# Half Yearly Financial Report as of 30th June 2017

El.En. Group

# EL.EN. S.p.A.

Headquarters in Calenzano (Florence), Via Baldanzese, 17

Capital stock: Underwritten and paid : € 2.508.671,36

Registry of Companies in Florence – C.F. 03137680488

# 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.

# EL.EN. GROUP

# HALF-YEARLY MANAGEMENT REPORT

# EXPLANATORY NOTES

## 1.1. Adoption of international accounting principles

This half-yearly financial statement for the half ending on June 30th 2017, approved by the Board of Directors on September 5th 2017, drawn up in consolidated form in compliance with to Art. 154-ter of February 24th 1998, Legislative Decree 58 (TUF) and later modifications and additions, has been drawn up in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and ratified by the European Union.

By IFRS we mean also the International Accounting Standards (IAS) which are still in force, as well as all of the interpreting documents issued by the International Financial Reporting Interpretations Committee (IFRIC).
In this report which is drawn up in conformity with IAS 34, Intermediate Reports, we have used the same accounting principles used for the consolidated financial of December 31st 2016 with the exception of the accounting standards that went into force starting on January 1st 2017 described in the Explanatory Notes – paragraph pertaining to the "Accounting Principles and Evaluation Criteria".

All amounts are expressed in thousands of Euros unless otherwise indicated.

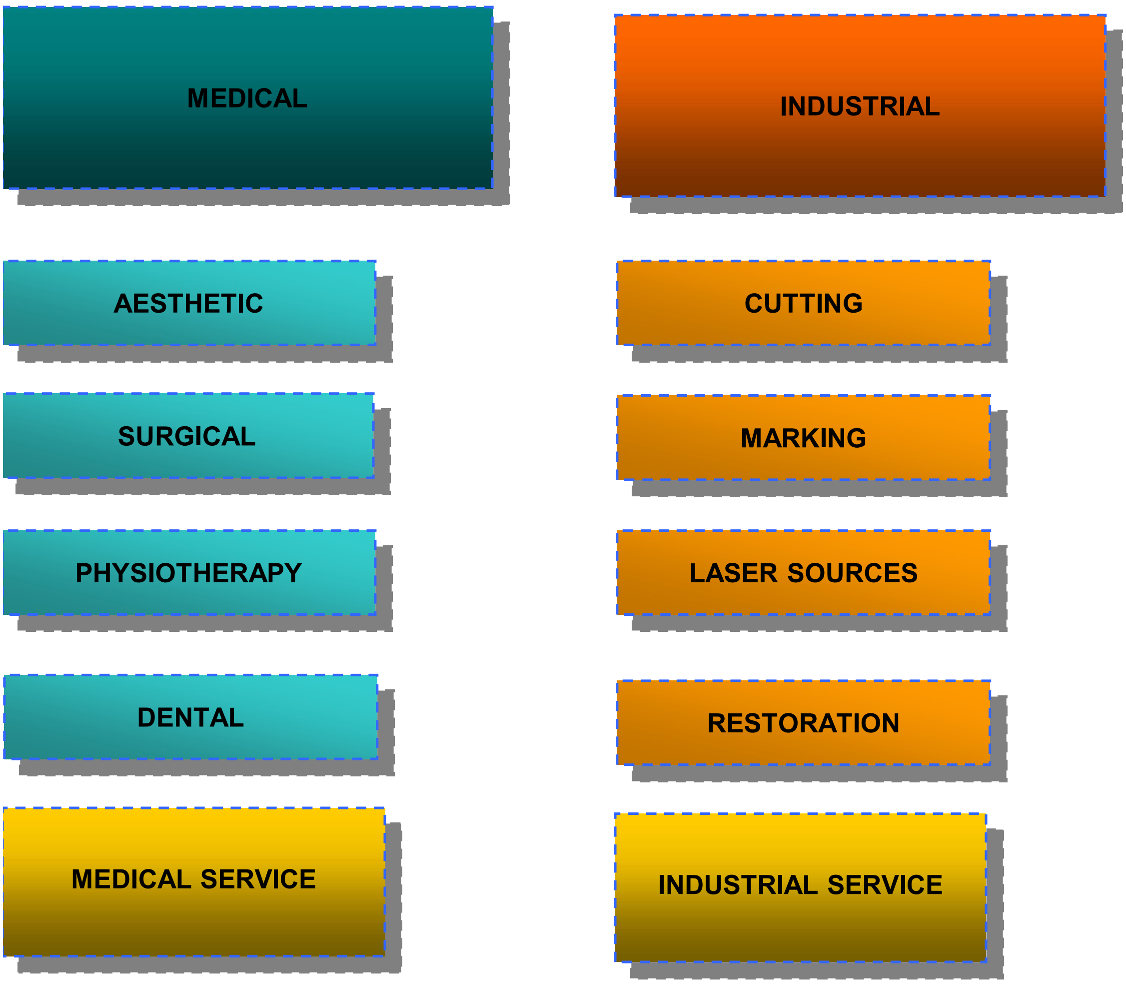
## 1.2. Description of the activities of the Group

