagnoli	<ul style="list-style-type: none"> <li>• Managing director of Mariplast Spa</li> <li>• President of the Fondazione Cassa di Risparmio of Prato</li> <li>• Member of the Comitato Consultivo Territoriale Toscana of the Banca Popolare di Vicenza</li> </ul>	0
Alberto Pecci	<ul style="list-style-type: none"> <li>• Executive President, E. Pecci &amp; C.</li> <li>• Executive President of Pecci Filati s.p.a.</li> <li>• Executive president of Toscofin srl</li> <li>• Sole Director of Centro P srl</li> <li>• Sole director of SMIL s.a.s di Alberto Pecci &amp; C.</li> <li>• Sole director of Alero sas di Alberto Pecci &amp; C</li> <li>• Sole director of Campora Immobiliare sas di Alberto Pecci &amp; C.</li> <li>• Sole director of Campora Immobiliare sas di Alberto Pecci &amp; C.</li> <li>• Sole director of Celledrese sas di Alberto Pecci e C.</li> <li>• Sole director of Finelda sas di</li> </ul>	1

	<p>Alberto Pecci &amp; C.</p> <ul style="list-style-type: none"> <li>• Executive vice-president of Immobiliare Marina di Salivoli srl.</li> <li>• Non-executive board member of Romigliano srl.</li> <li>• Non-executive board member of Ego srl.</li> <li>• Non-executive board member of Mediobanca spa</li> </ul>	
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### Maximum number of positions which can be held in other companies (I.C.3)

During the board meeting held on May 15<sup>th</sup> 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 31<sup>st</sup> 2015 none of the current board members or auditors has exceeded the maximum number of positions.

### Induction Program

As already mentioned, the current executive members of the Board 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.

For these reasons, in consideration of the current composition of the Board of Directors, and the Board of Auditors, there is no need for particular initiatives in relation to an induction program. It is evident that the President will take into consideration such a necessity should their occur a change in the compositions of these Boards.

### **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 I.P.1. and I.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 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.

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 2015 the Board of Directors met four (4) times on the following dates:

1. March 13<sup>th</sup>
2. May 15<sup>th</sup>
3. August 27<sup>th</sup>
4. November 13<sup>th</sup>

During the financial year 2015 all of the board members were present at all of the meetings (1.C.1.letter i).

In 2015 the board meetings lasted, on the average, 2.70 hours (1.C.1.letter i).

During the financial year 2016, the Board of Directors of El.En. has met on the following dates:

1. March 15<sup>th</sup>

and, on November 13<sup>th</sup> 2015 established the following calendar of meetings in compliance with the company regulations (1.C.1.letter i):

2. May 12<sup>th</sup> Quarterly report as of March 31<sup>st</sup> 2016;
3. August 29<sup>th</sup> – Half-yearly report
4. November 14<sup>th</sup> – Quarterly report as of September 30<sup>th</sup> 2016.

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 *brevis 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, 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 provosts for internal controls/internal auditors 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 13<sup>th</sup> 2015 (related to the activities of the second half of 2014: 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 procedures in the area of personnel with particular reference to the functioning of the new systems of recording the presence of personnel, to the implementation of an integrated system for managing the training courses, the payment of bonuses, the method used for calculating and paying the salaries, activities that are part of Law 262/05) and on August 27<sup>th</sup> 2015 (referred to the first semester of 2015: updating of the matrices of the areas of control; analysis of the procedures followed in the area of use of public resources with particular reference to co-financed research projects, tax credits for the hiring of highly qualified personnel, public tenders for improvements in the health and safety of the work place; 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 El.En. 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), El.En. as part of the activities *ex L. 262/2005*, again in 2015 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.

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 its subsidiaries in which one or more of the directors have an interest either for themselves or for a third party. Moreover, article 6 of the internal regulations for dealings with related parties requires that the Board Member who holds an interest, directly or indirectly, must inform the Board in advance and then absent themselves from the meeting, except in those cases in which they have to remain in order to not compromise the quorum, in which case instead of absenting himself/herself, he/she must abstain from the vote.

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 procedure annually. This examination is preceded by an analysis of the composition of the Board conducted by the Nominations Committee in a special meeting. During this meeting the Commission evaluates the competency of the members of the Board and the conformity of the composition in relation to the regulations and the company by-laws.

This year the evaluation was conducted on March 15<sup>th</sup> when the Board met for the first time. Since this was the first meeting of the newly appointed Board, and considering irrelevant the opinion expressed by the Nominating Committee, which, in any case had different members from the preceding year, the President decided to ask the opinion of the board of auditors which, having been in function since the preceding May and having observed the work of 5 or 6 members of the new Board during the meetings of the outgoing board, could give better guarantees as far the continuity of the evaluations was concerned.

Once a year, after the approval of the financial statement, the Board 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 15<sup>th</sup> 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 28<sup>th</sup> 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 powers the attribution of which is prohibited in conformity with law and the company statutes.

(2.P.4) The circumstance in which quite ample powers 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 even the most minor 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 reserves the right to further evaluate the expediency of appointing a *lead independent director* as described in Applicative criteria 2.C.3. or whether to adopt other 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).

### President 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 President 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 powers 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.

## 4.5. OTHER EXECUTIVE BOARD MEMBERS

Up until the election of the new Board of Directors on April 28<sup>th</sup> 2015, one of the members of the outgoing Board, Stefano Modi, was also the director of the research and development sector of El.En. and therefore was not qualified as an executive board member as per art. 2381, sub-section 2, c.c., however he was considered “executive” for the purposes of the Applicative criteria 2.C.1. and 6.C.1.

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 15<sup>th</sup> 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 financials for 2015 and of this Report, the Board, during the meeting of March 15<sup>th</sup> 2016, 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, during 2015 did not believe it necessary to convene formal meetings in the absence of the other directors because during the meetings of the commissions, and above all that for internal controls, they have the opportunity to consult and discuss many topics with each other and to have direct access to the management of the company.

During 2016, 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 16<sup>th</sup> 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 15<sup>th</sup> 2015.

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 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 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 executive board members, 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 31<sup>st</sup> 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 31<sup>st</sup> 2006 and subsequently modified by the resolution taken on November 13<sup>th</sup> 2006 and on November 13<sup>th</sup> 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.

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;
- 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 15<sup>th</sup> 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;
- 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 prevalently 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.

During this year the composition of the Nomination Committee changed, after the renewal of the Board of Directors on April 28<sup>th</sup> 2015.

Up until that date the committee had been composed of Alberto Pecci (non-executive), Paolo Blasi (non-executive and independent), and Michele Legnaioli (non-executive and independent).

The committee that is now in office was nominated by a resolution taken on May 15<sup>th</sup> 2015 and is composed as follows: Fabia Romagnoli (non-executive and independent), Alberto Pecci (non-executive) and Michele Legnaioli (non-executive and independent).

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 5<sup>th</sup> 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 2015 the committee met twice. All of the members were present and the meetings lasted 30 minutes. The work conducted during the meeting was coordinated by the president. All the members of the Board of Auditors participated.

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 2016, the committee has already met once, on March 14<sup>th</sup>, 2016.

### **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 2015, since the Board of Directors was at the end of their term, the committee proceeded to draw up the list of instructions to give to the shareholders concerning the size and composition of the board as well as those to be given to the board in relation to the maximum number of positions that the El.En executive administrators could hold at one time. Moreover, the committee assisted the board of directors in the annual self-evaluation process conducted during the meeting for the approval of the financials for 2014. During the inauguration of the new board on May 15<sup>th</sup> 2015 and the conferring of executive powers among the board members, it was authorized to proceed with the evaluation of the qualifications necessary for the appointment to the position of *lead independent director*.

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 composition of the committee has always been in compliance with the Code in its various versions.

During this year the composition of the committee changed after the election of the new Board of Directors on April 28<sup>th</sup> 2015.

Up until that time it had been composed of Alberto Pecci (non-executive), Paolo Blasi (non-executive and independent) and Michele Legnaioli (non-executive and independent).

The committee that is now in office was appointed by the resolution taken on May 15<sup>th</sup> 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 5<sup>th</sup> 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. During this year the committee met autonomously once.

The average duration of the committee meetings held this year was 45 minutes.

All of the committee members were present and the entire Board of Auditors was present.

The number of meetings held by the committee in 2016: 2 (two), held on February 16<sup>th</sup> and March 14<sup>th</sup>.

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, for example) and the president is on the Board of Directors of KME and Mediobanca Spa.

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 and the internal auditor participated in the meetings of the remuneration committee upon invitation from the committee and in relation to the specific subjects being dealt with. (Applicative criteria 4.C.1., lett. f) as well as the entire Board of Auditors (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 managers 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.

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

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

During this year the remuneration committee was involved chiefly in evaluating what had occurred with the incentive salary plan for 2014 and in the definition of a proposal for the remuneration policy of incentive salaries and the incentive salary plan for 2015. 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 members of the Board of Directors.

The entire Board of Auditors participated in the meeting of the Committee (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](http://www.elengroup.com) in the section: *Investor relations/governance/shareholders' meeting documents/2015*.

\* \* \*

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 2015 for the approval of the shareholders' meeting during the meeting for the approval of the financials for 2014. 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 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 15<sup>th</sup> 2015 specific written contractual agreements were stipulated with the President and the two managing directors which allow the reimbursement of the entire variable component of the remuneration assigned to them by the Board of Directors 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

There are none.

It should be noted that on the date of the approval of this Report, during the approval of the financials for 2015 the Board approved the submission to the shareholders' meeting of an incentive plan 2016-2025 for the administrators, collaborators and employees of El.En. 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 when the plan is implemented. For the purpose of obtaining the approval of the plan from the shareholders' assembly, the Board of Directors will have the task of defining the details of the plan and, in particular, to identify the recipients and determine the amount of options to be assigned as well as to set the price of the shares in conformity with the resolutions of the shareholders' assembly. The details will be made known in the special documentation which is drawn up and published in compliance with the law.

### 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 and approved by the shareholders' meeting on April 28<sup>th</sup> 2015, 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 13<sup>th</sup> was later definitively confirmed by the Board on May 15<sup>th</sup>, after the approval of the shareholders' of the first part of the Report on Remuneration and the conformity of the latter with these standards.

### 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 with strategic responsibilities who was a board member until the end of the term of the outgoing board 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.

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 the director of the financial reports**

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-disclosure 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. This year its composition was changed after the election of the new Board of Directors on April 28<sup>th</sup> 2015.

Up until that date the committee was composed of Alberto Pecci (non-executive), Paolo Blasi (non-executive and independent) and Michele Legnaioli (non-executive and independent).

The committee that is now in office was appointed by the resolution taken on May 15<sup>th</sup> 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 13<sup>th</sup> and on August 27<sup>th</sup>.

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 15<sup>th</sup> and another is scheduled for August 29<sup>th</sup>.

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 21<sup>st</sup> 2010 –regarding the requirements which must be possessed by companies belonging to the STAR segment, had already proceeded with the vote taken on May 13<sup>th</sup> 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).

On December 31<sup>st</sup> 2015 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, it must analyze the problems and implement the practices for the control of the company activities and in particular, as far as is compatible with the functions attributed by the law to the Board of Statutory Auditors of companies listed on the stock market, it must:

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

All the members of the Board of Auditors 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 5<sup>th</sup> 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.

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 13<sup>th</sup>, May 15<sup>th</sup>, August 27<sup>th</sup>, and November 13<sup>th</sup>, 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 of Directors, 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.

## **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 conducted by the director in charge of the 262/2005, 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 analysis of the procedures in the area of personnel, with particular reference to the presence of the staff, the methods and criteria for the selection and training of the personnel, the methods and criteria for the awarding of bonuses to employees, the methods and criteria for calculating and paying salaries, the analysis of the procedures followed for the use of public funds (co-financed research projects, tax credits for hiring highly qualified personnel; public tenders for improvements in the area of health and safety in the workplace); the activities conducted in compliance with L.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 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 Dekka 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.

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 15<sup>th</sup> 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 30<sup>th</sup> 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, and 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 12<sup>th</sup> 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 24<sup>th</sup> 1998, n. 58, or in the greater amount established by the Consob regulations bearing in mind the capitalization, floating funds and ownership of the quoted companies, may present lists.

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

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

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

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

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

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

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

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

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

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

*which received the greatest number of votes. In the case of the substitution of the acting Auditor, he will be replaced by the substitute Auditor belonging to the same list as the one who is being replaced.*

*In the case that no list has been presented before the expiration date, the Assembly will vote with the relative majority of partners present at the Assembly.*

*In the case that only one list has been presented the acting and supplementary auditors will be elected from that list in the order in which they appear on the list.*

*In the case that no minority list receives votes the integration of the Board of Statutory Auditors will take place by means of a vote with the relative majority of the partners present at the Assembly.*

*The composition of the body that is elected, in any case, must be of such a nature as to assure the balance between genders represented in conformity with art. 148, sub-section 1-bis, D. Lgs. 24 February 1998, n. 58.*

*The appointment of the auditors for the completion of the Board of Auditors in conformity with article 2401 c.c. is made by the Assembly with a relative majority.*

*In any case, the cessation of the appointment of one or more components of the controlling body, the designation and appointment of new members must be in compliance with the current regulations regarding the balance between genders represented.*

The present Board of Auditors was elected by the ordinary assembly on May 15<sup>th</sup> 2013 for the financial years 2013-2015 and expire upon the approval of the financial statement on December 31<sup>st</sup> 2015.

As of December 31<sup>st</sup> 2015, 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.

The shareholders' meeting that was called to approve the financial statement for the year, as stated above, must also appoint the new Board of 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 is 4,5%, in conformity with art.25 of the company by-laws, art. 144-sexies of the Reg. Emittenti and CONSOB resolution of January 28<sup>th</sup> 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 Immobiliare del Ciliegio s.r.l since no other lists were presented at the time of the elections held on May 15<sup>th</sup> 2013.

The election took place with a vote in favour by all of the shares represented at the meeting, i.e. exactly 2.666.404, which is equal to 55.269% of the capital stock.

The mandate of the present Board lasts for three years and will terminate with the approval of the financials for 2015.

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 and the supplementary auditors Manfredi Bufolini, refer to the following section:

[www.elengroup.com/investor\\_relations/documenti\\_assembleari/2013/Lista\\_candidati\\_alla\\_carica\\_di\\_componente\\_del\\_collegio\\_sindacale\\_-\\_triennio\\_2013-2015](http://www.elengroup.com/investor_relations/documenti_assembleari/2013/Lista_candidati_alla_carica_di_componente_del_collegio_sindacale_-_triennio_2013-2015); for the supplementary auditor Daniela Moroni, see the section titled [www.elengroup.com/investor\\_relations/documenti\\_assembleari\\_/2013/Lista\\_di\\_candidati\\_per\\_la\\_integrazione\\_del\\_collegio\\_sindacale\\_di\\_El.En.\\_in\\_carica\\_per\\_il\\_triennio\\_2013/2015](http://www.elengroup.com/investor_relations/documenti_assembleari_/2013/Lista_di_candidati_per_la_integrazione_del_collegio_sindacale_di_El.En._in_carica_per_il_triennio_2013/2015).

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 31<sup>st</sup> 2008 and confirmed on May 15<sup>th</sup> 2012, 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 acting auditors have participated in the committee for control and risk management.

The activities in relation to 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 27<sup>th</sup> 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. 8<sup>th</sup> June 2001, n. 231.

As of December 31<sup>st</sup> 2015 the Board is composed of three acting auditors and one supplementary auditor:

Name	Position	Residence	Place and date of birth
Vincenzo Pilla	President	Firenze, Via Crispi, 6	S. Croce di Magliano (CB), May 19 <sup>th</sup> 1961
Paolo Caselli	Acting auditor	Pistoia, Via Venturi, 1/B	Firenze, April 14 <sup>th</sup> 1966
Rita Pelagotti	Acting auditor	Firenze, Piazza Santo Spirito 7	Firenze, December 6 <sup>th</sup> 1956
Daniela Moroni	Supplementary auditor (appointed by the meeting of 15 May 2014 supplementing the board)	Firenze, Borgo Pinti 60	Monteverdi Marittimo (Pisa) 16 September 16 <sup>th</sup> 1952
Manfredi Bufalini	Supplementary auditor	Firenze, Piazza S. Firenze, 2	Firenze, August 24 <sup>th</sup> 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 31<sup>st</sup> 2015 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 126,67 minutes (2,111) hours.

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 2016, two of which have already been held, on January 28<sup>th</sup> and March 8<sup>th</sup>.

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 Consob*);
- during the year verified that their members continued to have the requisites for independence (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 program, 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 program. The president will take into consideration such measures should there be a change in the composition of the Board.

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 15<sup>th</sup> 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”.

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 and administrative 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 31<sup>st</sup> 2014:

### **“Article 11**

#### **Assembly**

*The legally constituted Assembly represents the entirety of the shareholders, and its decisions, made in conformity with the law and with the Statutes, are binding for all of the shareholders including those that dissent or were not present.*

*The Assembly may be ordinary or extraordinary and may be convened even in second or third convocation.*

*The ordinary Assembly must be convened at least once a year for the approval of the financial report within the terms established by the law. It can be convened within one-hundred and eighty days after the closing of the financial year for the years for which the company is obliged to draw up the consolidated statement and when particular reasons related to the structure and the subject of the company require it.*

*The Shareholders' Meeting is convened whenever the administrative body deems it opportune, or when a special request has been presented by the persons who may do so according to law, or else upon the initiative of the Board of Statutory Auditors or a part of it, in conformity with art. 25 of the current Statutes.*

### **Article 12**

#### **Place of assembly**

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

### **Article 13**

#### **Convocation of the Assembly**

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

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

### **Article 14**

#### **Attendance at the Assembly**

*Attendance at the Assembly is governed by the related laws and regulations now in effect.*

*The shareholders who have the right to vote may attend the assembly on the condition that, and for the number of shares in relation to which, they have deposited certification in conformity with the law.*

*A partner who has the right to attend the Assembly in conformity with D. Lgs February 24<sup>th</sup> 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 24<sup>th</sup> 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 generally 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 15<sup>th</sup> 2007 approved the assembly regulations drawn up by the board (Criteria 9.C.3), which were later modified on May 13<sup>th</sup> 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 28<sup>th</sup> 2010 after the innovations introduced by lawmakers with D. Lgs. No. 27 of January 27<sup>th</sup> 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](http://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](http://www.elen.it) investor relations section) as well as whenever an assembly meets.*

### **Art. 2 – Place and presidency of the assembly meetings**

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

### **Art. 3 – Attendance at the assembly**

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

*3.2. Upon invitation by the president, the employees of the Company, consultants and representatives of the company in*

charge of auditing the accounts may attend the assembly meetings when their presence is considered useful or opportune in relation to the subjects to be discussed or the work to be conducted.

3.3. Experts, financial analyst, and journalists, with the consent of the president, may also attend the meetings of the assembly unless there are objections on the part of the shareholders present. For this purpose, those who wish to attend must send the president a written request by the second weekday before the date set for the assembly.

3.4. Before starting the description and discussion of the various items in the Order of the Day, the president must inform the assembly of the presence and participation in the meeting of those persons indicated in sub-sections 3.2. and 3.3. above.

#### **Art. 4 – Verification of the right to attend the assembly and access to the meetings.**

4.1. Only the approved and authorized persons, as per article 3 above, after showing personal identification and verification of their legitimate right, may have access to the assembly rooms.

4.2. The personal identification and verification of the legitimate right to attend the assembly must be conducted by auxiliary personnel hired specifically for this purpose, at the entrance to the rooms where the meeting will be held and normally take place during the thirty minutes prior to the time set for the beginning of the meeting, unless otherwise stated in the notice of convocation.

4.3. at the entrance to the meeting rooms those persons who have the right to attend the assembly must display personal identification and the certification described in the notice of convocation to the auxiliary personnel. Once the identification and the verification has taken place as per sub-section 4.2. above, the auxiliary personal will give the attendees a special voucher which they must keep for the duration of the assembly meeting and return to the auxiliary personnel should they leave the meeting, even temporarily.

4.4. In order to facilitate the verification of the powers of representation to which they have the right, the persons who attend the assembly as legal or voluntary representatives of shareholders or of other persons who possess the right to vote, may send the documents proving their powers to the Company within the two days preceding the date set for the meeting.

4.5. Except for the audio-visual equipment which may be authorized by the president to assist the creation of the written report (minutes) and documentation of the meeting of the assembly, no type of recording equipment (including cell phones), photographic equipment or similar.

#### **Art. 5 – Constitution of the assembly and opening of discussions**

5.1. The president of the assembly is assisted in drawing up the minutes by a secretary appointed, even from among the non-shareholders, by the assembly on the basis of a proposal made by the president himself or by a notary and, when necessary in conformity with the law, by two scrutinizers designated in the same way among the non-shareholders. The secretary or the notary can be assisted by persons of their choice and, as an exception to art. 4.5, upon authorization by the president, they may use audio-visual recording equipment

5.2. Among his duties, the president also has that of ascertaining and guaranteeing the legitimacy of the individual delegations and, in general, the legitimacy of the attendees present at the assembly and, consequently, also to verify and declare the legitimate constitution of the assembly. The president may create a presidential office which has the task of assisting him in the verification of the legitimacy of the participation and of the voting, as well as the specific assembly procedures.

The president may solve any conflicts which may arise related to the legitimacy of the attendees.

5.3. The President of the assembly may make use of the security services provided by the auxiliary services which have been specifically hired for the occasion.

5.4. In the case that the number of shareholders present does not reach the amount of capital stock necessary for the legitimate constitution of the assembly in conformity with articles 17 and 18 of the company statutes, the president of the assembly, after an appropriate amount of time, in any case not less than an hour after the time set for the beginning of the meeting, will communicate this information to the attendees and postpone the discussion of the Order of the Day until the next convocation.

5.5. Once the legitimate constitution of the assembly has been ascertained, the president of the assembly declares that the discussions may begin.

#### **Art. 6 – Discussion of the subjects and proposals in the Order of the Day**

6.1. The president of the assembly must describe to the attendees the subjects and the proposals on the agenda, by using, whenever he deems opportune, the opinions of directors, auditors and employees of the Company. The subjects and the proposals can be dealt with in a different order that is approved on the basis of a proposal by the president with a vote by the majority of the capital represented, and, in the same way, a proposal by the president to deal partially or completely may be approved.

6.2. The president of the legitimate assembly also has the duty of directing and moderating the discussions and the right to intervene by establishing the methods and maximum duration of each intervention.

The president of the assembly has faculty to: call a conclusion to the discussions which are lasting longer than the set time limit or that are not pertinent to the subject or proposal on the agenda; to silence those who intervene without having the right to do so or those who have been reprimanded and persist; to prevent words and attitudes that are inappropriate, pretentious, aggressive, offensive or slanderous as well as evident excesses, revoking the right to speak whenever he deems necessary and, in the most serious cases, ordering the expulsion of the person from the meeting



area for the entire duration of the discussions.

6.3. The request to be present at the discussions of the individual subjects on the agenda must be directed to the president, who in granting the right to speak, normally follows the progressive order of the requests to speak. The faculty of a brief reply is granted to whoever has requested the right to speak.

6.4. The president of the assembly or, upon his invitation, the directors, auditors, company employees or consultants normally reply after all of the discussions on each subject on the agenda. The components of the administrative body and of the Board of Statutory Auditors may request to intervene in the discussions.

6.5. In order to prepare adequate replies to the various interventions, bearing in mind the purpose and relevance of the subjects and proposals being dealt with, the president of the assembly may, on the basis of his indisputable judgement, suspend the work of the assembly for an interval of not more than two hours.

6.6. After all of the interventions and replies, the president declares the discussions concluded and puts the proposals to a vote.

#### **Art. 7 – Voting and conclusion of the meeting**

7.1. Voting on the various items usually takes place right after the conclusion of the discussions on each item listed in the Order of the Day and the discussions are held in the order in which they appear in the agenda unless the president of the assembly decides otherwise and determines that the voting take place in a different order or after the conclusion of the discussions of all or some of the items.

7.2. Before the voting can begin, the president of the assembly must readmit the shareholders who wish to return to the meeting and had left or been expelled during the discussion time.