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 activities of all of the companies are coordinated by the Parent Company for the purpose of optimizing coverage of all the markets by exploiting the dynamicity and flexibility of the single business units without losing the advantage of a coordinated management of the technical, managerial, commercial and financial resources.

The Group conducts its activities in two major sectors: that of laser systems for medicine and aesthetics (Medical sector), and that of laser systems for manufacturing uses (Industrial sector). 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:



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

The division of the Group into 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 and represent real business units. 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.
While we are aware of the importance that the multi-brand and multi R&D approach has had for the growth of the Group, at the same time we can see the need to keep the activities of the different business units in the medical sector more strictly coordinated with each other and to continue to promote joint activities like the distribution in Italy which, under the new brand name of “Renaissance”, combines the pre-existing distribution networks of Deka and Quanta System into a single organization. For this reason, an improved integration of the business units operating in the medical sector is one of the objectives of the General Director of El.En. Spa who was appointed to this position, which is new for the Company, on January 1st 2017.

Although both of them use laser technology and share numerous strategic components and some activities at the production and R&D level, the Medical and Industrial sectors operate in two very different markets and their company activities are organized in such a way as to satisfy the radically different requirements of the clientele. For each of the two markets, moreover, correspond specific dynamics of demand and expectations for growth that are related to different key factors.

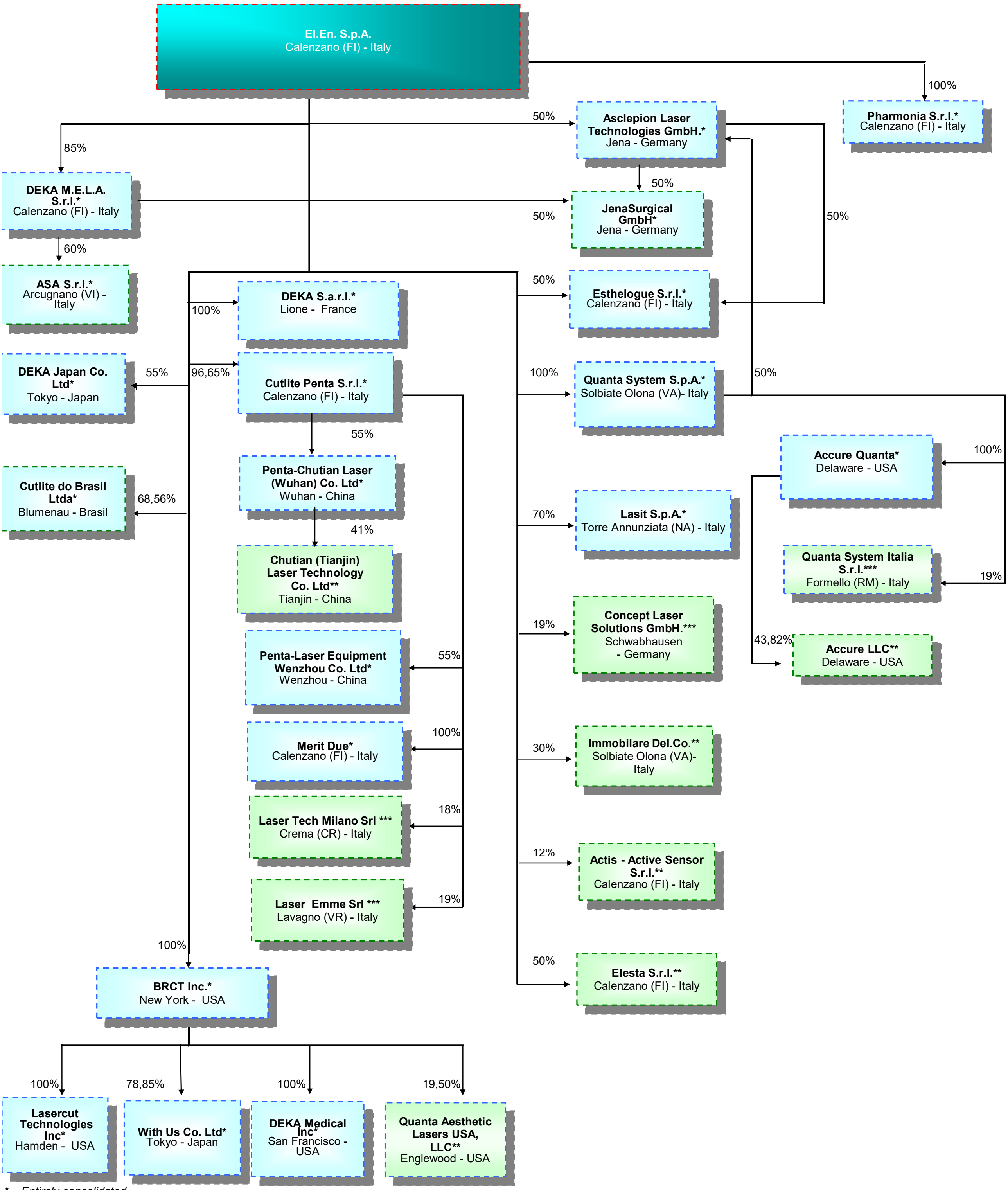
For the two sectors, the outlook for a tendency for growth is good. In the medical sector, the demand for aesthetic and medical treatments is constantly increasing, by a population which, on the average, is growing older, and increasingly wishes to limit the effects of aging; there is an increased demand for technologies which are able to minimize the time required for some types of surgery or to increase the effectiveness so as to reduce the impact on the patient (minimally invasive operations) and the overall costs. In the industrial sector, laser systems constitute a tool that is increasingly indispensable for manufacturing since they represent technologies that are flexible and innovative for companies that are competing on the international markets and wish to raise their standard of quality and increase production. Consequently, although they remain part of the traditional manufacturing market, laser systems represent a hi-tech component which, thanks to the continual innovation of the laser products and of the processes that use lasers, show a very positive outlook for growth.

The extraordinary growth that has been registered recently in the industrial sector, which was much greater than that forecast by market researchers, is mainly due to the transformation of the most important market for laser processing in the manufacturing sector, that is, the cutting of sheet metal and metal parts, and our ability to profit from this particular situation. The main reason for this transformation was caused by the technological shift which saw the fiber laser sources replace and quickly render obsolete, the high powered $CO_2$ laser sources which had been used up to that time for this kind of cutting. The laser sources in fiber made it possible for users to reduce costs while at the same time offering easier installation and maintenance with the possibility of installing laser poker that were unthinkable with the $CO_2$ laser sources except at the very heavy price of an extremely complicated laser system: systems with 6kW sources became normal and power as high as 10kW are now included in the standard range. The increase in productivity made possible by the increase in power and the decrease in operating costs quickly amplified the potential market. Consequently, we are now experiencing a huge demand for substitutions on the vast number of pre-existing installations with traditional technology as well as an equally large demand for new installations, considering the potential offered by the systems with increased power and reduced operating costs, which can be applied to some of the traditional systems for cutting sheet metal.

It should also be recalled, as we consider the excellent outlook for growth on our markets, that the Group succeeds in acquiring new market quotas and in creating new market niches thanks to innovation: the capacity to innovate and to offer innovative products on the market which make it possible to use new applications, is the main critical factor for success on our markets and has been the main competitive weapon of El.En. since its founding in 1981.