7.3. Except in the case of incontrovertible laws to the contrary, the voting must take place with open scrutiny.

7.4. The president of the assembly establishes the means for expressing the votes, which is normally by a show of hands, the recording and counting of the votes, and can also express a time limit within which the vote must be cast.

Upon conclusion of the voting, the scrutiny of the votes takes place; when this is terminated, the president, assisted by the secretary or the notary and scrutinizers if there are any, proclaims the results of the voting.

7.5. The votes that are expressed in a manner that is different from that established by the president of the assembly are null and void.

7.6. The shareholders who express negative votes or who abstain, must declare at the time of the declaration of their vote, their name and the number of shares which they hold on their own or for which they have power of attorney. After the agenda has been concluded, the president of the assembly declares the meeting terminated and proceeds with the formalities for the completion of the minutes.

#### **Art. 8 – Final provisions**

8.1. In compliance with art. 15 of the company statutes now in effect, this set of Regulations was approved, by the ordinary assembly of the Company which was held on May 15<sup>th</sup> 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 five of the six members present during the meeting held on April 28<sup>th</sup> 2015, 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 no significant variations occurred in the Market capitalization of the El.En. stock or in the structure of the company.

Consequently, no evaluation by the Board was necessary concerning whether or not it was opportune 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**

No changes have been made in the structure of 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.

<b>STRUCTURE OF CAPITAL STOCK</b>				
	Number of shares	% of the capital stock	Quoted	Rights and obligations
Ordinary shares	4.824.368	100%	Milan Stock Exchange	<i>ex lege</i>
Shares with limited voting rights	0			
Shares with no voting rights	0			

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

<b>SIGNIFICANT OWNERSHIPS IN SHAREHOLDERS' CAPITAL</b>				
Person declaring	Direct shareholder	Quota % of the ordinary capital	Quota % of the voting capital	
ANDREA CANGIOLI	ANDREA CANGIOLI	14,710	14,710	
GABRIELE CLEMENTI	GABRIELE CLEMENTI	9,920	9,920	
BARBARA BAZZOCCHI	BARBARA BAZZOCCHI	7,313	7,313	
ALBERTO PECCI	ALBERTO PECCI	0,345	0,345	
ALBERTO PECCI	S.M.I.L. di Alberto Pecci & C. s.a.s.	9,565	9,565	
IMMOBILIARE DEL CILIEGIO s.r.l.	IMMOBILIARE DEL CILIEGIO s.r.l.	7,512	7,512	

**TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES**

Board of Directors as of December 31 <sup>st</sup> 2015										Control and risks committee		Remuneration committee		Nomination committee		
Position	Members	From	Until	List (M/m)	Executive	Non Executive	Indep. As per the Code	Indep. for TUF	Percentage of attendance at meetings	Number of other positions	Members	Percentage of attendance at meetings	Members	Percentage of attendance at meetings	Members	Percentage of attendance at meetings
<i>President and managing director</i>	Gabriele Clementi	April 28 <sup>th</sup> 2015	Appr. of annual report 2017	M	X				100%	0						
<i>Managing director</i>	Andrea Cangioli	April 28 <sup>th</sup> 2015	Appr. of annual report 2017	M	X				100%							
<i>Managing director</i>	Barbara Bazzocchi	April 28 <sup>th</sup> 2015	Appr. of annual report 2017	M	X				100%	0						
<i>Director</i>	Fabia Romagnoli	April 28 <sup>th</sup> 2015	Appr. of annual report 2017	M		X	X	X	100%	0	X	100%	X	100%	X	100%
<i>Director</i>	Alberto Pecci	April 28 <sup>th</sup> 2015	Appr. of annual report 2017	M		X			100%	0	X	100%	X	100%	X	100%
<i>Director</i>	Michele Legnaioli	April 28 <sup>th</sup> 2015	Appr. of annual report 2017	M		X	X	X	100%		X	100%	X	100%	X	100%
Number of meetings held during 2015				Board of Directors: 4 (four)		Control and risks committee 2 (two)				Remuneration committee: 2(two)				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**

<b>Position</b>	<b>Member</b>	<b>since</b>	<b>until</b>	<b>List (M/m)</b>	<b>Indipendence from Code</b>	<b>Percentage of attendance at the board meetings</b>	<b>Number of other positions in companies quoted on the Italian stock market</b>
President	Vincenzo Pilla	May 15 <sup>th</sup> 2013	Approval annual report 2015	<b>M</b>	<b>X</b>	<b>100%</b>	0
Acting auditor	Paolo Caselli	May 15 <sup>th</sup> 2013	Approval annual report 2015	<b>M</b>	<b>X</b>	<b>100%</b>	0
Acting auditor	Rita Pelagotti	June 25 <sup>th</sup> 2013	Approval annual report 2015	<b>M</b>	<b>X</b>	<b>83%*</b>	0
Supplementary auditor	Daniela Moroni	May 15 <sup>th</sup> 2014	Approval annual report 2015	<b>M</b>	<b>X</b>	----	0
Supplementary auditor	Manfredi Bufalini	May 15 <sup>th</sup> 2013	Approval annual report 2015	<b>M</b>	<b>X</b>	-	0
<b>Number of meetings held in 2015: 6</b>							
<b>CONSOB, with resolution 19499 of January 28<sup>th</sup> 2016 set the amount required for the presentation of the lists at 4,5% of the capital stock.</b>							

## **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 Report model to which, for the computer aspects, the COBIT model “Control Objectives for Information and Related Technology”) has been added.

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

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

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

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

The process of *risk assessment* is divided into the following activities:

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

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

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

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

At the *company level* specific controls have been identified as “pervasive”, meaning that they characterize the entire company, like assigning of responsibilities, powers, and jobs, and controls of a general nature on the computer systems, the separation of incompatible jobs.

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

The periodic verification and evaluation of the adequacy, effectiveness and efficiency of the administrative and accounting controls is divided into the following phases:

- **Continuous supervision**, by the managers of the operations/company which is an integral part of the current management;
- **Conducting of the activities of control and monitoring** for the purpose of evaluating the adequacy of the plan and the actual effectiveness of the controls being used, conducted by the executive delegated to internal controls who makes use of the assistance of Financila 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.

## **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 ***Executive Director 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.

**EL.EN. GROUP  
CONSOLIDATED FINANCIAL STATEMENT  
AS OF DECEMBER 31<sup>st</sup> 2015**

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

## Consolidated statement of financial position

	Notes	31/12/2015	31/12/2014
<b>Statement of financial position</b>			
Intangible assets	1	3.857.645	3.613.011
Tangible assets	2	32.621.079	26.926.972
Equity investments:	3		
- in associates		3.101.634	2.930.730
- other investments		41.454.863	22.618.578
Total equity investments		44.556.497	25.549.308
Deferred tax assets	4	6.084.724	5.682.388
Other non current assets	4	10.646.054	2.823
<b>Total non current assets</b>		<b>97.765.999</b>	<b>61.774.502</b>
Inventories	5	58.061.398	50.480.679
Accounts receivables:	6		
- from third parties		60.261.122	47.277.221
- from associates		1.065.489	670.219
Total accounts receivables:		61.326.611	47.947.440
Tax receivables	7	7.826.038	6.617.939
Other receivables:	7		
- from third parties		7.131.827	8.353.211
- from associates		130.455	61.565
Total other receivables		7.262.282	8.414.776
Financial instruments	8	1.964.722	
Cash and cash equivalents	9	46.989.707	73.803.583
<b>Total current assets</b>		<b>183.430.758</b>	<b>187.264.417</b>
<b>TOTAL ASSETS</b>		<b>281.196.757</b>	<b>249.038.919</b>
Share capital	10	2.508.671	2.508.671
Additional paid in capital	11	38.593.618	38.593.618
Other reserves	12	86.875.333	50.291.386
Treasury stock	13		
Retained earnings / (deficit)	14	28.117.462	35.042.944
Net income / (loss)		14.370.850	16.520.110
<b>Share Capital and Reserves attributable to the Shareholders' of the Parent Company</b>		<b>170.465.934</b>	<b>142.956.729</b>
Share Capital and Reserves attributable to non-controlling interests		9.072.966	7.578.945
<b>Total equity</b>		<b>179.538.900</b>	<b>150.535.674</b>
Severance indemnity	15	3.375.717	3.700.224
Deferred tax liabilities	16	1.638.163	1.460.805
Other accruals	17	2.889.774	2.694.861
Financial liabilities:	18		
- to third parties		4.998.252	5.907.331
Total financial liabilities		4.998.252	5.907.331
<b>Non current liabilities</b>		<b>12.901.906</b>	<b>13.763.221</b>
Financial liabilities:	19		
- to third parties		14.363.064	21.494.475
Total financial liabilities		14.363.064	21.494.475
Accounts payables:	20		
- to third parties		42.037.992	35.265.868
- to associates		26.700	1.148
Total accounts payables		42.064.692	35.267.016
Income tax payables	21	3.841.693	2.222.890
Other payables:	21		
- to third parties		28.486.502	25.755.643
Total other payables		28.486.502	25.755.643
<b>Current liabilities</b>		<b>88.755.951</b>	<b>84.740.024</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>281.196.757</b>	<b>249.038.919</b>

## Consolidated Income Statement

Income statement	Note	31/12/2015	31/12/2014
Revenues:	22		
- from third parties		213.596.932	178.360.793
- from associates		4.073.018	1.647.836
Total revenues		217.669.950	180.008.629
Other revenues and income:	23		
- from third parties		2.306.015	2.314.189
- from associates		20.259	65.435
Total other revenues and income		2.326.274	2.379.624
<b>Total revenues and income</b>		<b>219.996.224</b>	<b>182.388.253</b>
Purchase of raw materials:	24		
- to third parties		114.200.753	89.123.243
- to associates		271	13.210
Total purchase of raw materials		114.201.024	89.136.453
Change in inventory of finished goods and WIP		(1.569.327)	(3.114.208)
Change in inventory of raw material		(6.177.119)	366.337
Other direct services:	25		
- to third parties		17.217.517	14.148.438
- to associates		6.598	2.689
Total other direct services		17.224.115	14.151.127
Other operating services and charges:	25		
- to third parties		28.261.906	25.508.253
- to associates		252.942	149.533
Total other operating services and charges		28.514.848	25.657.786
For staff costs	26	42.136.351	38.228.009
Depreciation, amortization and other accruals	27	4.167.429	2.661.340
<b>EBIT</b>		<b>21.498.903</b>	<b>15.301.409</b>
Financial charges:	28		
- to third parties		(1.963.865)	(1.638.001)
Total financial charges		(1.963.865)	(1.638.001)
Financial income	28		
- from third parties		3.308.391	6.275.651
- from associates		1.374	349
Total financial income		3.309.765	6.276.000
Share of profit of associated companies		277.731	39.566
Other net expenses	29	(9.708)	(54.982)
Other net income	29		4.484.562
<b>Income (loss) before taxes</b>		<b>23.112.826</b>	<b>24.408.554</b>
Income taxes	30	7.063.719	6.408.623
<b>Income (loss) for the financial period</b>		<b>16.049.107</b>	<b>17.999.931</b>
Minority interest		1.678.257	1.479.821
<b>Net income (loss)</b>		<b>14.370.850</b>	<b>16.520.110</b>

Basic net (loss) income per share	31	2,98	3,42
Diluted net (loss) income per share		2,98	3,42

\* In compliance with Consob regulation 15519 of July 27<sup>th</sup> 2006 the amounts related to significant non-recurring operations for 2014 for an amount of 1.478 thousand Euros entered under the heading of "Amortizations, depreciations and other accruals" are entered in note (34).

## *Consolidated statement of comprehensive income*

	Note	31/12/2015	31/12/2014
Reported net (loss) income (A)		16.049.107	17.999.931
<u>Other income/(loss) that will not be entered in income statement net of fiscal effects:</u>			
Measurement of defined-benefit plans		254.932	(286.231)
Capital gains (loss) on sale of treasury stock		0	(66.190)
<u>Other income/(loss) that will be entered in income statement net of fiscal effects:</u>			
Cumulative conversion adjustments		(177.855)	10.334
Unrealized gain (loss) on investment AFS	33	18.167.364	585.444
Unrealized gain (loss) on derivatives and other changes		500	5.762
<b>Total other income/(loss), net of fiscal effects (B)</b>		<b>18.244.941</b>	<b>249.119</b>
<b>Total comprehensive (loss) income (A)+(B)</b>		<b>34.294.048</b>	<b>18.249.050</b>
Referable to:			
Parent Shareholders		32.377.275	16.519.303
Minority Shareholders		1.916.773	1.729.747

## Consolidated cash flow statement

Cash Flow Statement	Note	31/12/2015	Related parties	31/12/2014	Related parties
<b>Cash flow generated by operating activity:</b>					
Profit (loss) for the financial period		16.049.107		17.999.931	
Amortizations and depreciations	27	3.131.892		2.710.144	
Gain on investment AFS	29			-4.484.562	
Re-Devaluations of equity investments	29	8.026		54.982	
Share of profit of associated companies		-277.731	-277.731	-39.566	-39.566
Change of employee severance indemnity	15	39.102		585.125	
Change of provisions for risks and charges	17	194.913		-1.790.186	
Change of provisions for deferred income tax assets	4	-511.013		440.466	
Change of provisions for deferred income tax liabilities	16	-75.925		157.440	
Stocks	5	-7.580.719		-2.108.612	
Receivables	6	-13.379.171	-395.270	-5.402.292	8.459
Tax receivables	7	-1.208.099		-2.363.872	
Other receivables	7	729.236		-2.761.367	
Payables	20	6.797.676	25.552	4.039.771	-1.580
Income Tax payables	21	1.618.803		496.905	
Other payables	21	2.730.859		7.010.269	
		-7.782.151		-3.455.355	
<b>Cash flow generated by operating activity</b>		<b>8.266.956</b>		<b>14.544.576</b>	
<b>Cash flow generated by investment activity:</b>					
(Increase) decrease in tangible assets	2	-8.567.014		-7.610.331	
(Increase) decrease in intangible assets	1	-503.619		-389.324	
(Increase) decrease in equity investments and non current assets	3-4	-10.960.067		21.105.039	1.968.878
Increase (decrease) in financial receivables	7	423.258	-68.890	670.541	2.000
(Increase) decrease investments which are not permanent	8	-1.964.722		299.995	
<b>Cash flow generated by investment activity</b>		<b>-21.572.164</b>		<b>14.075.920</b>	
<b>Cash flow from financing activity:</b>					
Increase (decrease) in non current financial liabilities	18	-908.579		-1.061.000	
Increase (decrease) in current financial liabilities	19	-7.131.411		5.731.660	
Variations in the net capital of third parties				357.263	
Acquisition (sale) of treasury stock	13			461.873	
Dividends distributed	32	-5.390.845		-2.949.594	
<b>Cash flow from financing activity</b>		<b>-13.430.835</b>		<b>2.540.202</b>	
<b>Change in cumulative conversion adjustment reserve and other non monetary changes</b>		<b>-77.833</b>		<b>-225.199</b>	
<b>Increase (decrease) in cash and cash equivalents</b>		<b>-26.813.876</b>		<b>30.935.499</b>	
<b>Cash and cash equivalents at the beginning of the financial period</b>		<b>73.803.583</b>		<b>42.868.084</b>	
<b>Cash and cash equivalents at the end of the financial period</b>		<b>46.989.707</b>		<b>73.803.583</b>	

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 704 thousand Euros.

Income taxes for this financial year amounted to 7,6 million Euros.



## Changes in the consolidated shareholders' equity

<i>SHAREHOLDERS' EQUITY:</i>	Balance 31/12/2013	Net income allocation	Dividends distributed	Other operations	Comprehensive (loss) income	Balance 31/12/2014
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 shares	-528.063			528.063		
Others reserves:						
Extraordinary reserves	42.447.942		-402.825			42.045.117
Reserve for contribution on capital account	426.657					426.657
Cumulative conversion adjustments reserve	276.618				-273.044	3.574
Other reserves	6.804.908				473.828	7.278.736
Retained earnings	31.121.466	6.080.170	-1.998.785	41.684	-201.591	35.042.944
Profits (loss) of the year	6.080.170	-6.080.170			16.520.110	16.520.110
<i>Parent company's shareholders' equity</i>	128.269.289	0	-2.401.610	569.747	16.519.303	142.956.729
Capital and reserves of third parties	5.697.829	338.838	-547.984	360.515	249.926	6.099.124
Profit (loss) of third parties	338.838	-338.838			1.479.821	1.479.821
<i>Share Capital and Reserves attributable to non-controlling interests</i>	6.036.667	0	-547.984	360.515	1.729.747	7.578.945
<i>Total Shareholders' equity</i>	134.305.956	0	-2.949.594	930.262	18.249.050	150.535.674

<i>SHAREHOLDERS' EQUITY:</i>	Balance 31/12/2014	Net income allocation	Dividends distributed	Other operations	Comprehensive (loss) income	Balance 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 shares	0					0
Others reserves:						
Extraordinary reserves	42.045.117	18.704.726				60.749.843
Reserve for contribution on capital account	426.657					426.657
Cumulative conversion adjustments reserve	3.574				-381.158	-377.584
Other reserves	7.278.736				18.260.379	25.539.115
Retained earnings	35.042.944	-2.184.616	-4.824.368	-43.702	127.204	28.117.462
Profits (loss) of the year	16.520.110	-16.520.110			14.370.850	14.370.850
<i>Parent company's shareholders' equity</i>	142.956.729	0	-4.824.368	-43.702	32.377.275	170.465.934
Capital and reserves of third parties	6.099.124	1.479.821	-566.477	143.725	238.516	7.394.709
Profit (loss) of third parties	1.479.821	-1.479.821	0	0	1.678.257	1.678.257
<i>Share Capital and Reserves attributable to non-controlling interests</i>	7.578.945	0	-566.477	143.725	1.916.773	9.072.966
<i>Total Shareholders' equity</i>	150.535.674	0	-5.390.845	100.023	34.294.048	179.538.900

The amounts entered in the column "Comprehensive (loss) income" refer to:

- the conversion reserve for the change that involved the assets in currency held by the Group;
- the other reserves, for which there was an increase mostly due to the reserve for the evaluation of the Cynosure equity AFS as a result of the adaptation to fair value on December 31<sup>st</sup> 2015 of the residual equity;
- the retained earnings that are mainly involved in the remeasurement of the severance pay 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 15<sup>th</sup> 2016.

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 Annual Report consists of:

- the Consolidated Statement of financial position,
- the Consolidated Income Statement,
- the Consolidated statement of comprehensive income
- the Consolidated Cash flow statements
- 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 2015 and 2014. The financial information, however, is supplied with reference to December 31<sup>st</sup> 2015 and December 31<sup>st</sup> 2014.

The parent company El.En. S.p.A. appointed the Independent auditors Deloitte & Touche S.p.A. for the consolidated financial statement dated December 31<sup>st</sup> 2015.

### COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

This consolidated statement for the financial year ending December 31<sup>st</sup> 2015 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 1<sup>ST</sup> 2015

#### *Accounting principles, amendments and IFRS interpretations applied since January 1<sup>st</sup> 2015*

#### **IFRIC 21 Taxes**

L'IFRIC 21 clarifies that an entity cannot recognize a liability before the event to which the payment is connected occurs, in compliance with the applicable law. For payments that are due only because a certain minimum limit has been exceeded, the liability can be entered only when that limit has been reached. The retroactive application for IFRIC 21 is required.

This interpretation did not have any impact on the Consolidated Financial Statement of the Group.

### Annual improvement plan 2011– 2013

These improvements include:

- IFRS 3 - Business combinations
- IFRS 13 – Evaluation of fair value
- IAS 40 - Real estate investments

The application of this amendment did not have any effect on the Consolidated Financial Statement of the Group.

**The following accounting standards, amendments and interpretations must be applied for financial years starting after February 1<sup>st</sup> 2015:**

### Modifications to IAS 19: Defined benefit plans: employee contribution

The modification to IAS 19 clarifies that, if the amount of the contribution by the employees to defined benefit plans is independent of the number of years of service, the entity may report these contributions as a reduction in cost of service during the period in which the service has been given, instead of allocating the contributions on the periods of service.

### Annual improvement plan 2010 – 2012

These improvements include:

- IFRS 2 - Payments based on shares
- IFRS 3 - Business combinations
- IFRS 8 - Operating sectors
- IFRS 13 Fair value measurement
- IAS 16 - Real estate, plants, and machinery and IAS 38 – Intangible assets
- IAS 24 - Information in the statement on the operations with related parties

At this time the directors are evaluating the possible effects of the application of these modifications on the consolidated financial statement of the Group.

The chart below shows the other modifications to the existing accounting standards and interpretations, or specific forecasts contained in the standards and the interpretations approved by the IASB, and shows those that have been approved or not been approved by the European Union on the date that this statement was issued:

<b>Description</b>	<b>Approved on the date of this statement</b>	<b>Expected date that the standard will become effective</b>
IFRS 9 Financial Instruments	NO	01-Jan-18
IFRS 14 Regulatory deferral accounts	NO	01-Jan-16
IFRS 15 Revenue from contracts with customers	NO	01-Jan-18
IFRS 16 Leases	NO	01-Jan-19
Amendments to IFRS 10, IFRS 12 and IAS 28: Applying the consolidation exception (issued in December 2014)	NO	01-Jan-16
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	NO	Not defined
Amendments to IAS 1: Disclosure Initiative (issued on 18 December 2014)	YES	01-Jan-16
Annual Improvements to IFRSs 2012–2014 Cycle (issued on September 2014)	YES	01-Jan-16
Amendments to IAS 16 and IAS 41: Bearer Plants (issued in June 2014)	YES	01-Jan-16
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)	YES	01-Jan-16
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)	YES	01-Jan-16

The Group has not adopted any 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:	Notes	Headquarters	Currency	Subscr. capital	Percentage held:			Consolidated Percentage
					Direct	Indirect	Total	
<b>Parent company:</b>								
El.En. SpA		Calenzano (ITA)	EURO	2.508.671				
<b>Subsidiary companies:</b>								
Deka M.E.L.A. Srl		Calenzano (ITA)	EURO	40.560	85,00%		85,00%	85,00%
Cutlite Penta Srl		Calenzano (ITA)	EURO	154.621	96,65%		96,65%	96,65%
Esthelogue Srl	1	Calenzano (ITA)	EURO	100.000	50,00%	50,00%	100,00%	100,00%
Deka Sarl		Lyons (FRA)	EURO	155.668	100,00%		100,00%	100,00%
Lasit SpA		Torre Annunziata (ITA)	EURO	1.154.000	70,00%		70,00%	70,00%
BRCT Inc.		New York (USA)	USD	no par value	100,00%		100,00%	100,00%
Quanta System SpA		Solbiate Olona (ITA)	EURO	1.500.000	100,00%		100,00%	100,00%
Asclepion Laser Technologies GmbH	2	Jena (GER)	EURO	2.025.000	50,00%	50,00%	100,00%	100,00%
ASA Srl	3	Arcugnano (ITA)	EURO	46.800		60,00%	60,00%	51,00%
With Us Co Ltd	4	Tokyo (JAP)	YEN	100.000.000		78,85%	78,85%	78,85%
Deka Japan Co. Ltd		Tokyo (JAP)	YEN	10.000.000	55,00%		55,00%	55,00%
Penta Chutian Laser (Wuhan) Co Ltd	5	Wuhan (CHINA)	YUAN	20.467.304		55,00%	55,00%	53,16%
Penta Laser Equipment (Wenzhou) Co Ltd	6	Wenzhou (CHINA)	YUAN	16.747.725		55,00%	55,00%	53,16%
Cutlite do Brasil Ltda		Blumenau (BRASIL)	REAL	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 Srl		Calenzano (ITA)	EURO	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)	EURO	200.000		100,00%	100,00%	92,50%
Accure Quanta Inc	10	Wilmington (USA)	USD	5		100,00%	100,00%	100,00%
Merit Due Srl	11	Calenzano (ITA)	EURO	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

On August 31<sup>st</sup> 2015 the subsidiary company Quanta System SpA created the Accure Quanta company.  
On October 8<sup>th</sup> 2015 the subsidiary Cutlite Penta Srl acquired a 100% interest in Merit Due Srl company.  
On December 17<sup>th</sup> 2015 the subsidiary Quanta System SpA sold its interest in Quanta France to a third party.  
On December 22<sup>nd</sup> 2015 100% control of the Pharmonia Srl company passed from the subsidiary Asclepion to the Parent Company El.En., which purchased the equity for the amount of 50 thousand Euros.