## 1.3. Description of the Group

As of June 30th 2017 the structure of the Group is as follows:




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

## 1.4. 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.

| | 30/06/2017 | 30/06/2016 |
|---|---|---|
| **Profitability ratios (*):** | | |
| ROE<br>(Net income / Share Capital and Reserves ) | 6,9% | 42,8% |
| ROI<br>(EBIT / Total assets) | 8,8% | 9,6% |
| ROS<br>(EBIT/ Revenues) | 9,2% | 11,3% |
| **Structure ratios:** | | |
| Financial flexibility<br>(Current assets / Total assets) | 0,78 | 0,79 |
| Leverage<br>((Shareholders' Equity + Financial liabilities) / Shareholders' Equity) | 1,08 | 1,08 |
| Current Ratio<br>(Current assets / Current liabilities) | 2,55 | 2,54 |
| Acid ratio<br>((Current receivables + Cash and cash equivalents+ Securities)/ Current liabilities) | 1,83 | 1,84 |
| Quick ratio<br>((Cash and cash equivalents + Investments) / Current liabilities) | 0,89 | 0,97 |

(*)For the interim reports the amounts of the revenue, purchases and the profit results have been annualized.

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)

## 1.5. ALTERNATIVE NON-GAAP MEASURES

The El.En Group uses some alternative performance indicators considered as accounting measurements by the IFRS, in order to obtain a better evaluation of the performance of the Group. For this reason the criteria applied for determining it may not be the same as that used by other companies and the result obtained may not be comparable with that obtained by these latter.
These alternative performance indicators, established in conformity with the guidelines for alternative performance indicators issued by the ESMA/2015/1415 and listed by CONSOB as per communication no. 92543 of December 3rd 2015, refer only to the performance of the financial period that is the subject of the current financial report and the periods used for comparison.

The Group uses the following alternative non-GAAP measures to evaluate the economic performance:

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

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

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

## 1.6. Group financial highlights

During the first half of 2017 the El.En. Group registered a consolidated sales volume of 142,9 million Euros, showing a growth of 18,9% over the first half of 2016 and with an EBIT of 13,1 million Euros , a decrease of 2,9% with respect to the preceding period, with an incidence on the sales volume of 9,2%. Since the point of reference for comparison is 2016, the year in which the Group beat all of its records, we can consider these results very satisfactory, especially for the recovery of the operating revenue registered during the second quarter. The EBIT, although during the first half of 2017 showed a slight decline with respect to last year, was still aligned with our objective of repeating in 2017 the same results achieved in 2016.
The main accelerator in sales came from the industrial sector, with a growth which was over 50% tank mainly to the success of the Chinese companies which doubled their sales volume with respect to that of last year, but also tank to the excellent results obtained by the companies operating in the industrial sector in Italy. In the paragraph titled "Description of the Activities of the Group" we described the favorable situation now present on the market of laser cutting of sheet metal. In this phase, which is represented by a technological shift together with a recovery of the markets, the Group has benefitted from their position on the Chinese markets and the reorganization of the laser cutting activities in Italy and the rest of Europe, which have constituted the basis for the success which we are now enjoying.

Results in the medical sector were also good; the excellent trend was maintained in all segments of the aesthetic sector, headed by the hair removal and tattoo removal and the urological surgery and physical therapy segments. On the other hand, sales in the gynecological surgery sector showed a decrease.
In the mix of sales therefore, the industrial sector acquired a greater importance and operates with lower margins than the medical sector; moreover, within the medical sector, the mix was less favorable in terms of margins. The overall effect therefore caused a drop in the margins on the sales of the Group. The greater productivity of the operating costs, personnel and the overhead only partially counteracted the loss on the margins and determined the reduction in EBIT in terms of the incidence on the sales volume.
The positive sales trend demonstrates a market situation which is mostly favorable; we are sure that we will be able to take advantage of the opportunities that appear both on the medical and industrial markets. The Group is now implementing a series of organizational activities that will re-enforce the functions and vital sectors so that growth will continue and allow us to take full advantage of this opportunity. The objective is that of combining the growth with the benefits of the effects of an operating drive that is more substantial than that which emerges from the results of the first half of 2017.

In mid-2017 the macro-economic trend of the economy is also sustaining our markets as is demonstrated by the data on growth indicators, both current and tendentious, the Italian and European GNP, as well as the American one that have been released recently, all of which demonstrate a good state of health for the various economies. On the other hand, the trend in the exchange rate is not favorable and has seen the Euro become stronger with respect to all the other main currencies including the US dollar which has the greatest effect on us. The negative effects of the weakness of the US dollar are reflected in the results of the financial investments which were affected by the losses on credits in this currency and in general makes our competitors who have their cost base in US dollars more competitive.

The net result of the Group showed a major decrease with respect to 2016: beyond the slight drop, now being recuperated, of the EBIT, also the financial management has a negative effect but, above all, the non-operational management which cannot repeat the 23 million Euros in capital gains earned from the sale in 2016 of the Cynosure Inc. shares. The tax rate has also had its effect without the PEX facilitation from which the capital gains had benefitted last year.

In the intermediate Report of March 31st 2017, we described the acquisition of Cynosure Inc. by Hologic and the positive effects expected from this purchase on the distribution in the USA of one of our leading products, the Mona Lisa Touch for vaginal atrophy, of which Cynosure was the sole distributor. The sales volume increased during the second quarter but the expectations for a major acceleration in sales remain suspended for the time being and, even according to the official communications of Hologic, are postponed until the end of 2017. The drop in sales in the gynecological surgery sector is due to this set of circumstances.

The chart below shows the division of the sales volume in the first six months of 2017 according to the sector of activity of the Group, compared with the same division for the same period last year.

| | 30/06/2017 | Inc % | 30/06/2016 | Inc % | Var. % |
|---|---|---|---|---|---|
| Medical | 82.935 | 58,05% | 80.523 | 67,00% | 2,99% |
| Industrial | 59.942 | 41,95% | 39.652 | 33,00% | 51,17% |
| **Total revenue** | **142.877** | **100,00%** | **120.176** | **100,00%** | **18,89%** |

The chart below shows the geographic distribution of the sales and the results for this period.

| | 30/06/2017 | Inc % | 30/06/2016 | Inc % | Var. % |
|---|---|---|---|---|---|
| Italy | 28.041 | 19,63% | 22.471 | 18,70% | 24,79% |
| Europe | 24.209 | 16,94% | 21.354 | 17,77% | 13,37% |
| ROW | 90.627 | 63,43% | 76.350 | 63,53% | 18,70% |
| **Total revenue** | **142.877** | **100,00%** | **120.176** | **100,00%** | **18,89%** |

It is in Italy that recorded the most important growth, close to 25% in the first half.

The results for Italy were highly satisfactory, both in the medical and industrial sector. The companies which benefitted the most from this positive phase were above all Cutlite Penta and Lasit, whose success on the market reflects the great effort that was made to provide products that are increasingly suited to the needs of the clientele. This success is not due only to the effects of the significant benefits derived from the incentives offered by the “Industria 4.0” measures. The medical sector contributed to the growth in Italy, above all due to the immediate success of Deka and Quanta System products, the distribution of which in Italy has been combined under the new brand name of “Renaissance”. The new brand was launched at the beginning of the year and identifies the real leader on the market and generates concrete results for the increase in business. The rapid expansion of Esthelogue has continued; this company is specialized in the distribution of technologies dedicated to the field of professional aesthetics.

Growth on the European markets was about 13%; growth on the non-European markets was almost 19%. Foreign markets represent more than 80% of the Group’s sales volume, a fact which highlights its global standing.