Moreover, during 2015, LT Tech company of Carlsbad, Inc (ex Deka Laser Technologies Inc.) and Lenap Inc. (ex Lasit Usa), which had ceased all activity already last year and were about to be liquidated have now been definitively cancelled.

## 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:	Notes	Headquarters	Currency	Subscr.capital	Percentage held:			Consolidated percentage
					Direct	Indirect	Total	
Immobiliare Del.Co. Srl		Solbiate Olona (ITA)	EURO	24.000	30,00%		30,00%	30,00%
Actis Srl		Calenzano (ITA)	EURO	10.200	12,00%		12,00%	12,00%
SBI S.A.		Herzele (B)	EURO	1.200.000	50,00%		50,00%	50,00%
Elesta Srl		Calenzano (ITA)	EURO	110.000	50,00%		50,00%	50,00%
Chutian (Tianjin) Lasertechnology Co. LTD	1	Tianjin (China)	YUAN	2.000.000		49,00%	49,00%	26,05%
Quanta 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 (49%)

(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 2015" in the Management Report.

## TREASURY STOCK

On April 28<sup>th</sup> 2015 the shareholders' meeting of the Parent Company El.En. S.p.A. authorized the Board of Directors to purchase treasury stock. The purchase of treasury stock as it was proposed by the board of directors, will be conducted for the following concurrent or alternative purposes: to stabilize the stock, to assign to employees and/or collaborators, to exchange during company acquisitions. The authorization was granted for the purchase, for a maximum payment of 20.000.000,00 Euros (twenty million), in one or more instalments of a maximum number of ordinary shares, the only category of financial instrument now issued by the company which, in any case, shall not exceed one fifth of the capital stock. At this time 20% of the capital underwritten and paid out of El.En. is equal to 964.873 shares. The authorization is granted for the maximum period allowed by the law, i.e., 18 months from the date of authorization.

The purchase may take place on the regular stock market at a price that is not less by more than 20%, nor greater by more than 10% of the official price of the negotiations registered during the day preceding the purchase. The board of directors has also been authorized to sell, within ten years of the purchase, the shares at a price, or equivalent in the case of company operations, which is not less than 95% of the average of the official prices of negotiations registered during the five days preceding the sale or disposal.

As of the date of this document the Board of Directors had not initiated any operations for the purchase of 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 1<sup>st</sup> 2004 are involved in the determination of the capital gains and losses deriving from their possible sale.

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

	Exchange Rate	Average exchange rate	Exchange Rate
Currencies	31/12/2014	31/12/2015	31/12/2015
USD	1,2141	1,1095	1,0887
Yen	145,23	134,31	131,07
Yuan	7,54	6,97	7,06
Real	3,22	3,70	4,31

## 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 identified in the company acquired. The costs of acquisitions are entered into accounts and classified among the management expenses.

When the Group acquires a business, it must classify or designate the financial assets acquired or liabilities assumed in compliance with the terms of the contract acquired, the economic conditions and the other pertinent conditions in force on the date of the purchase. This includes the verification conducted in order to establish if an incorporated derivative must be separated from the primary contract.

If the business combination takes place in more than one phase, the purchaser must recalculate the fair value of the equity held previously and evaluated with the shareholders' equity method and report in the Income Statement any profits or losses which have been registered.

Every potential amount must be reported by the purchaser at fair value on the date of acquisition. The variation in the fair value of the potential amount classified as asset or liability will be reported in compliance with IAS 39, in the Income Statement and in the chart showing the other components of the overall Income Statement. If the potential amount is classified in the shareholder's equity, its value must not be recalculated until its extinction is entered into accounts against the capital and reserves.

Goodwill is initially evaluated at the costs which emerges from the excess between the sum of the amounts paid and the amount recognized for the minority quotas with respect to the identified net assets acquired and the liabilities assumed

by the Group. If the amount is less than the fair value of the net assets of the subsidiary acquired, the difference is reported in the Income Statement.

After the initial reporting, the goodwill is evaluate at cost reduced by the amount of losses accumulated. After the verification of loss of value, the goodwill acquired in a business combination, after the date of acquisition must be allocated to macho 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 1<sup>st</sup> 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 31<sup>st</sup> 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 1<sup>st</sup> 2010*

The business combinations registered before January 1<sup>st</sup> 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:

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

#### **C) FINANCIAL CHARGES**

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

#### **D) LOSSES IN VALUE OF ASSETS**

At each date referred to in the financial year shown, the tangible and intangible assets with a finite life have been assessed for the purposes of identifying any indicators of loss in value. The recoverable value of the goodwill and intangible assets with an indefinite life, where present, have been estimated at each date of reference. If there is any indication of a reduction in value the presumed cashing-in value is estimated.

The presumed cashing-in value is the higher of the two variables, net sales price and utility value. In determining the utility value, expected cash flow are discounted using a pre-tax discount rate which reflects the current market value of the money rate referred to the investment period and specific risks of the business. For a business not generating highly independent flows of funds, the cashing-in value is determined in relation to the cash-generating unit which the said



business belongs to. A loss of value is entered in the Income Statement wherever the value entered for the asset or the relative cash generating unit which it is allocated to, is higher than the presumed cashing-in value. With the exception of goodwill, value losses are readjusted wherever the causes which have generated them cease to exist.

#### **E) FINANCIAL ASSETS: EQUITIES**

Financial assets which consist of equities in associated companies are evaluated according to the shareholders' equity method, that is to say, for an amount equal to the corresponding fraction of the shareholders' equity shown in the last financial statement of the companies, after having subtracted the dividends and after having made the rectifications required by the accounting standards used for drawing up the consolidated statement in compliance with the IFRS to make them compatible with the accounting standards used by the Parent Company.

The joint-venture companies are evaluated in the consolidated statement using the shareholders' equity method, starting with the date on which the joint-venture was initiated until it ceased to exist.

#### **F) FINANCIAL INSTRUMENTS**

##### **Equities in other companies**

The equities in other companies which are not subsidiaries or associated (usually with an ownership of less than 20%) 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.

##### **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 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 31<sup>st</sup> 2006 the severance indemnity fund was considered a defined benefit plan. The regulating of this fund was changed by law no. 296 of December 27<sup>th</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> 2013 retroactively, re-determining the amounts of the financial position shown on January 1<sup>st</sup> 2012 and December 31<sup>st</sup> 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.

#### **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.

## ***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:

<i>Categories</i>	<b>Balance</b>		<b>Other</b>			<b>Conversion</b>	<b>Balance</b>
	<b>31/12/14</b>	<b>Variation</b>	<b>(Devaluation)</b>	<b>Operations</b>	<b>(Amortizations)</b>	<b>Adjustments</b>	<b>31/12/15</b>
Goodwill	3.038.065						3.038.065
Costs of research, development	43.912	126.453			-64.099		106.266
Patents and rights to use patents of others	46.831	8.689			-17.469		38.051
Concessions, licences, trade marks and similar rights	210.276	137.108			-156.259	5.339	196.464
Other	18.117	31.766			-21.158		28.725
Intangible assets in progress and payments on account	255.810	263.660		-69.396			450.074
<i>Total</i>	<b>3.613.011</b>	<b>567.676</b>		<b>-69.396</b>	<b>-258.985</b>	<b>5.339</b>	<b>3.857.645</b>

### **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”:

<b>CASH GENERATING UNIT (CGU)</b>	<b>Goodwill 31/12/2015</b>	<b>Goodwill 31/12/2014</b>
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
<b>Total</b>	<b>3.038.065</b>	<b>3.038.065</b>

As of December 31<sup>st</sup> 2015 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 accounting 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 2016-2018. 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 2015 and with the outlook for the particular market in which they operate.

The Board of Directors considered the assumptions and the corresponding financials to be suitable for purposes of conducting the impairment test and approved the results obtained.

The actualization rate applied to the expected cash flows (WACC) is 7,26%; for the cash flows related to the years following the period of explicit forecasts, we hypothesize a long term growth rate “g” of 1,5%.

By determining the recoverable amount on the basis of these parameters it was possible to avoid making any reductions in the value of the goodwill.

An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the book value assuming the following hypothesis: a growth rate “g” of 0,5% and a WACC +1% equal to 8,26%.

**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 2016-2018. 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 2015.

The Board of Directors considered the assumptions and the corresponding financials to be suitable for purposes of conducting the impairment test and approved the results obtained.

The actualization rate applied to the expected cash flows (WACC) is 7,26%; for the cash flows related to the years following the period of explicit forecasts, we hypothesize a long term growth rate “g” of 1,5%.

By determining the recoverable amount on the basis of these parameters it was possible to avoid making any reductions in the value of the goodwill.

An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the book value assuming the following hypothesis: a growth rate “g” of 0,5% and a WACC +1% equal to 8,26%.

**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 2016-2018. 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 2015 and with the outlook for the particular market in which they operate.

The Board of Directors considered the assumptions and the corresponding financials to be suitable for purposes of conducting the impairment test and approved the results obtained.

The actualization rate applied to the expected cash flows (WACC) is 7,26%; for the cash flows related to the years following the period of explicit forecasts, we hypothesize a long term growth rate “g” of 1,5%.

By determining the recoverable amount on the basis of these parameters it was possible to avoid making any reductions in the value of the goodwill.

An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the book value assuming the following hypothesis: a growth rate “g” of 0,5% and a WACC +1% equal to 8,26%.

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, Quanta System, With US, Penta Chutian Wuhan and Penta Laser Equipment Wenzhou for the purchase of new software.

The residual heading of “Others” 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 fixed assets in progress” refer mainly to the costs of research and development sustained by one of the subsidiaries for a prototype that is now being designed and the amount entered among the other operations is related to the partial release of the amount for a project.

## Tangible fixed assets (note 2)

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

<i>Cost</i>	<b>Balance 31/12/14</b>	<b>Increments</b>	<b>Devaluations</b>	<b>Other operations</b>	<b>(Disposals)</b>	<b>Conversion Adjustments</b>	<b>Balance 31/12/15</b>
Lands	4.957.436	177.904		182.840		86.127	5.404.307
Buildings	17.417.826	485.440		1.000.627			18.903.893
Plants and machinery	5.438.437	372.325		-624	-6.673	45.816	5.849.281
Industrial and commercial equipment	10.890.026	1.212.205		-121.963	-58.144	123.356	12.045.480
Other goods	9.060.276	740.591		-138.622	-342.817	105.550	9.424.978
Tangible assets under construction	374.391	4.687.297		-78.741		24.929	5.007.876
<i>Total</i>	<b>48.138.392</b>	<b>7.675.762</b>		<b>843.517</b>	<b>-407.634</b>	<b>385.778</b>	<b>56.635.815</b>

<i>Depreciation provisions</i>	<b>Balance 31/12/14</b>	<b>Depreciation</b>	<b>Devaluations</b>	<b>Other operations</b>	<b>(Disposals)</b>	<b>Conversion Adjustments</b>	<b>Balance 31/12/15</b>
Lands							
Buildings	3.306.235	550.604		343.216			4.200.055
Plants and machinery	3.108.478	433.650		1.068	-6.525	-7.454	3.529.217
Industrial and commercial equipment	8.294.902	1.081.847		-55.979	-56.891	83.502	9.347.381
Other goods	6.501.805	806.806		-144.113	-262.223	35.808	6.938.083
Tangible assets under construction							
<i>Total</i>	<b>21.211.420</b>	<b>2.872.907</b>		<b>144.192</b>	<b>-325.639</b>	<b>111.856</b>	<b>24.014.736</b>

<i>Net value</i>	<b>Balance 31/12/14</b>	<b>Increments</b>	<b>Other operations</b>	<b>(Depreciations and devaluations)</b>	<b>(Disposals)</b>	<b>Conversion Adjustments</b>	<b>Balance 31/12/15</b>
Lands	4.957.436	177.904	182.840			86.127	5.404.307
Buildings	14.111.591	485.440	657.411	-550.604			14.703.838
Plants and machinery	2.329.959	372.325	-1.692	-433.650	-148	53.270	2.320.064
Industrial and commercial equipment	2.595.124	1.212.205	-65.984	-1.081.847	-1.253	39.854	2.698.099
Other goods	2.558.471	740.591	5.491	-806.806	-80.594	69.742	2.486.895
Tangible assets under construction	374.391	4.687.297	-78.741			24.929	5.007.876
<i>Total</i>	<b>26.926.972</b>	<b>7.675.762</b>	<b>699.325</b>	<b>-2.872.907</b>	<b>-81.995</b>	<b>273.922</b>	<b>32.621.079</b>

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 31<sup>st</sup> 2015 was 5.404 thousand Euros: the increases are related to the investment made in some real estate bordering on the factory in Calenzano.

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, and the building in Jena, Germany which since May of 2008 houses the activities of the subsidiary Asclepion GmbH and the building purchased in Samarate (VA) 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 “increments” refers mainly to the costs sustained by the Parent Company El.En. SpA this year for the purchase of a building in Calenzano.

The amounts entered in the column “Other operations” of the above mentioned categories refer mainly to the entry of the subsidiary Merit Due S.r.l. into the area of consolidation.

The increase for “Plants and machinery” are related in particular to investments made by Asclepion GmbH, by Penta Laser Equipment (Wenzhou) Co Ltd, by Lasit SpA, by ASA S.r.l. 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, Deka Japan, Wuhan Penta Chutian, 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 Goods” refers mainly to the purchase of new motor vehicles and electronic equipment.

The increases entered in the category of “Tangible assets under construction” refer mainly to the costs sustained by Penta Laser Equipment (Wenzhou) Co Ltd for a new factory which will become operative in 2016.

### ***Equity investments (note 3)***

The chart below provides information on the equity investments:

	31/12/15	31/12/14	Variation	Var. %
<b><i>Equity investments in:</i></b>				
associated companies	3.101.634	2.930.730	170.904	5,83%
other companies	41.454.863	22.618.578	18.836.285	83,28%
<i>Total</i>	44.556.497	25.549.308	19.007.189	74,39%

#### ***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, Smartbleach International SA (SBI SA), Elesta Srl, Chutian (Tianjin) Lasertechnology Co. Ltd, Quanta Aesthetic Lasers Usa, LLC and Accure LLC are consolidated using the shareholders’ equity method.

The increase in the value of the equity in associated companies registered in 2015 is derived mainly from the quota held in Elesta S.r.l., thanks to the good results of the company.

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

Immobiliare Del.Co. S.r.l.:	257 thousand Euros
Actis S.r.l.:	1 thousand Euros
SBI S.A.:	102 thousand Euros
Elesta S.r.l.:	581 thousand Euros
Quanta Aesthetic Lasers USA, LLC:	2.072 thousand Euros
Chutian (Tianjin) Lasertechnology Co. Ltd:	142 thousand Euros
Accure LLC:	-54 thousand Euros

**Quanta Usa LLC.:** the value of the equity includes goodwill for 1,9 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 2016-2018. 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 2015.

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 6,32%; 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 7,32%.

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 (*)	207.552	123.747	-27.992	87.455	115.447
Elesta Srl (ex IALT Scrl)	3.049.816	1.887.032	476.411	1.891.651	1.415.240
Immobiliare Del.Co. Srl	900.207	836.955	4.498	149.697	145.199
S.B.I. SA	264.992	61.287	-122.141	58.754	180.895
Quanta Aesthetic Lasers USA, LLC	2.516.698	1.906.003	657.874	9.343.928	8.686.054
Chutian (Tianjin) Lasertechnology Co. Ltd	754.061	464.691	27.559	965.131	937.572
Accure LLC	35.785	154.504	-117.394	0	117.394

(\*) Data as of December 31<sup>st</sup> 2014

### Equities in other companies

The increase under the heading of “Other companies” is due mainly to:

- 1) 424 thousand Euros for underwriting 500 thousand shares of the American company Epica International Inc. which occurred on January 14<sup>th</sup> 2015;
- 2) 18.421 thousand Euros (18.167 thousand Euros net of the fiscal effects in *Other Comprehensive Income* - “OCI”) at the evaluation of *fair value* of the remaining 998.628 shares of Cynosure, equal to 4,40% of the capital as opposed to the 4,565% held on December 31<sup>st</sup> 2014. On the basis of the quotation for the shares on December 31<sup>st</sup> 2015 on the Nasdaq, the *fair value* of the above mentioned equity was 40.974 thousand Euros. This amount was equal to 36,6 million Euros on March 24<sup>th</sup> 2016.



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

<i>Other non current assets</i>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variation</b>	<b>Var. %</b>
Securities	10.643.051		10.643.051	
Deferred tax assets	6.084.724	5.682.388	402.336	7,08%
Other non current assets	3.003	2.823	180	6,38%
<i>Total</i>	<b>16.730.778</b>	<b>5.685.211</b>	<b>11.045.567</b>	<b>194,29%</b>

The category of “Securities” 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 at the *fair value* of the policies in the assets and the re-evaluation of the same in the income statement and, consequently, to exclude it from the net financial position.

For an analysis of the “Deferred tax assets”, 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:

<i>Inventories:</i>	31/12/15	31/12/14	Variation	Var. %
Raw materials and consumables	30.643.524	24.283.384	6.360.140	26,19%
Work in progress and semi finished products	15.782.444	15.201.689	580.755	3,82%
Finished products and goods for sale	11.635.430	10.995.606	639.824	5,82%
<i>Total</i>	58.061.398	50.480.679	7.580.719	15,02%

The increase in the final inventory is concentrated mainly in the raw materials; this is due to the increase in the volume of business.

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

<i>Inventory:</i>	31/12/2015	31/12/2014	Variation	Var. %
Gross amount	66.652.685	58.212.373	8.440.312	14,50%
minus: devaluation provision	-8.591.287	-7.731.694	-859.593	11,12%
<i>Total</i>	58.061.398	50.480.679	7.580.719	15,02%

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 860 thousand Euros during the year and its incidence on the gross value of the inventory fell from 13,3% on December 31<sup>st</sup> 2014 to 12,9% on December 31<sup>st</sup> 2015.

### Trade receivables (note 6)

Receivables are composed as follows:

<i>Debtors:</i>	31/12/15	31/12/14	Variation	Var. %
Trade debtors	60.261.122	47.277.221	12.983.901	27,46%
Associated debtors	1.065.489	670.219	395.270	58,98%
<i>Total</i>	61.326.611	47.947.440	13.379.171	27,90%

<i>Trade debtors:</i>	31/12/2015	31/12/2014	Variation	Var. %
Italy	22.353.135	17.396.722	4.956.413	28,49%
European Community	6.354.438	6.721.882	-367.444	-5,47%
Outside of European Community	37.618.929	28.504.399	9.114.530	31,98%
minus: devaluation provision for debtors	-6.065.380	-5.345.782	-719.598	13,46%
<i>Total</i>	60.261.122	47.277.221	12.983.901	27,46%

As can be clearly seen from the chart, the Non-European and Italian markets showed the greatest increase due to the increase in sales volume registered in these areas.

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

<i>Provision for bad debts</i>	<b>2015</b>	<b>2014</b>
<b>At the beginning of the period</b>	<b>5.345.782</b>	<b>7.854.482</b>
Amounts accrued	1.160.684	1.146.904
Amounts utilized	-676.804	-4.222.079
Unused amounts reversed	-16.292	-16.784
Other operations	247.765	547.467
Conversion adjustment	4.245	35.792
<b>At the end of the period</b>	<b>6.065.380</b>	<b>5.345.782</b>

Breakdown of trade receivables from third parties is shown below:

<i>Account receivables vs. third parties:</i>	<b>31/12/2015</b>	<b>31/12/2014</b>
<b>To expire</b>	40.059.766	32.764.368
<b>Expired:</b>		
<i>30 days</i>	11.512.823	7.473.524
<i>60 days</i>	2.413.959	1.754.246
<i>90 days</i>	1.050.495	1.494.790
<i>180 days</i>	2.110.415	1.259.285
<i>over 180 days</i>	3.113.664	2.531.008
<b>Total</b>	<b>60.261.122</b>	<b>47.277.221</b>

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

<b><u>Account receivables in:</u></b>	<b>31/12/2015</b>	<b>31/12/2014</b>
Euro	33.499.932	29.331.389
USD	8.987.156	5.241.658
Other currencies	17.774.034	12.704.174
<b>Total</b>	<b>60.261.122</b>	<b>47.277.221</b>

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 31<sup>st</sup> 2015 e del December 31<sup>st</sup> 2014.

For a detailed analysis of the trade 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:

	31/12/2015	31/12/2014	Variation	Variation %
<i>Tax debtors</i>				
VAT credits	6.950.366	5.475.183	1.475.183	26,94%
Income tax credits	875.672	1.142.756	-267.084	-23,37%
<i>Total tax debtors</i>	7.826.038	6.617.939	1.208.099	18,25%

<i>Financial receivables</i>				
Financial receivables from third parts	221.960	714.108	-492.148	-68,92%
Financial receivables from associated companies	130.455	61.565	68.890	111,90%
<i>Total</i>	352.415	775.673	-423.258	-54,57%
<i>Other receivables</i>				
Security deposits	279.373	265.640	13.733	5,17%
Down payments	2.264.867	3.104.680	-839.813	-27,05%
Other credits	4.365.627	4.268.783	96.844	2,27%
<i>Total</i>	6.909.867	7.639.103	-729.236	-9,55%
<i>Total financial and other receivables</i>	7.262.282	8.414.776	-1.152.494	-13,70%

The financial year closed with a VAT credit of over 6,9 million Euros which was mostly a result of the intense export activity of the Group.

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

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

The changes in the other receivables are due mainly to the increase in the down payments to suppliers.

## Securities (note 8)

<i>Investments which are not permanent:</i>	31/12/2015	31/12/2014	Variation	Var. %
Other investments	1.964.722		1.964.722	
<i>Total</i>	1.964.722		1.964.722	

The amount entered under the heading of "Other investments" is made up of mutual funds held by the Parent Company El.En. SpA acquired this year for the purpose of making a temporary use of cash. These securities were evaluated at market value on December 31<sup>st</sup> 2015 with value adjustment entered in the income statement.

## Cash and cash equivalents (note 9)

Cash and cash equivalents are composed as follows:

<i>Cash and cash Equivalents:</i>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variation</b>	<b>Var. %</b>
bank and postal current accounts	46.950.501	73.763.068	-26.812.567	-36,35%
cash in hand	39.206	40.515	-1.309	-3,23%
<i>Total</i>	<b>46.989.707</b>	<b>73.803.583</b>	<b>-26.813.876</b>	<b>-36,33%</b>

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

### Net financial position as of December 31<sup>st</sup> 2015

The net financial position of the Group as of December 31<sup>st</sup> 2015 was as follows (data in thousands of Euros):

<b>Net financial position</b>	<b>31/12/2015</b>	<b>31/12/2014</b>
Cash and bank	46.990	73.804
Financial instruments	1.965	0
<b>Cash and cash equivalents</b>	<b>48.954</b>	<b>73.804</b>
<b>Short term financial receivables</b>	<b>222</b>	<b>714</b>
Bank short term loan	(11.593)	(17.634)
Part of financial long term liabilities due within 12 months	(2.770)	(3.861)
<b>Financial short term liabilities</b>	<b>(14.363)</b>	<b>(21.494)</b>
<b>Net current financial position</b>	<b>34.813</b>	<b>53.023</b>
Bank long term loan	(1.831)	(2.604)
Other long term financial liabilities	(3.167)	(3.303)
<b>Financial long term liabilities</b>	<b>(4.998)</b>	<b>(5.907)</b>
<b>Net financial position</b>	<b>29.815</b>	<b>47.116</b>

The net financial position of the Group decreased by 17 million with respect to the end of 2014. 10,5 million Euros in cash was used for temporary financial investments, the nature of which required that they be entered among the non-current assets and excluded from the net financial position; moreover, the Parent Company El.En. Spa acquired a minority share in the American company Epica International Inc. for the amount of 500 thousand US dollars.

During the last 12 months cash was absorbed for the amount of 8 million in fixed assets investments; moreover, during the second quarter, dividends were paid to third parties by the Parent Company El.En. S.p.A. for about 4,8 million Euros and by the subsidiaries Dekamela S.r.l., Lasit S.p.A., and ASA S.r.l. for a total of 566 thousand Euros.