The chart below shows the results of the sales in the various segments of the medical sector which represents 58% of the sales volume of the Group.

| | 30/06/2017 | Inc % | 30/06/2016 | Inc % | Var. % |
|---|---|---|---|---|---|
| Aesthetic | 48.414 | 58,38% | 39.616 | 49,20% | 22,21% |
| Surgical | 14.306 | 17,25% | 19.077 | 23,69% | -25,01% |
| Physiotherapy | 4.827 | 5,82% | 4.066 | 5,05% | 18,72% |
| Dental | 271 | 0,33% | 178 | 0,22% | 51,75% |
| Others | 32 | 0,04% | 228 | 0,28% | -86,08% |
| **Total medical systems** | **67.850** | **81,81%** | **63.165** | **78,44%** | **7,42%** |
| Medical service | 15.085 | 18,19% | 17.358 | 21,56% | -13,10% |
| **Total medical revenue** | **82.935** | **100,00%** | **80.523** | **100,00%** | **2,99%** |

The overall growth in this sector was about 3% circa, a small step forward which is the result of the algebraic sum of a brilliant performance in the aesthetic segment which grew over 20% and a slight drop in the segments of surgical applications and service which decreased 25% and 13% respectively.

In the segment of surgical applications the decrease was derived exclusively from the drop registered in the United States in the sales of systems for the application of Mona Lisa Touch (MLT) for the treatment of vaginal atrophy. This decrease as partially expected as a result of the stabilization of the market and the reduction of the amount of inventory programmed by our sole distributor for North America; the drop was attenuated in the second quarter and in the final months of this year will continue to fill the gap with respect to 2016, which, in any case, will remain substantial. As described earlier, Cynosure Inc. is now a division of Hologic; this is a change which is potentially positive for the development of the market: Hologic is a solid partner that is well established in the specific sector of gynecology and is better able to do business on this market, both for the commercial distribution of the product as well as for the clinical experimentation which can be conducted with great effectiveness in order to confirm the leadership of the product and amplify its elective applications and, consequently, its markets. Even in its periodic reports Hologic has revealed the complexity of managing this new division, a stagnant phase in the revenue, a  phase of transition that will take longer than expected so that they will be forced to postpone until the next quarter the acceleration in growth that is at the base of the substantial investment they have made (1,6 billion dollars) and our expectations for growth in this segment in the USA. In the rest of the world the MLT market has remained essentially stable with respect to 2016.

In the other application segments in which the Group is involved in the surgical field the sales results have confirmed the positive trend in growth during the last few quarters. In the urological applications of lithotripsy and BPH (benign prostate hypertrophy of the prostate and that of otorhinolaringology our range of products is innovative and competitive and contributes to the growth in sales volume of the Group.

The excellent trend in sales of systems for aesthetic applications was confirmed during this quarter thanks to products and a sales policy that have led to high growth rates in all the main applicative segments: hair removal, removal of tattoos and pigmented lesions, skin rejuvenation.

In the hair removal segment, which is the most important market among laser applications for aesthetic purposes, both in general and for the Group, we have been able to seize the opportunity offered by a growing market. This is a gradual growth that has been generated by the ability of producers of systems to develop technologies that have improved both the effectiveness and the cost of the treatments, thus enlarging the range of potential clients. Our wide range of systems demonstrates the success and the continued effort to improve these products: the Motus AX with its special characteristics which make hair removal with alexandrite lasers more accessible and less painful; the Mediostar (produced by Asclepion in the Next, Pro and Light versions), is a point of reference in Italy in the professional aesthetics sector standard; the Repla:y di Deka and the Duetto Evo by Quanta which complete the range by offering along with alexandrite hair removal, the effectiveness of Nd:YAG lasers which are also highly effective in vascular treatments; and lastly, the latest arrival, the Thunder MT by Quanta System, which is distinguished as a power laser that has no equal on the market.
Growth in the segment of tattoo and pigmented lesion removal was even faster. In this segment the Group has the advantage of a wide range of highly innovative products: the traditional nano-second systems offered by Quanta System, the Q-Plus C and the Asset, by Deka, the QS4 and by Asclepion, the Tattoo-Star, in 2016 were joined by the Discovery Pico and then by the Discovery Pico Plus, developed by Quanta System with picosecond technology. With impulses that last picoseconds obtained by an ingenious and innovative technological solution, these systems permit a

more effective treatment and are positioned on a market level with high sales margins that are guaranteed by their innovative characteristics.
Sales for $CO_2$ for systems for skin rejuvenation showed strong growth as well as the erbium systems for ablation.