Financial receivables from associated companies are excluded from the net financial position for an amount of about 130 thousand Euros since they are related to a policy of financial support for the companies of the Group (for details, see the information on related parties). In continuation of past policy it was decided not to include this financing in the net financial position of the company shown above.

For further details and information, please refer to the cash flow statement.

## ***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 31<sup>st</sup> 2015, the capital stock of the El.En Group, which coincides with that of the Parent Company, was as follows:

Authorized	Euros	2.508.671
Underwritten and deposited	Euros	2.508.671

*Nominal value of each share*

0,52
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<i>Categories</i>	<b>31/12/2014</b>	<b>Increase.</b>	<b>(Decrease.)</b>	<b>31/12/2015</b>
No. of Ordinary Shares	4.824.368			4.824.368
<i>Total</i>	<b>4.824.368</b>			<b>4.824.368</b>

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.

#### ***Additional paid in capital (note 11)***

On December 31<sup>st</sup> 2015 the share premium reserve, coinciding with that of the Parent Company, amounted to 38.594 thousand Euros, unchanged with respect to December 31<sup>st</sup> 2014.

#### ***Other reserves (note 12)***

<i>Other reserves</i>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variation</b>	<b>Var. %</b>
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	60.749.843	42.045.117	18.704.726	44,49%
Reserve for translation adjustments	-377.584	3.574	-381.158	-10664,75%
Stock options reserve fund	1.811.278	1.811.278		0,00%
Reserve for contributions on capital account	426.657	426.657		0,00%
Other reserves	23.727.837	5.467.458	18.260.379	333,98%
<i>Total</i>	<b>86.875.333</b>	<b>50.291.386</b>	<b>36.583.947</b>	<b>72,74%</b>

As of December 31<sup>st</sup> 2015 the "extraordinary reserve" amounted to 60.750 thousand Euros; the increase with respect to December 31<sup>st</sup> 2014 is related to the allocation of part of the net income of the parent company El.En. S.p.A., as approved by the Shareholders' meeting on April 28<sup>th</sup> 2015.

The reserve “for stock options” includes the equivalent of the costs determined in accordance with IFRS 2 of the Stock Option Plans assigned by El.En. SpA.

The conversion reserve summarizes the effects of the variations in the exchange rate on the investments in foreign currency. The effects for the year 2015 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.

The variations in the other reserves is due mainly to the registering at fair value of the residual Cynosure shares on December 31<sup>st</sup> 2015, as already mentioned in Note (3).

### ***Treasury Stock (note 13)***

As described in detail in the paragraph “Area of Consolidation” in this document the shareholders’ meeting of the Parent Company El.En. S.p.A. on April 28<sup>th</sup> 2015 authorized the Board of Directors to acquire treasury stock. The purchase of treasury stock as it was proposed by the board of directors, will be conducted for the following concurrent or alternative purposes: to stabilize the stock, to assign to employees and/or collaborators, to exchange during company acquisitions. The authorization was granted for the purchase, for a maximum payment of 20.000.000,00 Euros (twenty million), in one or more instalments of a maximum number of ordinary shares, the only category of financial instrument now issued by the company which, in any case, shall not exceed one fifth of the capital stock. At this time 20% of the capital underwritten and paid out of El.En. is equal to 964.873 shares. The authorization is granted for the maximum period allowed by the law, i.e., 18 months from the date of authorization.

The purchase may take place on the regular stock market at a price that is not less by more than 20%, nor greater by more than 10% of the official price of the negotiations registered during the day preceding the purchase. The board of directors has also been authorized to sell, within ten years of the purchase, the shares at a price, or equivalent in the case of company operations, which is not less than 95% of the average of the official prices of negotiations registered during the five days preceding the sale or disposal.

On the date of this document the Board of Directors had not initiated operations for the purchase of treasury stock.

### ***Profits/losses brought forward (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*

### *Retirement funds and employee benefits (note 15)*

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

<b>Balance 31/12/2014</b>	<b>Accrual</b>	<b>Utilization</b>	<b>Payment to complementary pension forms, to INPS fund and other movements</b>	<b>Balance 31/12/2015</b>
3.700.224	1.281.044	-273.630	-1.331.921	3.375.717

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 27<sup>th</sup> 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 1<sup>st</sup> 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 31<sup>st</sup> 2015 amounted to 3.361 thousand Euros.

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

<b>Financial hypotheses</b>	<b>Year 2014</b>	<b>Year 2015</b>
Annual implementation rate	1,49%	2,03%
Annual inflation rate	1,50%	1,50%
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 2,03% 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:

	<b>Balance 31/12/2014</b>	<b>Accrual</b>	<b>(Utilization)</b>	<b>Other</b>	<b>Conversion Adjustments</b>	<b>Balance 31/12/2015</b>
Deferred tax assets on inventory devaluations	1.495.235	169.564	-96.287		6.576	1.575.088
Deferred tax assets on warranty reserve	347.119	72.720	-31.427		12.608	401.020
Deferred tax assets on bad debt reserve	1.031.338	113.768	-207.351		1.870	939.625
Deferred tax assets on loss brought forward from the previous years	41.459	4.777	-26.814			19.422
Deferred tax assets on intercompany profits	1.229.974	82.369				1.312.343
Deferred tax assets on severance indemnity provision discount	145.267	39.724	-1.460	-111.613		71.918
Other deferred tax assets	1.391.996	488.617	-174.241	8.917	50.019	1.765.308
<i>Total</i>	5.682.388	971.539	-537.580	-102.696	71.073	6.084.724
Deferred tax liabilities on advanced depreciations	154.828		-18.144			136.684
Deferred tax liabilities for contributions on capital account	357.582		-174.008			183.574
Other deferred tax liabilities	948.395	122.656	-51.452	261.216	37.090	1.317.905
<i>Total</i>	1.460.805	122.656	-243.604	261.216	37.090	1.638.163
<i>Net amount</i>	4.221.583	848.883	-293.976	-363.912	33.983	4.446.561

Deferred tax assets amounted to about 6.085 thousand Euros. The deferred tax assets calculated on inventory devaluations of the various companies increased while there was a decrease in the deferred tax assets related to the bad debt reserve because of the maturity of the conditions for deducting the accruals from the current taxes. The credits for losses brought forward also decreased because the fiscal losses were used to reduce the taxable amount for this financial year. The increase under the heading of “Other deferred tax assets” is related, among other things, to the deferred tax assets on grants received from the subsidiary Penta Laser Equipment (Wenzhou) Co Ltd.

Deferred tax liabilities amounted to 1.638 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 decrease in the heading of “Deferred tax liabilities for contribution 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 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 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:

	Balance				Conversion Adjustments	Balance 31/12/2015
	31/12/2014	Accrual	(Utilisation)	Other		
Reserve for pension costs and similar	716.680	121.179	-19.842	-21.201		796.816
<i>Others:</i>						
Warranty reserve on the products	1.485.873	388.630	-219.617		36.921	1.691.807
Reserve for risks and charges	472.308	21.961	-114.800			379.469
Other minor reserves	20.000	1.682				21.682
<i>Total other reserves</i>	1.978.181	412.273	-334.417	-	36.921	2.092.958
<i>Total</i>	2.694.861	533.452	-354.259	-21.201	36.921	2.889.774

The clients' agents' indemnity fund which is included under the heading of "Reserve for pension funds and similar" on December 31<sup>st</sup> 2015, amounted to 762 thousand Euros as opposed to the 687 thousand Euros on December 31<sup>st</sup> 2014. 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 2014	Year 2015
Annual implementation rate	1,49%	2,03%
Annual inflation rate	1,50%	1,50%

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.

## Amounts owed and financial liabilities (note 18)

<i>Financial m/l term debts</i>	31/12/2015	31/12/2014	Variation	Var. %
Amounts owed to banks	1.830.774	2.604.155	-773.381	-29,70%
Amounts owed for leasing	2.428.510	2.484.289	-55.779	-2,25%
Amounts owed to other financiers	738.968	818.887	-79.919	-9,76%
<i>Total</i>	4.998.252	5.907.331	-909.079	-15,39%

The mid- to long-term debts owed to banks as of December 31<sup>st</sup> 2015 mostly represent the amounts due after one year for:

- 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;
- bank financing granted to With Us divided as shown below:
  - 28.346 thousand Yen falling due April 7<sup>th</sup> 2017 at the annual interest rate of 1,76%;
  - 25.350 thousand Yen falling due May 31<sup>st</sup> 2018 at the annual interest rate of 1,60%;
  - 42.503 thousand Yen falling due March 31<sup>st</sup> 2020 at the annual interest rate of 0,93%;
  - 42.500 thousand Yen falling due March 31<sup>st</sup> 2020 at the annual interest rate of 1,27%;
- bank financing issued to Asa Srl for a total of 300 thousand Euros to finance the initial cost derived from the expansion of the company on the Chinese market, falling due on July 31<sup>st</sup> 2017 at the Euribor rate three months increased by a spread of 0,75.

The decrease in the mid/long term amounts owed to banks is due among other things to the early repayment of the loans granted to El.En. S.p.A. by Mediocredito Italiano S.p.A which would have come due in 2016.

“Amounts owed to other financiers” consist, among other things, in the quotas which are payable after 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 1<sup>st</sup> 2020;
- b) Financing issued by Mediocredito to the subsidiary Lasit for a research project for the amount of 217.599 at the annual rate of 0,33% to be paid back in annual installments starting in March 2018, last installment March 8<sup>th</sup> 2025.

## Current liabilities

### Financial debts (note 19)

Below, a breakdown of the financial debts is given:

<i>Financial short term debts</i>	31/12/2015	31/12/2014	Variation	Var. %
Amounts owed to banks	11.592.612	17.633.559	-6.040.947	-34,26%
Amount owed for leasing	561.356	451.599	109.757	24,30%
Liabilities (derivatives on interest and exchange rates)	92.892	363.988	-271.096	-74,48%
Amounts owed to other financiers	2.116.204	3.045.329	-929.125	-30,51%
<i>Total</i>	14.363.064	21.494.475	-7.131.411	-33,18%

The heading of “Amounts owed to banks” is mainly composed of:

- debts for advance payments on invoices of the subsidiary Esthelogue Srl
- short term financing granted by the Cassa Risparmio Firenze to El.En. S.p.A. for a total of 3 million Euros, until April 27<sup>th</sup> 2016 at the interest rate determined at a set rate of 0,35% and in a variable quota equal to the EURIBOR rate at 3 months;
- 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;
- short term quota on the financing contracted by Asa Srl (see note 18);
- short term bank financing granted to Penta-Laser Equipment Wenzhou Co for about 1,6 million Euros (corresponding to 11 million Yuan) which fell due in January 2016 at the annual rate of 5,4%;
- bank financing granted to Penta Chutian Laser (Wuhan) Co. Ltd for about 5,8 million Euros, of which 5.665 thousand Euros (corresponding to 40 million Yuan) at the annual rate of 6,90% and 142 thousand Euros (corresponding to 1 million Yuan) at the annual rate of the PBC (Central Bank of China) increased by 25%.

The heading of “Liabilities (derivatives on interest and exchange rates) 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 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 31<sup>st</sup> 2015 was 1.550.000 Euros, the fair value on December 31<sup>st</sup> was 16.072 Euros; the second contract expires in March of 2019, nominal value on December 31<sup>st</sup> 2015 was 1.950.000 Euros, the fair value was -91.870 Euros; the third contract expires in August of 2020, nominal value on December 31<sup>st</sup> 2015 was 2.650.000 Euros, the fair value was -17.087 Euros.

The category of “ amounts owed to other financiers” includes:

- the short term quotas of the financing described in the preceding note;
- the residual quota of the facilitated *Finlombarda/Regione Lombardia* financing for applied research issued to the subsidiary Quanta System S.p.A. for a total of 900.000 Euros, at the interest rate of 0,50% on half of the capital and 4,01% annually on the other half, to be paid back in 14 half-yearly instalments with the last instalment on June 30<sup>th</sup> 2016;
- financing granted to the subsidiary Quanta System SpA by Credem for a total of 1.300.000 Euros, at the annual interest rate of 0,35% granted for operational necessities.
- the residual quota of the financing issued by BMW Group Financial Service, to the subsidiary Lasit for a total amount of 89.200 Euros to be paid back in monthly instalments starting on May 22<sup>nd</sup> 2012 with the last instalment on April 22<sup>nd</sup> 2016.

## Trade payables (nota 20)

<i>Trade debts:</i>	31/12/2015	31/12/2014	Variation	Var. %
Trade accounts payable	42.037.992	35.265.868	6.772.124	19,20%
Trade accounts payable with associated companies	26.700	1.148	25.552	2225,78%
<i>Total</i>	42.064.692	35.267.016	6.797.676	19,27%

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

The chart below shows the trade debts toward third parties for 2015 divided according to the currency.

<u>Account payables in:</u>	31/12/2015	31/12/2014
Euro	29.904.069	25.092.510
USD	2.446.107	1.667.729
Other currencies	9.687.816	8.505.629
<b>Total</b>	42.037.992	35.265.868

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 31<sup>st</sup> 2015 and December 31<sup>st</sup> 2014.

## Income tax debts /Other short term debts (note 21)

The income tax debts matured for some of the companies belonging to the Group on December 31<sup>st</sup> 2015 amounted to 3.842 thousand Euros and are entered net of the down payments and deductions.

The subdivision of the other debts is as follows:

	31/12/2015	31/12/2014	Variation	Variation %
<i>Social security debts</i>				
Debts owed to INPS	2.205.062	2.001.101	203.961	10,19%
Debts owed to INAIL	147.811	131.398	16.413	12,49%
Debts owed to other Social Security Institutions	323.475	299.216	24.259	8,11%
<i>Total</i>	2.676.348	2.431.715	244.633	10,06%
<i>Other debts</i>				
Debts owed to tax administration for VAT	726.767	668.258	58.509	8,76%
Debts owed to tax administration for deductions	1.635.867	1.479.597	156.270	10,56%
Other tax debts	72.719	58.872	13.847	23,52%
Owed to staff for wages and salaries	7.250.400	6.036.798	1.213.602	20,10%
Down payments	6.966.259	6.763.088	203.171	3,00%
Other debts	9.158.142	8.317.315	840.827	10,11%
<i>Total</i>	25.810.154	23.323.928	2.486.226	10,66%
<i>Total Social security debts and other debts</i>	28.486.502	25.755.643	2.730.859	10,60%

The amounts "Owed to staff" include, among other things, the debts for deferred salaries of personnel employed as of December 31<sup>st</sup> 2015.

The entry of "Down payments" consists of down payments received from clients for orders received; the increase refers in particular to the subsidiaries Wenzhou, Quanta System and Cutlite do Brasil.

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

	31/12/2015			31/12/2014		
	Within 1 year	From 1 to 5 years	More than 5 years	Within 1 year	From 1 to 5 years	More than 5 years
Amounts owed to banks	11.592.612	1.335.939	494.835	17.633.559	1.898.578	705.577
Amounts owed to leasing company	561.356	2.034.369	394.143	451.599	1.715.848	768.441
Liabilities (forward exchange contracts)	92.892			363.988		
Amounts owed to other financiers	2.116.204	602.291	136.675	3.045.329	687.559	131.328
Amounts owed to suppliers	42.037.992			35.265.868		
Amounts owed to associated companies	26.700			1.148		
Income taxes debts	3.841.693			2.222.890		
Amounts owed to social security institutions	2.676.348			2.431.715		
Other liabilities	25.810.154			23.323.928		
<i>Total</i>	88.755.951	3.972.599	1.025.653	84.740.024	4.301.985	1.605.346

## 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.

31/12/15	Total	Medical	Industrial	Other	
Revenues	218.900	147.101	70.830	969	
Intersectorial revenues	(1.230)	0	(325)	(905)	
<b>Net Revenues</b>	217.670	147.101	70.505	64	
Other revenues and income	2.326	870	1.060	397	
<b>Gross Margin</b>	96.318	71.154	24.702	461	
	<i>Inc. %</i>	<i>44%</i>	<i>48%</i>	<i>35%</i>	<i>100%</i>
<b>Margin</b>	30.706	26.495	3.814	397	
	<i>Inc. %</i>	<i>14%</i>	<i>18%</i>	<i>5%</i>	<i>86%</i>
Not assigned charges	9.207				
<b>EBIT</b>	21.499				
Net financial income (charges)	1.346				
Share of profit of associated companies	278	263	14	1	
Other Income (expense) net	(10)				
<b>Income (loss) before taxes</b>	23.113				
Income taxes	7.064				
<b>Income (loss) before minority interest</b>	16.049				
Minority interest	1.678				
<b>Net income (loss)</b>	14.371				

31/12/14	Totale	Medicale	Industriale	Altro	
Revenues	181.068	122.391	57.826	851	
Intersectorial revenues	(1.060)	0	(208)	(851)	
<b>Net Revenues</b>	180.009	122.391	57.618	0	
Other revenues and income	2.380	914	1.000	465	
<b>Gross Margin</b>	81.849	60.228	21.156	465	
	<i>Inc. %</i>	<i>45%</i>	<i>49%</i>	<i>36%</i>	<i>100%</i>
<b>Margin</b>	23.784	21.048	2.271	465	
	<i>Inc. %</i>	<i>13%</i>	<i>17%</i>	<i>4%</i>	<i>100%</i>
Not assigned charges	8.482				
<b>EBIT</b>	15.301				
Net financial income (charges)	4.638				
Share of profit of associated companies	40	33	4	3	
Other Income (expense) net	4.430				
<b>Income (loss) before taxes</b>	24.409				
Income taxes	6.409				
<b>Income (loss) before minority interest</b>	18.000				
Minority interest	1.480				
<b>Net income (loss)</b>	16.520				

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

<b>31/12/2014</b>	<b>Total</b>	<b>Medical</b>	<b>Industrial</b>	<b>Other</b>
Assets assigned	167.437	99.891	67.546	
Equity investments	25.292	25.138	154	
Assets not assigned	56.310			
<b>Total assets</b>	<b>249.039</b>	<b>125.030</b>	<b>67.699</b>	<b>0</b>
Liabilities assigned	58.008	28.722	29.286	
Liabilities not assigned	40.496			
<b>Total liabilities</b>	<b>98.503</b>	<b>28.722</b>	<b>29.286</b>	<b>0</b>

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

<b>31/12/2014</b>	<b>Total</b>	<b>Medical</b>	<b>Industrial</b>	<b>Other</b>
Changes in fixed assets:				
- assigned	6.308	5.396	912	0
- not assigned	(1.018)			
<b>Total</b>	<b>5.290</b>	<b>5.396</b>	<b>912</b>	<b>0</b>



## Information according to the geographic area

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

31/12/2014	Total	Italy	Europe	Row
Revenues	180.009	32.398	36.898	110.713

31/12/2015	Total	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

31/12/2014	Total	Italy	Europe	Row
Assets assigned	223.490	157.962	18.423	47.105
Equity investments	25.549	23.382		2.167
Total assets	249.039	181.344	18.423	49.272

Liabilities assigned	98.503	60.175	9.778	28.550
Total liabilities	98.503	60.175	9.778	28.550

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

31/12/2014	Total	Italy	Europe	Row
Changes in fixed assets:				
- assigned	5.290	4.432	(30)	887
Total	5.290	4.432	(30)	887

## Information on the consolidated Income Statement

### Revenue (note 22)

The revenue at the end of 2015 was 218 million Euros with respect to the 180 million for the same period last year. The overall growth was about 21% and is a two-digit amount in both sectors.

	31/12/2015	31/12/2014	Variation	Var. %
Industrial revenue	70.567.951	57.701.336	12.866.615	22,30%
Medical revenue	147.101.999	122.307.293	24.794.706	20,27%
<i>Total</i>	217.669.950	180.008.629	37.661.321	20,92%

### Other income (note 23)

The analysis of the other income is as follows

	31/12/2015	31/12/2014	Variation	Var. %
Recovery for accidents and insurance reimbursements	15.980	16.548	-568	-3,43%
Expense recovery	701.351	620.998	80.353	12,94%
Capital gains on disposal of fixed assets	89.288	275.991	-186.703	-67,65%
Other income	1.517.955	1.454.588	63.367	4,36%
Contribution on fiscal year account and on capital account	1.700	11.499	-9.799	-85,22%
<i>Total</i>	2.326.274	2.379.624	-53.350	-2,24%

The heading of “Expense recovery” refers mainly to reimbursements for shipping costs.

The entry “Other income” consists for the most part of grants for research projects for 397 thousand Euros and federal grants related both to the new production center and to the research projects for an amount of about 943 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:

	31/12/2015	31/12/2014	Variation	Var. %
Purchase of raw materials and finished products	109.961.247	85.141.625	24.819.622	29,15%
Purchase of packaging	1.327.385	995.306	332.079	33,36%
Shipment charges on purchases	1.131.917	921.850	210.067	22,79%
Other purchase expenses	936.633	1.086.233	-149.600	-13,77%
Other purchases	843.842	991.439	-147.597	-14,89%
<i>Total</i>	114.201.024	89.136.453	25.064.571	28,12%

The costs for purchase of goods as of December 31<sup>st</sup> 2015 were 114.201 thousand Euros as opposed to the 89.136 thousand Euros for last year, showing an increase of 28,12%.

## ***Other direct services/ operating services and charges (note 25)***

Breakdown of this category is shown on the chart below:

	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variation</b>	<b>Var. %</b>
<i>Direct services</i>				
Assemblies outsourcing to third parties	5.362.438	4.788.572	573.866	11,98%
Technical services	920.918	972.025	-51.107	-5,26%
Shipment charges on sales	2.235.151	2.036.794	198.357	9,74%
Commissions	6.456.939	4.954.662	1.502.277	30,32%
Royalties	90	3.477	-3.387	-97,41%
Travel expenses	948.859	899.797	49.062	5,45%
Other direct services	1.299.720	495.800	803.920	162,15%
<i>Total</i>	<i>17.224.115</i>	<i>14.151.127</i>	<i>3.072.988</i>	<i>21,72%</i>
<i>Operating services and charges</i>				
Maintenance and technical assistance on equipments	380.831	360.665	20.166	5,59%
Services and commercial consulting	1.474.159	1.150.044	324.115	28,18%
Legal and administrative services	1.276.748	1.140.880	135.868	11,91%
Auditing fees and charges	285.281	250.003	35.278	14,11%
Insurances	692.282	596.577	95.705	16,04%
Travel and overnight expenses	3.061.507	2.838.158	223.349	7,87%
Promotional and advertising expenses	6.527.382	5.489.879	1.037.503	18,90%
Building charges	1.873.569	1.757.708	115.861	6,59%
Other taxes	322.709	335.419	-12.710	-3,79%
Expenses for vehicles	1.161.665	1.127.398	34.267	3,04%
Office supplies	313.325	325.873	-12.548	-3,85%
Hardware and Software assistance	447.576	395.793	51.783	13,08%
Bank charges	503.092	344.160	158.932	46,18%
Rent	1.557.458	1.416.950	140.508	9,92%
Other operating services and charges	8.637.264	8.128.279	508.985	6,26%
<i>Total</i>	<i>28.514.848</i>	<i>25.657.786</i>	<i>2.857.062</i>	<i>11,14%</i>

The most significant change in the category of “Direct services” are related to “assemblies outsourcing”, “Shipment charges on sales” and “Commissions” due to the increase in production and sales.

The single most important entries under the heading of “Operating services and charges” are represented by the promotional and publicity expenses, travel, marketing consulting, rent, while for the category of “Other operating services and charges” the main costs refer to the costs for the salaries paid to the members of the Board of Directors and the Board of Auditors for about 2.305 thousand Euros and the cost for technical and scientific consultants and for research. 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.

<b><u>Operating lease commitments:</u></b>	<b>31/12/2015</b>	<b>31/12/2014</b>
Within one year	1.385.691	1.390.605
After 1 year but not more than 5 years	2.204.585	2.317.798
More than five years	256.227	220.150
<b>Total</b>	<b>3.846.503</b>	<b>3.928.553</b>

## ***Employee costs (note 26)***

The chart below shows the costs for staff:

<i>For staff costs</i>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variation</b>	<b>Var. %</b>
Wages and salaries	32.425.092	29.447.186	2.977.906	10,11%
Social security costs	8.269.589	7.472.354	797.235	10,67%
Accruals for severance indemnity	1.227.279	1.153.418	73.861	6,40%
Other costs	214.391	155.051	59.340	38,27%
<i>Total</i>	<b>42.136.351</b>	<b>38.228.009</b>	<b>3.908.342</b>	<b>10,22%</b>

The costs for personnel was 42.136 thousand Euros, showing an increase of 10,2% over the 38.228 thousand Euros for last year. The increase is mainly due to the increase in the number of employees which rose from 951 to 965 as of December 31<sup>st</sup> 2015. The Italian companies showed the greatest increase in the number of employees.

## ***Depreciation, amortization and other accruals (note 27)***

The table below shows the breakdown for this category:

<i>Depreciations, amortizations, and other accruals</i>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variation</b>	<b>Var. %</b>
Amortization of intangible assets	258.985	173.432	85.553	49,33%
Depreciation of tangible assets	2.872.907	2.536.712	336.195	13,25%
Accrual for risk on receivables	701.946	1.048.292	-346.346	-33,04%
Other accruals for risks and charges	333.591	-1.097.096	1.430.687	-130,41%
<i>Total</i>	<b>4.167.429</b>	<b>2.661.340</b>	<b>1.506.089</b>	<b>56,59%</b>

The category “Accrual for risk on receivables” includes some devaluations effected for cautionary purposes on some receivables which have been collected very slowly due to the credit crisis which has limited the amount of cash available to firms in general.

The heading of “Other accruals for risks and charges” as of December 31<sup>st</sup> 2014 showed an additional income component for the amount of 1,1 million Euros which was mainly composed of the effects of the transaction concluded in the month of March 2014 by the German subsidiary Asclepion (which was also representing other companies in the Group) with Palomar Inc., for an amount of 630 thousand Euros. Starting in 2004, in order to face the risk of losing their law suit against Palomar the Group had accrued a fund of 2,1 million Euros: the difference of about 1,5 million Euros was therefore released last year in the income statement.

## Financial income and charges (note 28)

The breakdown of the category is as follows:

	31/12/2015	31/12/2014	Variation	Var. %
<b>Financial income:</b>				
Interests from banks	478.941	641.441	-162.500	-25,33%
Dividends	4.172	3.462	710	20,51%
Interests from associated company	1.374	349	1.025	293,70%
Interests on investments	165.178	1.306	163.872	12547,63%
Exchange gain	2.693.615	5.589.901	-2.896.286	-51,81%
Other financial incomes	-33.515	39.541	-73.056	-184,76%
<i>Total</i>	3.309.765	6.276.000	-2.966.235	-47,26%
<b>Financial charges:</b>				
Interest on bank debts for account overdraft	-536.454	-467.597	-68.857	14,73%
Interest on bank debts for medium and long - term loans	-49.949	-170.962	121.013	-70,78%
Losses from negotiation-investments	-35.090		-35.090	0,00%
Exchange loss	-1.092.774	-467.359	-625.415	133,82%
Other financial charges	-249.598	-532.083	282.485	-53,09%
<i>Total</i>	-1.963.865	-1.638.001	-325.864	19,89%

The interests on investment refer to the maturity of the interest on the insurance policies underwritten this year. The interests due on overdrafts refers mainly to overdrafts granted by credit institutions to the parent company and some of the subsidiaries

The interest on bank debts for medium and long term loans refer mostly to the medium- and long-term loans granted to the Parent Company El.En. S.p.A

The entry of "Other financial charges" includes about 54 thousand Euros for the interests owed due to the application of accounting standard IAS 19 to the retirement fund.

## Other net income and charges (note 29)

	31/12/2015	31/12/2014	Variation	Var. %
<i>Other charges</i>				
Accrual for losses in group companies	-1.682		-1.682	
Devaluation of equity investments	-8.026	-54.982	46.956	-85,40%
<i>Total</i>	<b>-9.708</b>	<b>-54.982</b>	<b>45.274</b>	<b>-82,34%</b>
<i>Other income</i>				
Capital gains on equity investments		4.484.562	-4.484.562	-100,00%
<i>Total</i>		<b>4.484.562</b>	<b>-4.484.562</b>	<b>-100,00%</b>

The amount entered under the heading "Other net income" on December 31<sup>st</sup> 2014 was 4.485 thousand Euros generated by the sale at the end of March 2014 of 1.100.000 shares of Cynosure Inc. by the Parent Company El.En. S.p.A. for a total amount of 32 million US dollars.

The other charges for the year refer to the devaluation made by Quanta System of their equity in Quanta Asia.

## ***Income taxes (note 30)***

<b>Description:</b>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variation</b>	<b>Var. %</b>
IRES and other foreign income taxes	6.908.938	4.657.926	2.251.012	48,33%
IRAP	839.733	1.049.592	-209.859	-19,99%
IRES and other foreign income taxes - Deferred (Advanced)	-559.427	778.005	-1.337.432	-171,91%
IRAP - Deferred (Advanced)	4.520	4.787	-267	-5,58%
Receivable for income tax	-142.185	-8.595	-133.590	1554,28%
Taxes related to the previous years	12.140	-73.092	85.232	-116,61%
<i>Total income taxes</i>	<b>7.063.719</b>	<b>6.408.623</b>	<b>655.096</b>	<b>10,22%</b>

The costs for current and deferred taxes for this year is 7.063.719 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.

	<b>2015</b>	<b>2014</b>
Profit/loss before taxes	23.112.826	24.408.554
Theoretical IRES Aliquot	27,50%	27,50%
Theoretical IRES	6.356.027	6.712.352
Higher (lower) fiscal incidence of the foreign companies with respect to the theoretical aliquot	(120.370)	(65.081)
One time income tax charges	12.140	(73.092)
Tax receivables	(26.281)	(8.595)
Pex Benefit		(1.167.065)
Higher (lower) fiscal incidence of Italian companies with respect to the theoretical aliquot	(2.810)	(301.022)
Higher (lower) fiscal incidence due to the effects of consolidation	58.827	323.246
Actual IRES	6.277.533	5.420.744
Actual IRES aliquot	27,16%	22,21%

The effect derived from the adaptation of the IRES aliquot of 24% in compliance with Law 208/2015 (Law of Stability 2016) which will be in force starting on January 1<sup>st</sup> 2017 comported a greater consolidated charge for Italian companies for a amount of about 400 thousand Euros.

## ***Earnings per share (note 31)***

The average weighted number of shares in circulation during the year remained constant and amounted to 4.824.368  
The profit per share as of December 31<sup>st</sup> 2015 was 2,98 Euros.

### ***Dividends distributed (note 32)***

The shareholders' meeting of El.En. SpA held on May 15<sup>th</sup> 2014 voted to distribute a dividend of 0,50 Euros per share in circulation on the date that the coupon came due. The dividend that was paid amounted to 2.401.610 Euros.

The shareholders' meeting of .El.En. S.p.A. held on April 28<sup>th</sup> 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.

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

The entry in the category of "Profits from financial assets available for sale" is related to the evaluation at fair value of the remaining 998.628 shares of Cynosure, equal to 4,40% of the capital as opposed to the 4,565% held on December 31<sup>st</sup> 2014. On the basis of the quotation for the shares on December 31<sup>st</sup> 2015 on the Nasdaq market, the fair value of the above mentioned equity is 40.974 thousand Euros. The residual variations in the comprehensive income statement refer to: evaluation of the defined benefit plans, the profits or losses derived from the conversion of the statements in foreign currency and the profits or losses related to hedging derivatives.

### ***Non-recurring significant, atypical and unusual events and operations (note 34)***

In compliance with Consob Communication DEM/6064293 of July 28<sup>th</sup> 2006, we declare that during this year the Group did not conduct any significant non-recurring, atypical or unusual operations, as defined in the aforementioned Communication.

It should be recalled that last year we considered as a significant non-recurring operation the release of the "Other risks and charges" fund made by Asclepion as a consequence of the transaction with Palomar Inc. (now part of the Cynosure Group) as already described in the explanatory notes issued with the annual statement for 2014.

## ***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.

### The Members of the Board of Directors and the Board of Statutory Auditors and other strategic executives

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

Name	Position	Term duration	Fees in:	Fees	Remuneration for participation on committees	Bonus and other incentives	Non monetary benefits	Other rewards	Total	Indemnity for termination of mandate or employment
Clementi Gabriele	Chairman of the BoD	Approval of the financials for 12/31/2017	El.En. SpA	134.086		113.007	3.914		251.007	6.500
			Subsidiaries/associates	11.168					11.168	
Barbara Bazzocchi	Managing Director	Approval of the financials for 12/31/2017	El.En. SpA	134.086		41.492	3.914		179.492	6.500
			Subsidiaries/associates	12.000					12.000	
Andrea Cangioli	Managing Director	Approval of the financials for 12/31/2017	El.En. SpA	134.308		56.503	3.692		194.503	6.500
			Subsidiaries/associates	11.168					11.168	
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 from 04/28/2015	From 04/28/2015 to approval of the financials for 12/31/2017	El.En. SpA	8.121					8.121	
			Subsidiaries/associates							
Paolo Blasi (*)	Director	Up to 04/28/2015	El.En. SpA	3.879					3.879	
			Subsidiaries/associates							
Stefano Modi (*)	Director	Up to 04/28/2015	El.En. SpA	3.879					3.879	
			Subsidiaries/associates							
Vincenzo Pilla (**)	President of the Board of Statutory Auditors	Approval of the financials for 12/31/2015	El.En. SpA	31.200					31.200	
			Subsidiaries/associates	21.526					21.526	
Paolo Caselli (**)	Statutory Auditor	Approval of the financials for 12/31/2015	El.En. SpA	20.800				8.975	29.775	
			Subsidiaries/associates	24.367					24.367	
Rita Pelagotti (**)	Statutory Auditor	Approval of the financials for 12/31/2015	El.En. SpA	20.800					20.800	
			Subsidiaries/associates							
Other managers with strategic responsibilities (n. 1)			El.En. SpA	100.728		40.923	13.118	27.275	182.044	
			Subsidiaries/associates							

N.B.: the salaries shown in the chart are calculated on an accrual basis.

(\*) salaries based on the duration of the appointment

(\*\*) 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 24.367 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 May 15<sup>th</sup> 2013 and on April 28<sup>th</sup> 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 2016.

*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 May 15<sup>th</sup> 2013 and April 28<sup>th</sup> 2015.

*Other rewards:*

- The acting auditor Dott. Paolo Caselli received a bonus of 8.975 Euros as a member of the Controlling body of El.En. S.p.A., in compliance with ex D.Lgs. 231/01.

*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 Cangiolini.

Prof. Leonardo Masotti, President of the Scientific Committee, received a fixed remuneration of 7.370 Euros, besides an incentive bonus of 41.093 Euros. Moreover, as President of the Board of Directors of Deka M.E.L.A. Srl he received a salary of 19.093 Euros and as a member of the Board of Directors of With Us he received 1.500 thousand Yen from that company.

The Parent Company does not have a general director.

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 carried out 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 2015 are clearly shown in detail.

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

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

Associated companies:	Financial receivables		Commercial receivables	
	< 1 year	> 1 year	< 1 year	> 1 year
SBI SA			52.848	
Actis Srl	30.000		3.007	
Immobiliare Del.Co. Srl	31.565			
Elesta Srl			879.242	
Chutian (Tianjin) Laser Technology Co. Ltd			33.282	
Quanta Aesthetic Lasers USA, LLC			96.031	
Accure LLC	68.890		1.079	
<i>Total</i>	130.455	-	1.065.489	-

Associated companies:	Financial payables		Other payables		Commercial payables	
	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Actis Srl					25.620	
SBI SA					1.080	
<i>Total</i>	-	-	-	-	26.700	-

Associated companies:	Sales	Service	Total
Actis Srl	2.705		2.705
SBI S.A.	17.512		17.512
Elesta Srl	614.199	7.375	621.574
Quanta Aesthetic Lasers USA, LLC	3.415.930	15.297	3.431.227
<i>Total</i>	4.050.346	22.672	4.073.018

Associated companies:	Other revenues
Elesta Srl	1.882
Actis Srl	2.400
Quanta Aesthetic Lasers USA, LLC	15.977
<i>Total</i>	20.259

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl	271	36.250		36.521
Immobiliare Delco Srl		150.431		150.431
Quanta Aesthetic Lasers USA, LLC		72.859		72.859
<i>Total</i>	271	259.540	-	259.811

The amounts shown in the above chart refer to operations that are inherent to the characteristic 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 party transactions	Total	related parties	%
<b>a) Impact of related party transactions on the statement of financial position</b>			
Equity investments	44.556.497	3.101.634	6,96%
Accounts receivables	61.326.611	1.065.489	1,74%
Other receivables	7.262.282	130.455	1,80%
Non current financial liabilities	4.998.252		0,00%
Current financial liabilities	14.363.064		0,00%
Accounts payables	42.064.692	26.700	0,06%
Other payables	28.486.502		0,00%
<b>b) Impact of related party transactions on the income statement</b>			
Revenues	217.669.950	4.073.018	1,87%
Other revenues and income	2.326.274	20.259	0,87%
Purchases of raw materials	114.201.024	271	0,00%
Other direct services	17.224.115	6.598	0,04%
Other operating services and charges	28.514.848	252.942	0,89%
Financial charges	1.963.865		0,00%
Financial income	3.309.765	1.374	0,04%
Income taxes	7.063.719		0,00%

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

### *Operating risks*

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

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

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

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

### *Currency risk*

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

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

With US Co. Ltd. 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.

<i>Operation</i>	<i>Notional value</i>	<i>Fair value</i>
Currency swap	€ 1.550.000	€ 16.071
Currency swap	€ 1.950.000	-€ 91.870
Currency swap	€ 2.650.000	-€ 17.087
<b>Total</b>	<b>€ 6.150.000</b>	<b>-€ 92.886</b>

### *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.

In relation to guarantees granted to third parties, it should be recalled that the Parent Company El.En. in 2009 underwrote, along with a minority partner, a bank guarantee for a maximum of one million Euros as a guarantee for the loan of the subsidiary Quanta System owed to the Banca Popolare di Milano for facilitated financing for a total amount of 900 thousand Euros, for which the reimbursement installments expire up to 84 months from the date of issuance, which occurred in the second half of 2009. After the acquisition of the entire equity from the minority shareholder which took place on October 8<sup>th</sup> 2012, El.En. promised to free this partner from all financial obligations towards the Banca Popolare di Milano.

The parent company El.En. S.p.A. has also underwritten:

- in 2011 a bank guarantee, together with the companies that participate in the ATS specifically created for this purpose for a maximum amount of 3.074 thousand Euros as a guarantee against the repayment of the amount required as an advance payment on the MILORD research project, issued as a grant by the Bando Regionale 2010 approved by the Regione Toscana with Managerial Decree n. 670 on February 25<sup>th</sup> 2011, with expiration date September 2014 extended to March 9<sup>th</sup> 2016;
- 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 2016 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 5<sup>th</sup> 2012, with expiration date in February 2018.

- during this year, 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 29<sup>th</sup> 2015, expiring on November 20<sup>th</sup> 2016.

#### *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.

	<b>Book value</b>	<b>Book value</b>	<b>Fair value</b>	<b>Fair value</b>
	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>31/12/2015</b>	<b>31/12/2014</b>
<b>Equity investment available for sale</b>				
Equity investment in Cynosure Inc.	40.974.292	22.553.644	40.974.292	22.553.644
<b>Financial assets</b>				
Financial receivables within 12 months	352.415	775.673	352.415	775.673
Mid and long term Financial instruments	10.643.051		10.643.051	
Short term Financial instruments	1.964.722		1.964.722	
Cash and cash equivalents	46.989.707	73.803.583	46.989.707	73.803.583
<b>Financial liabilities</b>				
Financial mid and long term debts	4.998.252	5.907.331	4.998.252	5.907.331
Financial liabilities due within 12 months	14.363.064	21.494.475	14.363.064	21.494.475

### **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 31<sup>st</sup> 2015, the Group holds the following securities evaluate at fair value:

	Level 1	Level 2	Level 3	Total
Equity investment in Cynosure Inc. AFS	40.974.292			40.974.292
Investment contracts		10.643.051		10.643.051
Mutual funds	1.964.722			1.964.722
Currency swap		-92.886		-92.886
<b>Total</b>	<b>42.939.014</b>	<b>10.550.165</b>	<b>0</b>	<b>53.489.179</b>

## 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 2015 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	2015 fees (Euros)
Audit	Deloitte & Touche SpA	Parent Company		50.313
	Deloitte & Touche SpA	Italian subsidiaries		47.802
	Deloitte & Touche SpA	Foreign subsidiaries		18.090
	Deloitte network	Foreign subsidiaries		70.870
Other services	Deloitte network	Foreign subsidiaries	(1)	20.527
				<b>207.602</b>

(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

	Average 2015		Average 2014		Variation	Var. %
	31/12/2015	31/12/2014	31/12/2015	31/12/2014		
Total	958,0	965	905,0	951	14	1,47%

### 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 14<sup>th</sup> 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 24<sup>th</sup> 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 2015.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the consolidated financial statement dated December 31<sup>st</sup> 2015:

- 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 19<sup>th</sup> 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 15<sup>th</sup> 2016

Managing director

Ing. Andrea Cangioli

Executive officer responsible for the preparation of the financial statements

Dott. Enrico Romagnoli

**El. En. S.p.A.**  
Sede legale Via Baldanzese 17 Calenzano (FI)  
Registro Imprese Firenze n. 03137680488

## Report of the Board of Statutory Auditors to the Shareholders' Meeting on the consolidated financial statement as of December 31<sup>st</sup> 2015

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 auditing company charged with the legal auditing of the financial statement of the Parent Company El.En. S.p.A.

The Board of Statutory Auditors in any case conducted its supervising activity on the financial statement as of December 31<sup>st</sup> 2015 and on the Management Report for 2015 (related also to the consolidated financials) 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 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 1<sup>st</sup> 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 2015.

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 30<sup>th</sup> 2016.

The Board of Statutory Auditors

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

Dr. Paolo Caselli, auditor.

Dott.ssa Rita Pelagotti, auditor



## 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. S.p.A. and its subsidiaries (the "El.En. Group"), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated 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 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° 38/2005.

#### *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, n° 3, 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 the El.En. Group as at December 31, 2015, 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° 38/2005.

**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 is the responsibility of the Directors of El.En. S.p.A., with the consolidated financial statements of the El.En. Group as at December 31, 2015. 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 the El.En. Group as at December 31, 2015.

DELOITTE & TOUCHE S.p.A.

*Signed by*

Gianni Massini

Partner

Florence, March 30, 2016

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

**EL.EN. SpA SEPARATE FINANCIAL STATEMENT  
AS OF DECEMBER 31<sup>st</sup> 2015**

**ACCOUNTING CHARTS AND NOTES**

## Statement of financial position

	Notes	31/12/2015	31/12/2014
<b>Statement of financial position</b>			
Intangible assets	1	199.464	164.446
Tangible assets	2	13.011.283	12.701.158
Equity investments:	3		
- in subsidiaries		15.920.781	16.651.218
- in associates		490.258	551.328
- other investments		41.439.838	22.594.562
Total equity investments		57.850.877	39.797.108
Deferred tax assets	4	2.361.373	2.734.763
Other non current assets	4	10.646.159	3.108
<b>Total non current assets</b>		<b>84.069.156</b>	<b>55.400.583</b>
Inventories	5	25.007.825	20.199.281
Accounts receivables:	6		
- from third parties		10.336.088	6.357.638
- from subsidiaries		23.716.386	23.457.495
- from associates		886.999	533.919
Total accounts receivables:		34.939.473	30.349.052
Tax receivables	7	4.617.272	3.253.032
Other receivables:	7		
- from third parties		647.591	1.233.509
- from subsidiaries		4.621.540	4.102.689
- from associates		61.565	61.565
Total other receivables		5.330.696	5.397.763
Financial instruments	8	1.964.722	
Cash and cash equivalents	9	12.583.225	43.511.706
<b>Total current assets</b>		<b>84.443.213</b>	<b>102.710.834</b>
<b>TOTAL ASSETS</b>		<b>168.512.369</b>	<b>158.111.417</b>
Share capital	10	2.508.671	2.508.671
Additional paid in capital	11	38.593.618	38.593.618
Other reserves	12	100.560.426	63.595.335
Treasury stock	13		
Retained earnings / (deficit)	14	-984.282	-984.282
Net income / (loss)		6.307.307	23.529.094
<b>Total equity</b>		<b>146.985.740</b>	<b>127.242.436</b>
Severance indemnity	15	895.156	1.110.639
Deferred tax liabilities	16	1.155.972	1.093.934
Other accruals	17	491.894	602.652
Financial liabilities:	18		
- to third parties			1.340.000
Total financial liabilities			1.340.000
<b>Non current liabilities</b>		<b>2.543.022</b>	<b>4.147.225</b>
Financial liabilities:	19		
- to third parties		1.510.000	12.092.473
Total financial liabilities		1.510.000	12.092.473
Accounts payables:	20		
- to third parties		11.330.300	8.530.845
- to subsidiaries		802.037	1.246.296
- to associates		26.700	1.148
Total accounts payables		12.159.037	9.778.289
Income tax payables	21	1.320.307	1.671
Other payables:	21		
- to third parties		3.980.687	4.663.363
- to subsidiaries		13.576	185.960
Total other payables		3.994.263	4.849.323
<b>Current liabilities</b>		<b>18.983.607</b>	<b>26.721.756</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>168.512.369</b>	<b>158.111.417</b>

## *Income Statement*

<b>Income statement</b>	<b>Note</b>	<b>31/12/2015</b>	<b>31/12/2014</b>
Revenues:	22		
- from third parties		31.108.657	14.622.782
- from subsidiaries		30.459.828	31.821.396
- from associates		613.264	568.572
<b>Total revenues</b>		<b>62.181.749</b>	<b>47.012.750</b>
Other revenues and income:	23		
- from third parties		313.308	423.520
- from subsidiaries		370.847	408.382
- from associates		4.282	4.687
<b>Total other revenues and income</b>		<b>688.437</b>	<b>836.589</b>
<b>Total revenues and income</b>		<b>62.870.186</b>	<b>47.849.339</b>
Purchase of raw materials:	24		
- to third parties		33.333.839	20.528.033
- to subsidiaries		1.940.058	1.754.875
- to associates			1.080
<b>Total purchase of raw materials</b>		<b>35.273.897</b>	<b>22.283.988</b>
Change in inventory of finished goods and WIP		(1.278.548)	(42.484)
Change in inventory of raw material		(3.720.909)	116.452
Other direct services:	25		
- to third parties		4.762.776	3.625.343
- to subsidiaries		145.409	173.723
<b>Total other direct services</b>		<b>4.908.185</b>	<b>3.799.066</b>
Other operating services and charges:	25		
- to third parties		6.090.428	5.867.673
- to subsidiaries		96.397	369.284
- to associates		36.000	
<b>Total other operating services and charges</b>		<b>6.222.825</b>	<b>6.236.957</b>
For staff costs	26	12.216.236	11.633.906
Depreciation, amortization and other accruals	27	1.406.306	1.725.562
<b>EBIT</b>		<b>7.842.194</b>	<b>2.095.892</b>
Financial charges:	28		
- to third parties		(414.129)	(695.989)
- to subsidiaries		(110.818)	
<b>Total financial charges</b>		<b>(524.947)</b>	<b>(695.989)</b>
Financial income	28		
- from third parties		2.330.663	5.998.027
- from subsidiaries		61.738	52.375
- from associates		315	349
<b>Total financial income</b>		<b>2.392.716</b>	<b>6.050.751</b>
Other net expenses	29	(921.507)	(1.131.109)
Other net income	29	224.632	19.329.977
<b>Income (loss) before taxes</b>		<b>9.013.088</b>	<b>25.649.522</b>

Income taxes	30	2.705.781	2.120.428
<b>Income (loss) for the financial period</b>		<b>6.307.307</b>	<b>23.529.094</b>

## *Statement of comprehensive income*

	<b>31/12/2015</b>	<b>31/12/2014</b>
Reported net (loss) income (A)	6.307.307	23.529.094
<u>Other income/(loss) that will not be entered in income statement net of fiscal effects:</u>		
Measurement of defined-benefit plans	92.515	(117.378)
Capital gain (loss) on treasury stocks		(66.190)
<u>Other income/(loss) that will be entered in income statement net of fiscal effects::</u>		
Unrealized gain (loss) on investment AFS	18.167.364	(14.072.936)
Unrealized gain (loss) on derivatives and other changes	500	5.762
<b>Total other income/(loss), net of fiscal effectes (B)</b>	<b>18.260.379</b>	<b>(14.250.741)</b>
<b>Total comprehensive (loss) income (A) + (B)</b>	<b>24.567.686</b>	<b>9.278.353</b>

## Cash flow statement

Cash flows statement	Notes	31/12/2015	related parties	31/12/2014	related parties
<b>Cash flow generated by operating activity:</b>					
Profit (loss) for the financial period		6.307.307		23.529.094	
Amortizations and depreciations	27	1.138.024		1.043.882	
Capital gain on sale of equity investments	29			-19.329.977	
(Re)-Devaluations of equity investments	29	921.507	921.507	1.093.378	1.093.378
Change of employee severance indemnity	15	-83.971		-19.316	
Change of provisions for risks and charges	17	-110.758	-224.632	112.208	37.731
Change of provisions for deferred income tax assets	4	334.392		547.759	
Change of provisions for deferred income tax liabilities	16	-191.246		-33.762	
Inventory	5	-4.808.544		487.226	
Account Receivables	6	-4.590.421	-611.971	-2.968.029	-1.135.111
Tax receivables	7	-1.364.240		-2.173.693	
Other receivables	7	-66.898	-157.009	80.629	19.085
Account Payables	20	2.380.748	-418.707	-2.508.608	133.747
Income Tax payables	21	1.318.636		-144.520	
Other payables	21	-855.060	-172.384	1.401.667	128.465
		-5.977.831		-22.411.156	
<b>Cash flow generated by operating activity</b>		<b>329.476</b>		<b>1.117.938</b>	
<b>Cash flow generated by investment activity:</b>					
(Increase) decrease in tangible assets	2	-1.335.259		-1.089.494	
(Increase) decrease in intangible assets	1	-147.908		-174.980	
(Increase) decrease in equity investments and non current assets	3-4	-11.197.679	-130.000	21.948.959	-1.098.446
(Increase) decrease in financial receivables	7	133.965	-361.842	-1.354.422	-836.534
(Increase (decrease) in current financial assets	8	-1.964.722			
<b>Cash flow generated by investment activity</b>		<b>-14.511.603</b>		<b>19.330.063</b>	
<b>Cash flow from financing activity:</b>					
Increase (decrease) in non current financial liabilities	18	-1.340.000		-2.696.667	
Increase (decrease) in current financial liabilities	19	-10.581.986		5.891.550	
Change in Treasury Stock	13			461.873	
Dividends distributed	31	-4.824.368		-2.401.610	
<b>Cash flow from financing activity</b>		<b>-16.746.354</b>		<b>1.255.146</b>	
<b>Increase (decrease) in cash and cash equivalents</b>		<b>-30.928.481</b>		<b>21.703.147</b>	
<b>Cash and cash equivalents at the beginning of the financial period</b>		<b>43.511.706</b>		<b>21.808.559</b>	
<b>Cash and cash equivalents at the end of the financial period</b>		<b>12.583.225</b>		<b>43.511.706</b>	

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 530 thousand Euros, of which 62 thousand Euros from subsidiary companies. Income taxes for this financial year were 2.589 thousand Euros.



## Changes in the Shareholders' equity

<i>SHAREHOLDERS' EQUITY:</i>	<b>Balance 31/12/2013</b>	<b>Net income allocation</b>	<b>Dividends distributed</b>	<b>Other operations</b>	<b>Comprehensive (loss) income</b>	<b>Balance 31/12/2014</b>
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 shares	-528.063			528.063		
Others reserves:						
Extraordinary reserves	42.447.942		-402.825			42.045.117
Reserve for contribution on capital account	426.657					426.657
Other reserves	34.770.800			10	-14.184.551	20.586.259
Retained earnings	-918.092	1.998.784	-1.998.785	1	-66.190	-984.282
Profits (loss) of the year	1.998.784	-1.998.784			23.529.094	23.529.094
<i>Total Shareholders' equity</i>	119.837.619	0	-2.401.610	528.074	9.278.353	127.242.436

<i>SHAREHOLDERS' EQUITY:</i>	<b>Balance 31/12/2014</b>	<b>Net income allocation</b>	<b>Dividends distributed</b>	<b>Other operations</b>	<b>Comprehensive (loss) income</b>	<b>Balance 31/12/2015</b>
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 shares	0					0
Others reserves:						
Extraordinary reserves	42.045.117	18.704.726				60.749.843
Reserve for contribution on capital account	426.657					426.657
Other reserves	20.586.259			-14	18.260.379	38.846.624
Retained earnings	-984.282	4.824.368	-4.824.368			-984.282
Profits (loss) of the year	23.529.094	-23.529.094	0		6.307.307	6.307.307
<i>Total Shareholders' equity</i>	127.242.436	0	-4.824.368	-14	24.567.686	146.985.740

# 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 15<sup>th</sup> 2016.

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 2015 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 2014 and 2015. The financial information on the other hand refer to the situations on December 31<sup>st</sup> 2014 and December 31<sup>st</sup> 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.

### COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The statement as of December 31<sup>st</sup> 2015 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 31<sup>st</sup> 2014 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 1<sup>st</sup> 2015" which should be consulted for further details.

- On August 12<sup>th</sup> 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 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. Consequently, after the introduction of this amendment, an entity may, alternatively, register this equity in its separate statement:

- at cost;
- in compliance with IFRS 9 (or IAS 39);
- using the shareholders' equity method.

The modifications must be applied starting on January 1<sup>st</sup> 2016 but application in advance is permitted. At this time the directors are evaluating the possible effects that the introduction of these modifications might have 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:

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

### C) FINANCIAL CHARGES

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

### D) LOSSES IN VALUE OF ASSETS

At each date referred to in the financial year shown, the tangible and intangible assets with a finite life have been assessed for the purposes of identifying any indicators of loss in value. The recoverable value of the goodwill and intangible assets with an indefinite life, where present, have been estimated at each date of reference. If there is any indication of a reduction in value the presumed cashing-in value is estimated.

The presumed cashing-in value is the higher of the two variables, net sales price and utility value. In determining the utility value, expected future flows of funds are discounted using a pre-tax discount rate which reflects the current market value of the money rate referred to the investment period and specific risks of the business. For a business not generating highly independent flows of funds, the cashing-in value is determined in relation to the cash-generating unit which the said business belongs to. A loss of value is entered in the Income statement wherever the value entered for the asset or the relative cash generating unit which it is allocated to, is higher than the presumed cashing-in value. 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 31<sup>st</sup> 2006 the severance indemnity fund was considered a defined benefit plan. The regulating of this fund was changed by law no. 296 of December 27<sup>th</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> 2013 retroactively, re-determining the amounts of the financial position shown on January 1<sup>st</sup> 2012 and December 31<sup>st</sup> 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.

#### **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.

## ***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:

<i>Categories</i>	<b>Balance 31/12/14</b>	<b>Variation</b>	<b>(Devaluation)</b>	<b>Other Operations</b>	<b>(Amortizations)</b>	<b>Balance 31/12/15</b>
Costs of research, development	43.912	126.453			-64.099	106.266
Patents and rights to use patents of others	40.630				-10.158	30.472
Concessions, licences, trade marks and similar rights	49.303	21.456			-35.834	34.925
Other	5.601				-2.800	2.801
Intangible assets in progress and payments on account	25.000					25.000
<i>Total</i>	<b>164.446</b>	<b>147.909</b>			<b>-112.891</b>	<b>199.464</b>

Under the heading of “Costs of research and development” we have entered the costs sustained for the development of new prototypes and under the heading of “Patents and rights to use patents of others” we have entered the purchase of a patent which took place last year.

Under the heading of “Concessions, licenses and trade marks” we have entered the costs for the purchase of new software licenses; under the heading of “Other” we have entered the costs for the creation of new software.

## Tangible fixed assets (note 2)

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

<i>Cost</i>	<b>Balance 31/12/14</b>	<b>Increments</b>	<b>Devaluations</b>	<b>Other operations</b>	<b>(Disposals)</b>	<b>Balance 31/12/15</b>
Lands	2.077.455	177.904				2.255.359
Buildings	11.113.824	417.928		74.920		11.606.672
Plants and machinery	2.285.942	79.635		-4.239		2.361.338
Industrial and commercial equipment	4.810.782	328.253		-20.063	-56.336	5.062.636
Other goods	1.838.277	192.131		-37.447	-77.404	1.915.557
Tangible assets under construction	3.822	173.716		-78.741		98.797
<i>Total</i>	<b>22.130.102</b>	<b>1.369.567</b>		<b>-65.570</b>	<b>-133.740</b>	<b>23.300.359</b>

<i>Depreciation provisions</i>	<b>Balance 31/12/14</b>	<b>Depreciation</b>	<b>Devaluations</b>	<b>Other operations</b>	<b>(Disposals)</b>	<b>Balance 31/12/15</b>
Lands						
Buildings	2.474.737	340.808				2.815.545
Plants and machinery	1.416.452	197.145		-2.548		1.611.049
Industrial and commercial equipment	4.084.006	332.470		-17.765	-33.257	4.365.454
Other goods	1.453.749	154.711		-37.109	-74.323	1.497.028
Tangible assets under construction						
<i>Total</i>	<b>9.428.944</b>	<b>1.025.134</b>		<b>-57.422</b>	<b>-107.580</b>	<b>10.289.076</b>

<i>Net value</i>	<b>Balance 31/12/14</b>	<b>Increments</b>	<b>Other operations</b>	<b>(Depreciations and devaluations)</b>	<b>(Disposals)</b>	<b>Balance 31/12/15</b>
Lands	2.077.455	177.904				2.255.359
Buildings	8.639.087	417.928	74.920	-340.808		8.791.127
Plants and machinery	869.490	79.635	-1.691	-197.145		750.289
Industrial and commercial equipment	726.776	328.253	-2.298	-332.470	-23.079	697.182
Other goods	384.528	192.131	-338	-154.711	-3.081	418.529
Tangible assets under construction	3.822	173.716	-78.741			98.797
<i>Total</i>	<b>12.701.158</b>	<b>1.369.567</b>	<b>-8.148</b>	<b>-1.025.134</b>	<b>-26.160</b>	<b>13.011.283</b>

In accordance with the current accounting standards, the value of the land has been separated from the value of the buildings located upon it and the lands have not been amortized since they constitute an element having an unlimited useful life. The value of the lands on December 31<sup>st</sup> 2015 was 2.255 thousand Euros. The increases are related to an investment made by the company this year.

The heading of “Buildings” includes the building complex in Via Baldanzese in Calenzano (Florence), where the company operates along with the subsidiaries Deka M.E.L.A., Cutlite Penta, Esthelogue and Pharmonia, the building complex in Via Dante Alighieri also in Calenzano, the first one purchased in 2008 and the second one acquired last year and the building in the city of Torre Annunziata purchased in 2006 for the research, development and production activities of the subsidiary Lasit SpA. Under the heading of “increments” we have entered a new building purchased this year 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 of “Other goods” is related in particular to the purchase of new motor vehicles, furniture and electronic equipment.

The amounts shown in the column “disposals” of the category of “industrial and commercial equipment” and “Other goods” refers to sales of assets.

The amounts shown under the heading of “Other operations” in the category of “Tangible assets under construction” refers to the clearance account for the initial costs sustained by the company for the acquisition of the building located in Via Dante Alighieri which took place last year.



## Equity investments (note 3)

### Equities in subsidiary companies

Company name:	Headquarters	% owned	Value of Charge	Equity 31/12/2015	Result 31/12/2015	Share of equity	Difference
Deka M.E.L.A. Srl	Calenzano (FI) - Italy	85,00%	1.431.587	10.392.664	1.085.711	8.833.764	7.402.177
Cutlite Penta Srl	Calenzano (FI) - Italy	96,65%	2.478.706	3.176.748	175.227	3.070.327	591.621
Esthelogue Srl	Calenzano (FI) - Italy	50,00%	255.000	147.061	34.631	73.531	-181.470
Pharmonia Srl	Calenzano (FI) - Italy	100,00%	50.000	271.466	-22.954	271.466	221.466
Quanta System Spa	Solbiate Olona (VA) - Italy	100,00%	7.909.021	8.997.540	2.521.279	8.997.540	1.088.519
Lasit SpA	Torre Annunziata (NA) - Italy	70,00%	1.043.614	2.428.552	398.016	1.699.986	656.372
Deka Sarl	Lyons - France	100,00%	131.280	307.097	15.698	307.097	175.817
Asclepion Laser Technologies GmbH	Jena - Germany	50,00%	1.025.879	9.523.841	1.573.444	4.761.921	3.736.042
BRCT Inc	New York - USA	100,00%	1.128.446	1.665.868	52.407	1.665.868	537.422
Cutlite do Brasil Ltda	Blumenau - Brazil	68,56%	424.662	619.402	-914.971	424.662	0
Deka Japan Co. Ltd	Tokyo - Japan	55,00%	42.586	736.479	-25.947	405.063	362.477
<i>Total</i>			15.920.781	38.266.718	4.892.541	30.511.225	14.590.444

From the analysis of the expected profits from Esthelogue S.r.l., which was made using the DCF method, no indications of further losses in value emerged and therefore we did not proceed with the alignment of the book value with the corresponding fraction of the shareholders' equity. The use value was determined by the Discounted Cash Flow (DCF) method, actualizing the cash flow contained in the economic-financial plan approved by the Board of Directors of Esthelogue S.r.l. for the years 2016-2018. In order to determine the use value of the CGU we considered the financial flow actualized for the three years of explicit forecast added to a terminal value which was equal to the present value of the perpetual revenue of the flow generated during the last year of explicit forecast.

The main assumption of the economic-financial plan used to run the impairment test is relative to the growth rate of the sales volume for the timer range covered by the plan. The rates used to make the forecasts that were used as part of the impairment test are consistent with the final data during 2015 and the outlook for their specific market.

The actualization rate applied to the future cash flow (WACC) is 7,26%; for the cash flow related to the years following the explicit forecast, we use the hypothesis of a long range growth rate "g" of 1,5%.

The equity in Cutlite do Brasil on December 31<sup>st</sup> 2015 was subjected to direct devaluation for the amount of 860 thousand Euros in order to align the value to corresponding fraction of the shareholders' equity.

For further information on the impairment test that have been run, please also consult the explanatory notes in the consolidated financial statement.

On December 22<sup>nd</sup> 2015 100% control of Pharmonia Srl was transferred from the subsidiary Asclepion to the Parent Company El.En., which acquired the equity for 50 thousand Euros.

During 2015 LT Tech of Carlsbad, Inc (ex Deka Laser Technologies Inc.), which had terminated its activity already last year and was in the process of being liquidated, was definitively cancelled.

### *Equities in associated companies*

<b>Company Name:</b>	<b>Headquarters</b>	<b>% owned</b>	<b>Value of Charge</b>	<b>Equity 31/12/2015</b>	<b>Result 31/12/2015</b>	<b>Share of equity</b>	<b>Difference</b>
Actis Srl (*)	Calenzano (I)	12,00%	1.240	83.805	-27.992	10.057	8.817
Elesta Srl (ex IALT Srl)	Calenzano (I)	50,00%	112.965	1.162.784	476.411	581.392	468.427
Immobiliare Del.Co. Srl	Solbiate Olona (I)	30,00%	274.200	63.252	4.498	18.976	-255.224
S.B.I. SA	Herzele (B)	50,00%	101.853	203.705	-122.141	101.853	
<i>Total</i>			490.258	1.513.546	330.776	712.277	222.019

(\*)Data as of December 31<sup>st</sup> 2014

The data related to the associated company “Immobiliare Del.Co. S.r.l.”, which owns a building rented to Quanta System S.p.A., show a difference between the purchase cost and the corresponding quota of the shareholders’ equity due to the greater value of the lands and buildings they own as emerged during the voluntary revaluation of the real state that was made by the company in conformity with D.L. 185/08.

The equity in the associated company SBI on December 31<sup>st</sup> 2015 was directly devaluated for the amount of about 61 thousand Euros, for the purpose of adapting the value of the equity to the corresponding fraction of the shareholders’ equity.

The chart below shows a summary of the data related to the associated companies:

	<b>Total Assets</b>	<b>Total liabilities</b>	<b>Net income (Loss)</b>	<b>Revenues and other income</b>	<b>Charges and expenses</b>
Actis Active Sensors Srl (*)	207.552	123.747	-27.992	87.455	115.447
Elesta Srl (ex IALT Srl)	3.049.816	1.887.032	476.411	1.891.651	1.415.240
Immobiliare Del.Co. Srl	900.207	836.955	4.498	149.697	145.199
S.B.I. SA	264.992	61.287	-122.141	58.754	180.895

(\*)Data as of December 31<sup>st</sup> 2014

### *Equities in other companies*

The increase under the heading of “other companies” for the amount of 18.845 thousand Euros is due, for the amount of 424 thousand Euros, to the underwriting of 500 thousand shares of the American company Epica International Inc. which took place on January 14<sup>th</sup> 2015, and, for the amount of 18.421 thousand Euros (Euro 18.167 thousand Euros net of the fiscal effect in *Other Comprehensive Income* - “OCI”) to the evaluation at fair value of the remaining 998.628 Cynosure shares, equal to 4,40% of the capital as opposed to the 4,565% held on December 31<sup>st</sup> 2014. On the basis of the price quoted for the shares on December 31<sup>st</sup> 2015 on the Nasdaq market, the fair value of the equity in Cynosure was 40.974 thousand Euros. This amount was equal to 36,6 million Euros on March 24<sup>th</sup> 2016.

**Composition of equity investments**

Company name:	31/12/14						31/12/15		
	Cost	Reval. (Deval.)	Balance 31/12/14	Changes	Revaluations (devaluations)	Other movements	Balance 31/12/15	Reval. (Deval.)	Cost
<b>Subsidiary companies:</b>									
Deka M.E.L.A. Srl	1.431.587		1.431.587				1.431.587		1.431.587
Cutlite Penta Srl	2.788.452	-309.746	2.478.706				2.478.706	-309.746	2.788.452
Esthologue Srl	1.749.583	-1.574.583	175.000	80.000			255.000	-1.574.583	1.829.583
Deka Sarl	2.841.681	-2.710.401	131.280				131.280	-2.710.401	2.841.681
BC Tech GmbH (ex Deka GmbH)	1.038.456	-1.038.456							
Lasit SpA	1.043.614		1.043.614				1.043.614		1.043.614
Quanta System SpA	7.909.021		7.909.021				7.909.021		7.909.021
LT Tech of Carlsbad Inc. (ex Deka Laser Technologies Inc)	27.485	-27.485							0
BRCT	1.128.446		1.128.446				1.128.446		1.128.446
Asclepion Laser T. GmbH	1.025.879		1.025.879				1.025.879		1.025.879
Cutlite do Brasil Ltda	3.384.919	-2.099.820	1.285.099		-860.437		424.662	-2.960.257	3.384.919
Deka Japan Ltd	42.586		42.586				42.586		42.586
Pharmonia Srl	0			50.000			50.000		50.000
<i>Total</i>	24.411.709	-7.760.491	16.651.218	130.000	-860.437	0	15.920.781	-7.554.987	23.475.768
<b>Associated companies:</b>									
Actis Srl	1.240		1.240				1.240		1.240
Elesta Srl (ex IALT srl)	741.712	-628.747	112.965				112.965	-628.747	741.712
Immobiliare Del.Co.	274.200		274.200				274.200		274.200
Sbi International	600.000	-437.077	162.923		-61.070		101.853	-498.147	600.000
<i>Total</i>	1.617.152	-1.065.824	551.328	0	-61.070	0	490.258	-1.126.894	1.617.152
<b>Other companies:</b>									
Cynosure	3.373.822	19.179.822	22.553.644			18.420.648	40.974.292	37.600.470	3.373.822
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
RTM	364.686	-364.686						-364.686	364.686
Kymera Srl	1.500	-1.500							0
Imaginalis Srl	17.000		17.000				17.000		17.000
EPICA International Inc.	0			424.628			424.628		424.628
<i>Total</i>	3.780.926	18.813.636	22.594.562	424.628	0	18.420.648	41.439.838	37.235.784	4.204.054
<i>Total</i>	29.809.787	9.987.321	39.797.108	554.628	-921.507	18.420.648	57.850.877	28.553.903	29.296.974

**Financial charges during this year on amounts entered among the assets**

No financial charges were entered for the items listed among the assets.

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

<i>Other non current assets</i>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variation</b>	<b>Var. %</b>
Securities	10.643.051		10.643.051	
Deferred tax assets	2.361.373	2.734.763	-373.390	-13,65%
Other non current assets	3.108	3.108	0	0,00%
<i>Total</i>	<b>13.007.532</b>	<b>2.737.871</b>	<b>10.269.661</b>	<b>375,10%</b>

The entries under the heading of Securities 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; for most of the policies this condition will be fulfilled during the first half of 2016. 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:

<i>Inventories:</i>	31/12/15	31/12/14	Variation	Var. %
Raw materials and consumables	14.385.399	10.664.490	3.720.909	34,89%
Work in progress and semi finished products	7.244.652	5.967.165	1.277.487	21,41%
Finished products and goods for sale	3.377.774	3.567.626	-189.852	-5,32%
<i>Total</i>	25.007.825	20.199.281	4.808.544	23,81%

The final inventory shows an increase of about 24%; it should be recalled that the amounts shown in the chart are net of the devaluation fund as shown in the chart below:

<i>Inventory:</i>	31/12/2015	31/12/2014	Variation	Var. %
Gross amount	29.574.779	23.813.002	5.761.777	24,20%
minus: devaluation provision	-4.566.954	-3.613.721	-953.233	26,38%
<i>Total</i>	25.007.825	20.199.281	4.808.544	23,81%

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 31<sup>st</sup> 2015 was about 15% and unchanged from December 31<sup>st</sup> 2014.

### Trade receivables (note 6)

Receivables are composed as follow:

<i>Debtors:</i>	31/12/15	31/12/14	Variation	Var. %
Trade debtors	10.336.088	6.357.638	3.978.450	62,58%
Subsidiary debtors	23.716.386	23.457.495	258.891	1,10%
Associated debtors	886.999	533.919	353.080	66,13%
<i>Total</i>	34.939.473	30.349.052	4.590.421	15,13%

<i>Trade debtors:</i>	31/12/2015	31/12/2014	Variation	Var. %
Italy	1.462.004	1.382.115	79.889	5,78%
European Community	1.279.515	1.528.478	-248.963	-16,29%
Outside of European Community	8.156.887	3.990.695	4.166.192	104,40%
minus: devaluation provision for debtors	-562.318	-543.650	-18.668	3,43%
<i>Total</i>	10.336.088	6.357.638	3.978.450	62,58%

The trade receivables from subsidiary and associated companies are inherent to the characteristic operations. The increase in trade debts is due to the increase in sales volume.

The chart below shows the changes in the provisions for bad debts which occurred during this year.

<i>Provision for bad debts</i>	<b>2015</b>	<b>2014</b>
<b>At the beginning of the period</b>	<b>543.650</b>	<b>1.814.963</b>
Amounts accrued	87.396	-5.586
Amounts utilized	-247.548	-1.813.194
Other operations	178.820	547.467
<b>At the end of the period</b>	<b>562.318</b>	<b>543.650</b>

The chart below shows the trade receivables from third parties divided according to the type of currency.

<u>Account receivables in:</u>	<b>31/12/2015</b>	<b>31/12/2014</b>
Euro	2.779.903	2.998.489
USD	7.556.185	3.359.149
<b>Total</b>	<b>10.336.088</b>	<b>6.357.638</b>

The amount in Euros shown in the chart of the receivables originally expressed in US dollars or other currencies represents the amount in currency converted at the exchange rate in force on December 31<sup>st</sup> 2015 and December 31<sup>st</sup> 2014.

The chart below shows the analysis of the trade receivables from third parties and from subsidiary companies for 2015 and for 2014:

<i>Account receivables vs. third parties:</i>	<b>31/12/2015</b>	<b>31/12/2014</b>
<b>To expire</b>	6.538.561	4.073.778
<b>Expired:</b>		
30 days	2.623.383	864.739
60 days	414.851	133.964
90 days	59.460	115.587
180 days	193.407	249.664
over 180 days	506.426	919.906
<b>Total</b>	<b>10.336.088</b>	<b>6.357.638</b>

<i>Account receivables from subsidiaries:</i>	<b>31/12/2015</b>	<b>31/12/2014</b>
<b>To expire</b>	7.704.643	6.685.329
<b>Expired:</b>		
30 days	36.988	1.028.277
60 days	194.972	335.875
90 days	682.486	950.222
180 days	1.806.125	1.996.692
over 180 days	13.291.172	12.461.100
<b>Total</b>	<b>23.716.386</b>	<b>23.457.495</b>

For a detailed analysis of the trade receivables 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:

	31/12/2015	31/12/2014	Variation	Variation %
<i>Tax debtors</i>				
VAT credits	4.241.381	2.859.844	1.381.537	48,31%
Income tax credits	375.891	393.188	-17.297	-4,40%
<i>Total tax debtors</i>	4.617.272	3.253.032	1.364.240	41,94%

<i>Financial receivables</i>				
Financial receivables from third parts	124.359	620.166	-495.807	-79,95%
Financial receivables from subsidiary companies	4.464.166	4.102.324	361.842	8,82%
Financial receivables from associated companies	61.565	61.565	-	0,00%
<i>Total</i>	4.650.090	4.784.055	-133.965	-2,80%
<i>Other receivables</i>				
Security deposits	9.276	10.776	-1.500	-13,92%
Down payments	185.620	274.423	-88.803	-32,36%
Other credits	328.336	328.144	192	0,06%
Other credits from subsidiary companies	157.374	365	157.009	43016,16%
<i>Total</i>	680.606	613.708	66.898	10,90%
<i>Total financial and other receivables</i>	5.330.696	5.397.763	-67.067	-1,24%

The amount entered among the “tax credits” related to Value Added Tax (VAT) is the natural effect of the large amount of exports which characterize the sales volume of the company.

The “income tax credits” 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:

Companies in the Group	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.	1.575	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 next chapter, regarding “related parties”.

## Securities (note 8)

<i>Investments which are not permanent:</i>	31/12/2015	31/12/2014	Variation	Var. %
other investments	1.964.722		1.964.722	
<i>Total</i>	1.964.722	0	1.964.722	

The amount shown under the heading of “Securities” consists of mutual investment funds held by the company and purchased during the year for the purpose of a temporary use of cash. These securities are evaluated at their market value as of December 31<sup>st</sup> 2015 with the adaptation of the value registered in the income statement.

## Cash and cash equivalents (note 9)

Cash and cash equivalents is composed as follows:

<i>Cash and cash Equivalents:</i>	31/12/2015	31/12/2014	Variation	Var. %
bank and postal current accounts	12.577.990	43.505.591	-30.927.601	-71,09%
cash in hand	5.235	6.115	-880	-14,39%
<i>Total</i>	12.583.225	43.511.706	-30.928.481	-71,08%

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

## Net financial position as of December 31<sup>st</sup> 2015

The net financial position as of December 31<sup>st</sup> 2015 is composed as follows (in thousands of Euros).

<b>Net financial position</b>	31/12/2015	31/12/2014
Cash and bank	12.583	43.512
Financial instruments	1.965	0
<b>Cash and cash equivalents</b>	<b>14.548</b>	<b>43.512</b>
<b>Short term financial receivables</b>	<b>124</b>	<b>620</b>
Bank short term loan	(1.510)	(10.866)
Part of financial long term liabilities due within 12 months	0	(1.227)
<b>Financial short term liabilities</b>	<b>(1.510)</b>	<b>(12.092)</b>
<b>Net current financial position</b>	<b>13.162</b>	<b>32.039</b>
Bank long term loan	0	(1.340)
<b>Financial long term liabilities</b>	<b>0</b>	<b>(1.340)</b>
<b>Net financial position</b>	<b>13.162</b>	<b>30.699</b>

The net financial position decreased by about 17,5 million Euros with respect to December 31<sup>st</sup> 2014 and is now about 13 million Euros.

As mentioned above, 10,5 million Euros of the cash was invested in temporary financial investments, the nature of which requires that they be entered among the non-current assets and be excluded from the net financial position. Moreover, the purchase of a minority share in Epica International Inc. for the amount of 500 thousand US dollars was concluded.

The company paid dividends this year of about 4,8 million Euros.

Financial receivables from subsidiaries and associated companies for an amount of 4.526 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.



The decrease in the heading of “bank short term loan” is due to the reimbursement in advance of loans granted to the Company by Mediocredito Italiano S.p.A, which would have come due during 2016.

## ***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 31<sup>st</sup> 2015, the capital stock of El.En. was as follows

Authorized	Euros	2.508.671
Underwritten and deposited	Euros	2.508.671

Nominal value of each share 0,52

Categories	31/12/2014	Increase.	(Decrease.)	31/12/2015
No. of Ordinary Shares	4.824.368			4.824.368
<i>Total</i>	<b>4.824.368</b>			<b>4.824.368</b>

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.

#### ***Additional paid in capital (note 11)***

On December 31<sup>st</sup> 2015 the share premium reserve amounted to 38.594 thousand Euros, unchanged with respect to December 31<sup>st</sup> 2014.

#### ***Other reserves (note 12)***

<i>Other reserves</i>	31/12/2015	31/12/2014	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	60.749.843	42.045.117	18.704.726	44,49%
Stock options reserve fund	1.811.278	1.811.278		0,00%
Reserve for contributions on capital account	426.657	426.657		0,00%
Other reserves	37.035.346	18.774.981	18.260.365	97,26%
<i>Total</i>	<b>100.560.426</b>	<b>63.595.335</b>	<b>36.965.091</b>	<b>58,13%</b>

As of December 31<sup>st</sup> 2015 the "Extraordinary reserve" amounted to 60.750 thousand Euros; the increase with respect to December 31<sup>st</sup> 2014 is due to the allocation to the reserve of part of the net income for the year, as voted by the Shareholders' meeting on April 28<sup>th</sup> 2015.

The reserve "for stock options" includes the equivalent of the costs determined in accordance with IFRS 2 of the Stock Option Plans assigned by El.En. SpA. and is unchanged with respect to December 31<sup>st</sup> 2014.

The reserve for contributions on capital account should be considered a reserve of profits.

The increase under the heading of “ other reserves” is mostly due to the evaluation at fair value of the residual Cynosure shares on December 31<sup>st</sup> 2015 which are considered available for sale in conformity with standard IAS 39.

### ***Treasury stock (note 13)***

On April 28<sup>th</sup> 2015 the Shareholders’ meeting authorized the Board of Directors to purchase treasury stock. The purchase of the treasury stock as it has been proposed by the Board of Directors, will be made for the following concurrent or alternative reasons: to stabilize the stock, to be assigned to employees and/or collaborators of the company, to exchange for equities during company acquisitions. The authorization for the purchase was granted for a maximum expense of 20.000.000,00 (twenty million/00) Euros, in one or more installments of a maximum number of ordinary shares of the company, the only type of financial instrument presently issued by the company, and which in any case may not exceed one-fifth of the capital stock. At the date of the resolution, 20% of the capital underwritten and paid in of El.En. was equal to 964.873 shares. The authorization was granted for the maximum period allowed by law, 18 months from the resolution taken by the shareholders’ meeting.

The purchase may take place on the regular stock market for a price that is not less by more than 20% nor more than 10% of the official trading price registered on the day preceding the purchase. The Board has also been authorized to sell, within ten years of the date of purchase the shares acquired at a price or equivalent, in case of company transactions, which is not less than 95% of the average of the official trading prices registered on the five days preceding the sale.

At the date of this report the Board of Directors had not made any purchases of treasury stock.

### ***Profits/losses brought forward (note 14)***

The entry includes the rectifications of the shareholders’ equity made necessary by the adoption of the International Accounting Standards; it also includes the entry of capital gains earned by the sale of treasury stock in February 2005 and, to a very small degree, also the sale of the treasury stock which occurred in October 2012.

***Availability and possibility of utilization of the reserves***

<i>NET CAPITAL AND RESERVES:</i>	<b>Balance 31/12/2015</b>	<b>Possibility of utilization</b>	<b>Portion available</b>	<b>Utilized in the previous two periods for covering losses</b>	<b>Utilized in the previous two periods for other purposes</b>
Subscribed capital	2.508.671				
Additional paid in capital	38.593.618	ABC	38.593.618		
Legal reserve	537.302	B	537.302		
Reserve for own shares					
<i>Other reserves:</i>					
Extraordinary reserves	60.749.843	ABC	60.749.843		
Reserve for contribution on capital account	426.657	ABC	426.657		
Profits (loss) brought forward	-984.282	ABC	-984.282		
Reserve for IRS					
Other reserves	38.846.624	AB	13.392		
			<b>99.336.530</b>	<b>0</b>	<b>0</b>
Portion not distributable					
Portion distributable			<b>99.336.530</b>		

Key: A) capital increase; B) to cover losses; C) for distribution to shareholders

## *Non-current liabilities*

### *Retirement funds and employee benefits (note 15)*

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

<b>Balance 31/12/2014</b>	<b>Accrual</b>	<b>Utilization</b>	<b>Payment to complementary pension forms, to INPS fund and other movements</b>	<b>Balance 31/12/2015</b>
1.110.639	532.492	-57.388	-690.587	895.156

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 27<sup>th</sup> 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 has matured since January 1<sup>st</sup> 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 31<sup>st</sup> 2015 was 896 thousand Euros.

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

<b>Financial hypotheses</b>	<b>Year 2014</b>	<b>Year 2015</b>
Annual implementation rate	1,49%	2,03%
Annual inflation rate	1,50%	1,50%
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 2,03% 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.

	Balance				Balance 31/12/2015
	31/12/2014	Accrual	(Utilization)	Other	
Deferred tax assets on inventory devaluations	990.144	88.082			1.078.226
Deferred tax assets on warranty reserve	94.828	34.540			129.368
Deferred tax assets on bad debt reserve	1.439.446		-416.105		1.023.341
Deferred tax assets on severance indemnity provision discount	35.092	35.590		-38.998	31.684
Other deferred tax assets	175.253		-76.498	-1	98.754
<i>Total</i>	2.734.763	158.212	-492.603	-38.999	2.361.373
Deferred tax liabilities on advanced depreciations	154.709		-18.144		136.565
Deferred tax liabilities for contributions on capital account	328.769		-152.412		176.357
Other deferred tax liabilities	610.456		-20.690	253.284	843.050
<i>Total</i>	1.093.934	0	-191.246	253.284	1.155.972
<i>Net amount</i>	1.640.829	158.212	-301.357	-292.283	1.205.401

Deferred tax assets amounted to about 2,4 million Euros. The main variations this year are due to the increase in deferred tax assets calculated on the devaluation of some receivables because of the maturing of the conditions for the deductibility of the accruals for purposes of current taxes.

Deferred tax liabilities amounted to 1,2 million Euros. There was a decrease in the deferred tax fund related to the capital contribution for the taxed quota for the purposes of the taxes for the current year.

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.

	Balance				Balance 31/12/2015
	31/12/2014	Accrual	(Utilisation)	Other	
Reserve for pension costs and similar	56.019	23.374	-19.500		59.893
<i>Others:</i>					
Warranty reserve on the products	302.001	110.000			412.001
Other minor reserves	244.632		-224.632		20.000
<i>Total other reserves</i>	546.633	110.000	-224.632	-	432.001
<i>Total</i>	602.652	133.374	-244.132	-	491.894

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:

<b>Financial hypotheses</b>	<b>Year 2014</b>	<b>Year 2015</b>
Annual implementation rate	1,49%	2,03%
Annual inflation rate	1,50%	1,50%

### ***Amounts owed and financial liabilities (note 18)***

The chart below shows the breakdown of the amounts owed:

<i>Financial m/l term debts</i>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variation</b>	<b>Var. %</b>
Amounts owed to banks		1.340.000	-1.340.000	-100,00%
<i>Total</i>		1.340.000	-1.340.000	-100,00%

During 2015 the entry of “amounts owed to banks” was cancelled in relation to the mid/long term loans granted by Mediocredito Italiano S.p.A in the preceding years and reimbursed in advance; for details, please consult the comments on the net financial position.

## Current liabilities

### Financial debts (note 19)

<i>Financial short term debts</i>	31/12/2015	31/12/2014	Variation	Var. %
Amounts owed to banks	1.510.000	10.865.889	-9.355.889	-86,10%
Liabilities (derivatives on interest and exchange rates)		363.988	-363.988	-100,00%
Amounts owed to other financiers		862.596	-862.596	-100,00%
<i>Total</i>	1.510.000	12.092.473	-10.582.473	-87,51%

The entry under the heading of “Amounts owed to Banks” includes financing granted by the Cassa di Risparmio di Firenze and the decrease is due to mostly to the natural termination of short term financing as well as the reimbursement in advance of the short term quota for loans granted by Mediocredito Italiano S.p.A as described in the preceding paragraph.

### Mid- and Long term financial operations

During this financial year the following mid/long-term financial movements occurred.

	Balance 31/12/2014	Increase	Reimbursement	Other	Balance 31/12/2015
Mediocredito Loan	3.020.000		-3.020.000		
Banco Popolare loan	166.667		-166.667		
Liabilities for equity investments purchase	850.000		-850.000		
<i>Total</i>	4.036.667	-	-4.036.667	-	-

### Trade Payables (note 20)

For a detailed analysis of the trade payables to the subsidiary and associated companies, refer to the chapter with the information sheet relative to related parties.

<i>Trade debts:</i>	31/12/2015	31/12/2014	Variation	Var. %
Trade accounts payable	11.330.300	8.530.845	2.799.455	32,82%
Trade accounts payable with subsidiary companies	802.037	1.246.296	-444.259	-35,65%
Trade accounts payable with associated companies	26.700	1.148	25.552	2225,78%
<i>Total</i>	12.159.037	9.778.289	2.380.748	24,35%

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

<u>Account payables in:</u>	31/12/2015	31/12/2014
Euro	10.471.916	8.048.723
USD	825.363	442.522
Other currencies	33.021	39.600
<b>Total</b>	11.330.300	8.530.845

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 31<sup>st</sup> 2015 and on December 31<sup>st</sup> 2014.



## ***Income tax debts /Other short term debts (note 21)***

The breakdown of the other short term debts is the following:

	31/12/2015	31/12/2014	Variation	Variation %
<i>Social security debts</i>				
Debts owed to INPS	915.388	837.783	77.605	9,26%
Debts owed to INAIL	59.547	49.109	10.438	21,25%
Debts owed to other Social Security Institutions	112.287	109.670	2.617	2,39%
<i>Total</i>	1.087.222	996.562	90.660	9,10%
<i>Other debts</i>				
Debts owed to tax administration for VAT		2.188	-2.188	-100,00%
Debts owed to tax administration for deductions	760.993	692.284	68.709	9,92%
Owed to staff for wages and salaries	1.521.010	1.340.465	180.545	13,47%
Down payments	104.635	371.364	-266.729	-71,82%
Amounts towards subsidiary companies	13.576	185.960	-172.384	-92,70%
Other debts	506.827	1.260.500	-753.673	-59,79%
<i>Total</i>	2.907.041	3.852.761	-945.720	-24,55%
<i>Total Social security debts and other debts</i>	3.994.263	4.849.323	-855.060	-17,63%

The “Debts owed to staff for wages and salaries” includes, among other things, the debts for deferred salaries matured by employees as of December 31<sup>st</sup> 2015.

The heading of “Down Payments” refers to down payments made by clients and by Sviluppo Toscana S.p.A. on behalf of the Regione Toscana for a co-financed project. For further details, see Note 23.

The entry “other amounts owed to subsidiaries” is related to the charges derived from the recognition in favor of the subsidiary companies adhering with El.En to the national fiscal consolidated (procedure in compliance with art. 117 and following of the TU 917786 and D.M. in force since June 9<sup>th</sup> 2004), of the compensation sum calculated according to the tax aliquots of the companies (IRES) in force at the time to which the use refers, in accordance with the agreements stipulated by the parties. The option which was valid in 2011-2013 was picked up by the subsidiary Esthelogue S.r.l. and was renewed for another three years in 2014, while, the option valid for 2012- 2014 was picked up by the subsidiary Cutlite Penta S. r.l., and was renewed for another three years in 2015.

### ***Analysis of debts according to due date***

	31/12/2015			31/12/2014		
	Within 1 year	From 1 to 5 years	More than 5 years	Within 1 year	From 1 to 5 years	More than 5 years
Amounts owed to banks	1.510.000			10.865.889	1.340.000	
Liabilities (forward exchange contracts)				363.988		
Amounts owed to other financiers				862.596		
Amounts owed to suppliers	11.330.300			8.530.845		
Amounts owed to subsidiary companies	815.613			1.432.256		
Amounts owed to associated companies	26.700			1.148		
Income taxes debts	1.320.307			1.671		
Amounts owed to social security institutions	1.087.222			996.562		
Other liabilities	2.893.465			3.666.801		
<i>Total</i>	18.983.607	0	0	26.721.756	1.340.000	0

## Information on the Income Statement

### Revenue (note 22)

	31/12/2015	31/12/2014	Variation	Var. %
Industrial revenue	10.604.209	9.799.085	805.124	8,22%
Medical revenue	51.577.540	37.213.665	14.363.875	38,60%
<i>Total</i>	62.181.749	47.012.750	15.168.999	32,27%

Revenue as of December 31<sup>st</sup> 2015 was 62 million Euros and showed an increase of about 32% with respect to the 47 million Euros for the same period last year.

### Subdivision of revenue by geographical area

	31/12/15	31/12/14	Variation	Var. %
Sales in Italy	31.182.680	30.539.897	642.783	2,10%
Sales other EC countries	6.281.531	4.501.887	1.779.644	39,53%
Sales outside EC	24.717.538	11.970.966	12.746.572	106,48%
<i>Total</i>	62.181.749	47.012.750	15.168.999	32,27%

All the markets showed an increase with respect to 2014: the Italian market was the prevailing one and consists mainly of the Italian companies belonging to the Group, although it should be noted that a large portion of the production is destined for export; exports to EEC countries increased by over 39% and a significant increase was registered in exports to non-European countries which rose from 11.971 thousand Euros last year to over 24.718 thousand Euros on December 31<sup>st</sup> 2015.

### Other revenue and income (note 23)

Analysis of the other income is as follows:

	31/12/2015	31/12/2014	Variation	Var. %
Recovery for accidents and insurance reimbursements	13.938	208	13.730	6600,96%
Expense recovery	83.530	72.664	10.866	14,95%
Capital gains on disposal of fixed assets	75.717	29.977	45.740	152,58%
Other income	515.252	733.740	-218.488	-29,78%
<i>Total</i>	688.437	836.589	-148.152	-17,71%

Under the heading of "Other income" we have entered the amount of about 122 thousand Euros which we have received as a grant as part of the BI-TRE project – 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 5<sup>th</sup> 2012.

## Costs for the purchase of goods (note 24)

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

	31/12/2015	31/12/2014	Variation	Var. %
Purchase of raw materials and finished products	34.123.506	21.593.536	12.529.970	58,03%
Purchase of packaging	551.791	289.389	262.402	90,67%
Shipment charges on purchases	278.124	199.422	78.702	39,47%
Other purchase expenses	305.896	189.870	116.026	61,11%
Other purchases	14.580	11.771	2.809	23,86%
<i>Total</i>	<i>35.273.897</i>	<i>22.283.988</i>	<i>12.989.909</i>	<i>58,29%</i>

## Other direct services/ operating services and charges (note 25)

Breakdown of this category is shown on the chart below:

	31/12/2015	31/12/2014	Variation	Var. %
<i>Direct services</i>				
Assemblies outsourcing to third parties	3.620.163	2.943.128	677.035	23,00%
Technical services	121.185	170.029	-48.844	-28,73%
Shipment charges on sales	206.584	226.571	-19.987	-8,82%
Commissions	223.526	192.427	31.099	16,16%
Travel expenses	144.737	155.869	-11.132	-7,14%
Other direct services	591.990	111.042	480.948	433,12%
<i>Total</i>	<i>4.908.185</i>	<i>3.799.066</i>	<i>1.109.119</i>	<i>29,19%</i>
<i>Operating services and charges</i>				
Maintenance and technical assistance on equipments	185.358	171.330	14.028	8,19%
Services and commercial consulting	192.608	152.922	39.686	25,95%
Legal and administrative services	272.132	242.738	29.394	12,11%
Auditing fees and charges	79.182	80.626	-1.444	-1,79%
Insurances	246.767	165.706	81.061	48,92%
Travel and overnight expenses	406.044	491.605	-85.561	-17,40%
Promotional and advertising expenses	491.415	442.578	48.837	11,03%
Building charges	600.966	606.884	-5.918	-0,98%
Other taxes	76.256	68.536	7.720	11,26%
Expenses for vehicles	227.701	270.909	-43.208	-15,95%
Office supplies	48.274	50.191	-1.917	-3,82%
Hardware and Software assistance	151.936	177.312	-25.376	-14,31%
Bank charges	70.736	61.297	9.439	15,40%
Rent	48.466	109.131	-60.665	-55,59%
Other operating services and charges	3.124.984	3.145.192	-20.208	-0,64%
<i>Total</i>	<i>6.222.825</i>	<i>6.236.957</i>	<i>-14.132</i>	<i>-0,23%</i>

During the year there was an increase in the “Assemblies outsourcing to third parties” costs due to the significant rise in the volume of business.

The most significant amounts under the heading of “Other operating services and charges” refer to the remuneration paid to the members of the Board of Directors and the Board of Auditors for the amount of 726 thousand Euros, costs for technical and scientific consultants and costs for study and research for the amount of 463 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.

<b><u>Operating lease commitments:</u></b>	<b>31/12/2015</b>	<b>31/12/2014</b>
Within one year	236.065	216.381
After 1 year but not more than 5 years	362.527	478.632
<b>Total</b>	<b>598.592</b>	<b>695.013</b>

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

### ***Employee costs (note 26)***

The chart below shows the costs for staff:

<b><u>For staff costs</u></b>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variation</b>	<b>Var. %</b>
Wages and salaries	8.904.097	8.496.476	407.621	4,80%
Social security costs	2.716.842	2.612.683	104.159	3,99%
Accruals for severance indemnity	516.572	486.120	30.452	6,26%
Other costs	78.725	38.627	40.098	103,81%
<i>Total</i>	<b>12.216.236</b>	<b>11.633.906</b>	<b>582.330</b>	<b>5,01%</b>

### ***Depreciation, amortization and other accruals (note 27)***

The table below shows the breakdown for this category:

<b><u>Depreciations, amortizations, and other accruals</u></b>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variation</b>	<b>Var. %</b>
Amortization of intangible assets	112.890	65.834	47.056	71,48%
Depreciation of tangible assets	1.025.134	978.048	47.086	4,81%
Accrual for risk on receivables	158.282	629.680	-471.398	-74,86%
Other accruals for risks and charges	110.000	52.000	58.000	111,54%
<i>Total</i>	<b>1.406.306</b>	<b>1.725.562</b>	<b>-319.256</b>	<b>-18,50%</b>

## Financial income and charges (note 28)

The breakdown of the category is as follows:

	31/12/2015	31/12/2014	Variation	Var. %
<b>Financial incomes:</b>				
Interests from banks	303.072	450.944	-147.872	-32,79%
Dividends	792.671	1.040.462	-247.791	-23,82%
Interests from subsidiary company	61.738	52.375	9.363	17,88%
Interests from associated company	315	349	-34	-9,74%
Interests on investments	165.104		165.104	
Foreign exchange gain	1.069.748	4.506.388	-3.436.640	-76,26%
Other financial incomes	68	233	-165	-70,82%
<i>Total</i>	2.392.716	6.050.751	-3.658.035	-60,46%
<b>Financial charges:</b>				
Interest on bank debts for account overdraft	-31.290	-52.105	20.815	-39,95%
Interest on bank debts for medium and long - term loans	-29.847	-153.308	123.461	-80,53%
Losses from negotiation-investments	-35.090		-35.090	
Interest on actuarial discounting on group companies receivables	-110.818		-110.818	
Foreign exchange loss	-294.266	-93.493	-200.773	214,75%
Other financial charges	-23.636	-397.083	373.447	-94,05%
<i>Total</i>	-524.947	-695.989	171.042	-24,58%

During this year dividends from subsidiaries were entered into accounts for an amount of about 793 thousand Euros distributed by the subsidiary Deka M.E.L.A. S.r.l. for 349 thousand Euros, by the subsidiary Lasit S.p.A. for 140 thousand Euros, by Quanta System S.p.A. for 300 thousand Euros and by Concept Laser Solutions for about 4 thousand Euros.

The interests owed on bank debts for overdrafts refer mainly to overdrafts granted by credit institutions to the Parent Company while the interest on bank debts for mid- and long-term loans refer mainly to the mid- and long-term financing.

The entry "other financial charges" includes the entering into accounts of interest charges derived from the application of accounting principal IAS 19 to the severance indemnity for an amount of about 16 thousand Euros

The "Interest on actuarial discounting on group companies receivables" represent the cost of the actuarial discounting of the inter-Group trade receivables owed by Cutlite Penta S.r.l., which we expect will be paid in several years.

## Other net income and charges (note 29)

	31/12/2015	31/12/2014	Variation	Var. %
<i>Other charges</i>				
Accrual for losses in group companies		-37.731	37.731	-100,00%
Devaluation of equity investments	-921.507	-1.093.378	171.871	-15,72%
<i>Total</i>	<b>-921.507</b>	<b>-1.131.109</b>	<b>209.602</b>	<b>-18,53%</b>
<i>Other income</i>				
Use of fund on loss account from subsidiary companies	224.632		224.632	
Capital gains on equity investments		19.329.977	-19.329.977	-100,00%
<i>Total</i>	<b>224.632</b>	<b>19.329.977</b>	<b>-19.105.345</b>	<b>-98,84%</b>

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 for about 860 thousand Euros and the equity in SBI for about 61 thousand Euros.

The amount entered under the heading of "Use of fund on loss account by subsidiary companies" for the amount of 224.632 Euros is related to the release of the reserve fund for the losses incurred by the American company LT Tech of

Carlsbad, Inc (ex Deka Laser Technologies Inc.) which had already ceased to exist last year and was in the final liquidation phase and in 2015 was definitively cancelled.

### ***Income taxes (note 30)***

<i>Description:</i>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variation</b>	<b>Var. %</b>
IRES	2.199.813	1.058.714	1.141.099	107,78%
IRAP	389.104	445.539	-56.435	-12,67%
IRES Deferred (Advanced)	140.616	519.164	-378.548	-72,91%
IRAP Deferred (Advanced)	2.529	-5.167	7.696	-148,95%
Receivable for income tax	-26.281	-8.595	-17.686	205,77%
Cost/(Revenue)for IRES consolidated taxation		167.739	-167.739	-100,00%
Taxes related to the previous years		-56.966	56.966	-100,00%
<i>Total income taxes</i>	<b>2.705.781</b>	<b>2.120.428</b>	<b>585.353</b>	<b>27,61%</b>

The income taxes for this year were 2.706 thousand Euros as opposed to the 2.120 thousand Euros registered for last year.

The entry for receivables for income tax refers to the tax credit granted for hiring highly qualified personnel pursuant to ex law n.134/2012. For the purposes as per art. 5 co. 1 del DM 23.10.2013 the certification of the relative costs and the documents from the Independent Auditors are attached to the financial reports and recorded in the minutes of the company.

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

	<b>2015</b>	<b>2014</b>
Profit/loss before taxes	9.013.088	25.649.522
Theoretical IRES Aliquot	27,50%	27,50%
Theoretical IRES	2.478.599	7.053.619
One time income tax charges		(56.966)
Tax receivables	(26.281)	(8.595)
Charges (income) for IRES from fiscal consolidation		167.739
Pex Benefit		(5.049.956)
Higher (lower) fiscal incidence with respect to the theoretical aliquot	(138.170)	(425.784)
Actual IRES	2.314.148	1.680.056
Actual IRES aliquot	25,68%	6,55%

The fiscal cost for 2014 was, among other things, particularly influenced by the PEX exemption which benefits most of the capital gains earned by the sale of the Cynosure shares, as 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. The effect derived from the adjustment of the IRES aliquot to 24,00% in compliance with Law 208/2015 (*Legge di Stabilità* for 2016), which will come into force starting on January 1<sup>st</sup> 2017 will be an increased charge of about 290 thousand Euros.

### ***Dividends distributed (note 31)***

The shareholders' meeting of El.En. Spa which met on May 15<sup>th</sup> 2014 voted to *distribute* dividends for the amount of 0,50 Euros per share in circulation on the date the coupon came due. The total amount of the dividend that was paid was 2.401.610 Euros.

The shareholders' meeting of El.En. Spa which met on April 28<sup>th</sup> 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.

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

For the year 2015 the company did not conduct any non-recurring, significant, atypical or unusual operations as specified by the Consob Communication of July 28<sup>th</sup> 2006 n. DEM/6064293.

It should be recalled that also during the same period last year no significant, atypical, unusual non-recurring events occurred as described in compliance with Consob Communication of July 28<sup>th</sup> 2006 n. DEM/6064293.

## ***Information about related parties (note 33)***

Related parties are identified in compliance with the international accounting standard IAS 24. In particular, the following subjects are considered related parties:

- the subsidiary and associated companies;
- the members of the Board of Directors and Board of Statutory Auditors of the 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.

### 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<sub>2</sub> 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 Dekamela S.p.A. Srl, to Esthelogue Srl, to Dekamela Srl, to ASA Srl and to Asclepion Laser Technologies GmbH, which organize their distribution.

The prices for the transfer of goods are established on the basis of what normally occurs on the market. The intercompany transactions therefore reflect market trends, from which they may differ slightly in accordance with the commercial policies of the company.

It should be mentioned that in October of 2002 El. En. SpA acquired, free of charge, from Dekamela 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.

Subsidiary companies:	Financial receivables		Other receivables		Commercial receivables	
	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Asclepion Laser Technologies GmbH	984.966				556.846	
Deka MELA Srl					4.878.912	
Cutlite Penta Srl	500.000		116.416		11.206.519	
Esthelogue Srl	1.575.251		40.958		2.409.474	
Deka Srl					762.185	
BRCT Inc.	1.048.287				71.985	
Lasit Spa					1.798	
Quanta System SpA					4.682	
ASA Srl					180.281	
Lasercut Technologies Inc.	61.734				369.300	
Cutlite do Brasil Ltda					260.031	
Penta-Chutian Laser (Wuhan) Co. Ltd					3.842.769	
Deka Medical Inc	293.928				3.183.936	
Pharmonia Srl					3.294	
JenaSurgical GmbH					50.112	
- Bad debt reserve					-4.065.738	
<i>Total</i>	<b>4.464.166</b>	<b>0</b>	<b>157.374</b>	<b>0</b>	<b>23.716.386</b>	<b>0</b>



Associated companies:	Financial receivables		Commercial Receivables	
	< 1 year	> 1 year	< 1 year	> 1 year
SBI SA			11.000	
Actis Srl	30.000	-	3.007	
Immobiliare Del.Co. Srl	31.565			
Elesta Srl			872.992	
<i>Total</i>	61.565	-	886.999	-

Subsidiary companies:	Financial payables		Other payables		Commercial Payables	
	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Asclepion Laser Technologies GmbH					63.527	
Deka MELA Srl					2.255	
Cutlite Penta Srl			10.209		77.196	
Esthelogue Srl			1.477		49.483	
Deka Sarl					20.445	
Lasit Spa					170.540	
Quanta System SpA					264.319	
Cutlite do Brasil Ltda			1.890		16.608	
Lasercut Technologies Inc.					22.474	
Deka Medical Inc					111.504	
Penta-Chutian Laser (Wuhan) Co. Ltd					3.686	
<i>Total</i>	-	-	13.576	-	802.037	-

Associated companies:	Financial payables		Other payables		Commercial Payables	
	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Actis Srl					25.620	
SBI SA					1.080	
<i>Total</i>	-	-	-	-	26.700	-

Subsidiary companies:	Purchase raw materials	Services	Other	Total
	Deka MELA Srl	39.293	12.391	
Cutlite Penta Srl	29.259	37.363		66.622
Esthelogue Srl	22.582			22.582
Deka Sarl	36.552	8.574		45.126
Lasit Spa	493.641			493.641
Quanta System SpA	915.156	107.056		1.022.212
Asclepion Laser Technologies GmbH	339.225	1.547		340.772
Deka Medical Inc.	23.791	74.875		98.666
Cutlite do Brasil Ltda	2.100			2.100
Penta-Chutian Laser (Wuhan) Co. Ltd	15.626			15.626
Lasercut Technologies Inc.	22.833			22.833
<i>Total</i>	1.940.058	241.806	-	2.181.864

Associated companies:	Purchase of raw materials	Services	Other	Total
	Actis Srl		36.000	
<i>Total</i>	-	36.000	-	36.000

<b>Subsidiary companies:</b>	<b>Sales</b>	<b>Services</b>	<b>Total</b>
Deka MELA Srl	22.229.637	614.269	22.843.906
Cutlite Penta Srl	3.376.915	789.367	4.166.282
Esthelogue Srl	83.535	78.843	162.378
Deka Sarl	1.079.245	22.005	1.101.250
Lasit Spa	61.062	2.882	63.944
Asclepion Laser Technologies GmbH	106.845	171.219	278.064
Quanta System SpA	21.528	4.160	25.688
ASA Srl	546.922	2.380	549.302
Penta-Chutian Laser (Wuhan) Co. Ltd	631.347		631.347
Cutlite do Brasil Ltda	259.580	3.600	263.180
With Us Co Ltd	902		902
Deka Medical Inc.	43.256		43.256
Pharmonia Srl		11.020	11.020
Jena Surgical GmbH	305.880	13.429	319.309
<i>Total</i>	28.746.654	1.713.174	30.459.828

<b>Associated companies:</b>	<b>Sales</b>	<b>Service</b>	<b>Total</b>
Actis Srl	465		465
Elesta Srl	605.424	7.375	612.799
<i>Total</i>	605.889	7.375	613.264

<b>Subsidiary companies:</b>	<b>Other revenues</b>
Deka MELA Srl	109.341
Cutlite Penta Srl	127.412
Esthelogue Srl	1.060
Deka Sarl	3.038
Lasit Spa	105.524
Quanta System SpA	245
Asclepion Laser Technologies GmbH	3.722
With Us Co Ltd	50
Pharmonia Srl	286
JenaSurgical GmbH	20.169
<i>Total</i>	370.847

<b>Associated companies:</b>	<b>Other revenues</b>
Elesta Srl	1.882
Actis Srl	2.400
<i>Total</i>	4.282

The amounts shown on the charts above refer to operations which are inherent to the characteristic activity 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. 62 thousand Euros in interest earned on the financing granted to subsidiary companies.

Among the "Other receivables" we have entered receivables from fiscal consolidation for an amount of 157 thousand Euros for Cutlite Penta S.r.l. and Esthelogue S.r.l.

## The Members of the Board of Directors and the Board of Statutory Auditors and other strategic executives

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

Name	Position	Term duration	Fees in:	Fees	Remuneration for participation on committees	Bonus and other incentives	Non monetary benefits	Other rewards	Total	Indemnity for termination of mandate or employment
Clementi Gabriele	Chairman of the BoD	Approval of the financials for 12/31/2017	El.En. SpA Subsidiaries/associates	134.086 11.168		113.007	3.914		251.007 11.168	6.500
Barbara Bazzocchi	Managing Director	Approval of the financials for 12/31/2017	El.En. SpA Subsidiaries/associates	134.086 12.000		41.492	3.914		179.492 12.000	6.500
Andrea Cangioli	Managing Director	Approval of the financials for 12/31/2017	El.En. SpA Subsidiaries/associates	134.308 11.168		56.503	3.692		194.503 11.168	6.500
Michele Legnaioli	Director	Approval of the financials for 12/31/2017	El.En. SpA Subsidiaries/associates	12.000					12.000	
Alberto Pecci	Director	Approval of the financials for 12/31/2017	El.En. SpA Subsidiaries/associates	12.000					12.000	
Fabia Romagnoli (*)	Director from 04/28/2015	From 04/28/2015 to approval of the financials for 12/31/2017	El.En. SpA Subsidiaries/associates	8.121					8.121	
Paolo Blasi (*)	Director	Up to 04/28/2015	El.En. SpA Subsidiaries/associates	3.879					3.879	
Stefano Modi (*)	Director	Up to 04/28/2015	El.En. SpA Subsidiaries/associates	3.879					3.879	
Vincenzo Pilla (**)	President of the Board of Statutory Auditors	Approval of the financials for 12/31/2015	El.En. SpA Subsidiaries/associates	31.200 21.526					31.200 21.526	
Paolo Caselli (**)	Statutory Auditor	Approval of the financials for 12/31/2015	El.En. SpA Subsidiaries/associates	20.800 24.367				8.975	29.775 24.367	
Rita Pelagotti (**)	Statutory Auditor	Approval of the financials for 12/31/2015	El.En. SpA Subsidiaries/associates	20.800					20.800	
Other managers with strategic responsibilities (n. 1)			El.En. SpA Subsidiaries/associates	100.728		40.923	13.118	27.275	182.044	

Note: the salaries shown on the chart are determined on the accrual basis.

(\*) salaries calculated on the basis of the duration of the appointment

(\*\*) 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 24.367 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 May 15<sup>th</sup> 2013 and April 28<sup>th</sup> 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 2016.

### *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 May 15<sup>th</sup> 2013 and on April 28<sup>th</sup> 2015.

### *Other rewards:*

- The acting auditor Dott. Paolo Caselli received a bonus of 8.975 Euros as a member of the Controlling body of El.En. S.p.A., in compliance with ex D.Lgs. 231/01.

### *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 7.370 Euros, besides an incentive bonus of 41.093 Euros. Moreover, as President of the Board of Directors of Dekam M.E.L.A. Srl he received a salary of 19.093 Euros and as a member of the Board of Directors of With Us he received 1.500 thousand Yen from that company.

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 Dekam 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.

<b>Impact of related party transactions</b>	<b>Total</b>	<b>related parties</b>	<b>%</b>
<b>a) Impact of related party transactions on the statement of financial position</b>			
Equity investments	57.850.877	16.411.039	28,37%
Accounts receivables	34.939.473	24.603.385	70,42%
Other receivables	5.330.696	4.683.105	87,85%
Current financial liabilities	1.510.000		0,00%
Accounts payables	12.159.037	828.737	6,82%
Other payables	3.994.263	13.576	0,34%
<b>b) Impact of related party transactions on the income statement</b>			
Revenues	62.181.749	31.073.092	49,97%
Other revenues and income	688.437	375.129	54,49%
Purchases of raw materials	35.273.897	1.940.058	5,50%
Other direct services	4.908.185	145.409	2,96%
Other operating services and charges	6.222.825	132.397	2,13%
Financial charges	524.947	110.818	21,11%
Financial income	2.392.716	62.053	2,59%
Income taxes	2.705.781		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, 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 5% 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.

In relation to guarantees granted to others, it should be noted that El.En., along with a minority partner, in 2009 underwrote a bank guarantee for a maximum of 1 million Euros to guarantee the debt of the subsidiary Quanta System to the Banca Popolare di Milano for facilitated financing of 900 thousand Euros, the installments for which expire up to 84 months after the date of issuance, which took place in the second half of 2009. Moreover, after the acquisition of the entire equity from the minority shareholder on October 8<sup>th</sup> 2012, El.En. was committed to relieve this partner of any type of economic demand made by the Banca Popolare di Milano.

Moreover, the Company also underwrote:

- in 2011, a bank guarantee jointly with the companies which are participating in the ATS constituted for this purpose, for a maximum of 3.074 thousand Euros as a guarantee for the pay back of the amount guarantee as down payment on the research project "MILORD", which has been included in the grant issued by *Bando Regionale* 2010 approved by the Region of Tuscany with Directive Decree n. 670 of February 25<sup>th</sup> 2011, which expired in September 2014, and was renewed until March 9<sup>th</sup> 2016;
- in 2013 a bank guarantee for a maximum amount of 50 thousand Euros as a guarantee on customs duty, ex art. 34 of T.U.L.D., which effects temporary imports, with expiration date in June 2016 which can be extended 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 5<sup>th</sup> 2012, with expiration date in February 2018;
- during this year, 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 29<sup>th</sup> 2015, and expiring on November 20<sup>th</sup> 2016.

### 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 believes that the cash on hand is enough to cover the existing debts with a very positive net financial position of about 13 million Euros. Or this reason we believe that these risks are adequately covered.

### Management of the capital

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

## Financial Instruments (note 35)

### Fair value

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

	Book value	Book value	Fair value	Fair value
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
<b>Equity investment available for sale</b>				
Equity investment in Cynsour Inc.	40.974.292	22.553.644	40.974.292	22.553.644
<b>Financial assets</b>				
Financial receivables within 12 months	4.650.090	4.784.055	4.650.090	4.784.055
Mid and long term Financial instruments	10.643.051		10.643.051	
Short term Financial instruments	1.964.722		1.964.722	
Cash and cash equivalents	12.583.225	43.511.706	12.583.225	43.511.706
<b>Financial liabilities</b>				
Financial mid and long term debts		1.340.000		1.340.000
Financial liabilities due within 12 months	1.510.000	12.092.473	1.510.000	12.092.473

### 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 31<sup>st</sup> 2015 the Company possesses the following securities evaluated at fair value:

	Level 1	Level 2	Level 3	Total
Equity investment in Cynsour Inc. AFS	40.974.292			40.974.292
Investment contracts		10.643.051		10.643.051
Mutual funds	1.964.722			1.964.722
<b>Total</b>	<b>42.939.014</b>	<b>10.643.051</b>	<b>0</b>	<b>53.582.065</b>

## Other information (note 36)

### Remuneration of directors and statutory auditors

	31/12/2015	31/12/2014	Variation	Var. %
	Remuneration of directors	653.362	792.675	-139.313
Remuneration of statutory auditors	72.800	72.800	-	0,00%
<i>Total</i>	726.162	865.475	-139.313	-16,10%

### 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 2015 related to auditing services.

Company providing the service	Receiver	note	2015 fees (Euros)
Audit	Deloitte & Touche SpA	El.En. SpA	50.313
			<b>50.313</b>

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

	Average 2015		Average 2014		Variation	Var. %
	31/12/2015	31/12/2014	31/12/2015	31/12/2014		
Executives	13,5	13	12,5	14	-1	-7,14%
Management	15,5	16	15,5	15	1	6,67%
White collar	101,0	104	97,0	98	6	6,12%
Blue collar	72,5	74	70,5	71	3	4,23%
<i>Total</i>	202,5	207	195,5	198	9	4,55%

### For the Board of Directors

Managing Director – Ing. Andrea Cangiolì

## **Declaration of the separate financial statement in conformity with art. 81-ter CONSOB regulation n. 11971 of May 14<sup>th</sup> 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 24<sup>th</sup> 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 2015.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the separate financial statement dated December 31<sup>st</sup> 2015:

- 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 19<sup>th</sup> 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 15<sup>th</sup> 2016

Managing Director

Executive officer responsible for the preparation of the financial statements

Ing. Andrea Cangioli

Dott. Enrico Romagnoli





*Ministero  
dello Sviluppo Economico*

DIREZIONE GENERALE PER GLI INCENTIVI ALLE IMPRESE

**CREDITO D'IMPOSTA PER LE NUOVE ASSUNZIONI DI PROFILI ALTAMENTE QUALIFICATI DM 23  
OTTOBRE 2013**

**CERTIFICAZIONE DEGLI ELEMENTI DI CUI  
ALL'ISTANZA DI ACCESSO AL CREDITO D'IMPOSTA**

Il/La sottoscritto/a PILLA VINCENZO

N. di registrazione albo revisori legali dei conti 45906

Presidente del collegio sindacale nominato in data <sup>(1)</sup> 15-05-2013

in qualità di soggetto certificatore della società EL.EN. - S.P.A.

**DICHIARA DI AVER PRESO VISIONE**

della seguente documentazione originale per ciascun dipendente per il quale è richiesto il credito d'imposta:

1. contratto di assunzione del dr. ANTONIO CORBO con decorrenza dal 06-09-2013;
2. titolo di studio rientrante tra quelli previsti dall'art.2, comma 1, lett. a) e b), del decreto interministeriale 23 ottobre 2013 e, per i casi previsti, anche della certificazione di equipollenza;
3. dichiarazione del legale rappresentante attestante che il personale laureato nelle discipline previste dall'allegato 2 al decreto interministeriale 23 ottobre 2013 per il quale l'impresa intende accedere al credito d'imposta, è stato destinato ad attività di ricerca e sviluppo,

**CERTIFICA**

1. che il numero totale dei dipendenti a tempo indeterminato, al netto dei pensionamenti, indicato nel bilancio presentato nel periodo d'imposta precedente a quello in cui è stata effettuata ciascuna assunzione a cui si riferisce l'istanza di accesso al credito d'imposta è pari a 179;

<sup>(1)</sup> Solo per imprese con Collegio sindacale.

2. che il costo aziendale sostenuto dichiarato ai fini dell'accesso al credito d'imposta risulta dalla documentazione amministrativa e contabile ufficiale dell'impresa, visionata in originale.

Il/La sottoscritto/a si impegna inoltre ad aggiornare annualmente la presente certificazione e ad inviarla al Ministero dello Sviluppo Economico tramite l'apposita procedura informatica, fino alla decorrenza dei termini (tre anni successivi all'assunzione, due per le piccole e medie imprese), al fine della certificazione dell'insussistenza delle cause di decadenza del credito d'imposta di cui all'art. 5 del decreto interministeriale 23 ottobre 2013.

FIRMATO DIGITALMENTE

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<sup>(1)</sup> Solo per imprese con Collegio sindacale.

**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 31<sup>st</sup> 2015 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 31<sup>st</sup> 2015 which was consigned to the Board of Statutory Auditors on March 15<sup>th</sup> 2016.

During the financial year 2015 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 24<sup>th</sup> 1998 n. 58, D.Lgs. January 27<sup>th</sup> 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 6<sup>th</sup> 2001, modified and integrated with communication DEM/ 3021582 of April 4<sup>th</sup> 2003 and subsequently with communication DEM/6031329 of April 7<sup>th</sup> 2006.

In compliance with D.Lgs. n.58 of February 24<sup>th</sup> 1998 and D. Lgs. Of January 27<sup>th</sup> 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 15<sup>th</sup> 2012, subject to the approval of the Board of Statutory Auditors.

For the financials as of December 31<sup>st</sup> 2015, the Independent auditor found no faults and declared that the 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 31<sup>st</sup> 2015 was drawn up in conformity with the International Accounting Principles (IFRS).

In conformity with the recommendations given by Consob, with their communication of April 6<sup>th</sup> 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 31<sup>st</sup> 2015, the following significant events occurred in 2015 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 2015 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 1<sup>st</sup> 2003, in compliance with the stock market regulations ("*Regolamento dei mercati organizzati e gestiti da Borsa Italiana S.p.A.*") approved on July 9<sup>th</sup> 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 12<sup>th</sup> 2010 and subsequently modified by vote 17389 of June 23<sup>rd</sup> 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 and also communicated that they did not supply any non-auditing services in 2015, not even by other entities belonging to the same network. In the Explanatory notes of the statement the amounts paid to the Auditing company for their auditing services for 2015 are listed (50.313,00 Euros).

- 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.. as well as to the purchase of treasury stock as voted by the shareholders' meeting held on April 28<sup>th</sup> 2015.

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 15<sup>th</sup> 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 four meetings of the Board of Directors and one shareholders' meeting in 2015 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 30<sup>th</sup> 2016.

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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## 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, 2015, and the 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° 38/2005.

#### *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, n° 3, 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, 2015, 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° 38/2005.

**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, 2015. In our opinion the report on operations and the information included in the report on corporate governance referred to above is consistent with the financial statements of El.En. S.p.A as at December 31, 2015.

DELOITTE & TOUCHE S.p.A.

*Signed by*

Gianni Massini

Partner

Florence, March 30, 2016

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