Sales for body shaping systems are still of a relatively small entity and are awaiting an innovative technology that will allow us to compete significantly in this segment which is registering a high development rate all over the world. The trend in the physical therapy sector, which grew about 20%, is also very positive. Asa of Vicenza conducts the activities of the Group in this segment. Thanks to its ability to develop highly effective systems and to offer a clinical support and marketing that completes them and makes them very attractive and, at the same, time, scientifically proved, Asa has gradually consolidated their position on the market with an expansion, above all, on an international level.

The drop in sales for post-sales services and consumables, already registered for the first quarter, continued in the second quarter. The decrease is due mainly to the reduction in sales of upgrades on aesthetic systems, an activity which had reached its peak during the first half of 2016. A drop in sales was also registered for optical fibers, consumable devices that are part of sets for urological systems, and the creams that are sold as accessory products for aesthetic systems.

The chart below shows the breakdown of the sales volume for the sector of industrial applications, divided according to the market segments in which the Group operates.

| | 30/06/2017 | Inc % | 30/06/2016 | Inc % | Var. % |
|---|---|---|---|---|---|
| Cutting | 45.486 | 75,88% | 28.135 | 70,95% | 61,67% |
| Marking | 8.227 | 13,73% | 6.488 | 16,36% | 26,80% |
| Laser sources | 1.844 | 3,08% | 965 | 2,43% | 91,13% |
| Conservation | 105 | 0,18% | 110 | 0,28% | -4,40% |
| **Total industrial systems** | **55.662** | **92,86%** | **35.698** | **90,03%** | **55,93%** |
| Industrial service | 4.280 | 7,14% | 3.954 | 9,97% | 8,23% |
| **Total industrial revenue** | **59.942** | **100,00%** | **39.652** | **100,00%** | **51,17%** |

The growth rate remains high and the rapid development in the sales volume in this sector is a source of great satisfaction for the Company.
The cutting sector grew about 62% thanks to the excellent performance of the Chinese companies conducted as a joint venture in Wuhan and Wenzhou, specialized in systems for flat cutting sheet metal. The new factory in Wenzhou, inaugurated in the Summer of 2016, has greatly increased the effectiveness of production and has given an image of solidity and efficiency to the clientele. The opening of this factory coincides with a highly favorable phase in the market in which a technological innovation, thanks to which it is now possible to install high-powered sources without aggravating the complexity of the cutting systems, has amplified the market, as is demonstrated by the strong increase in demand. This is a phenomenon which, in China, the most important manufacturing country in the world, has assumed dimensions which place our company on a new and much wider level. The phenomenon also concerns the other world markets, with our Group now creating its own space in Italy and in Europe thanks to the rapid growth of Cutlite Penta.

In the marking sector results were also very good, with a growth rate of about 27%, achieved with the contribution of both segments in which the Group is active: that of marking small surfaces for identification and small decorations in which Lasit operates, and that for decorating large surfaces in which Cutlite Penta offers the Ot-las brand systems.

In the segment of laser sources the sales volume almost doubled due, on the one hand, to the increase in production capacity and, on the other, the tendency which is now being consolidated, to use the technology of medium powered $CO_2$ sources excited by radio frequency for applications which are now enjoying a phase of great success, like packaging.
The sales volume for restoration is stable; in this field the Group receives some revenue but, above all, contributes to the conservation of the artistic heritage at a world level. This is a homage to our location in one of the greatest centers of artistic production that the world has ever known and it is an activity to which we dedicate our technologies thus procuring high visibility and PR, sometimes through collaboration or donations to great institutions like the Getty Museum in Malibu, in California.

Sales volume for after-sales services increased, mainly due to the rapid increase in the number of systems installed. The technological evolution of the sources installed on the systems will tend to limit their operating costs and therefore also the revenue earned for service will tend to decrease.

## 1.7. Consolidated income statement as of June 30th 2017

The chart below shows the consolidated income statement for the half ending on June 30th 2017 compared with the same period last year.

| **Income Statement** | **30/06/2017** | **Inc %** | **30/06/2016** | **Inc %** | **Var. %** |
|---|---|---|---|---|---|
| Revenues | 142.877 | 100,0% | 120.176 | 100,0% | 18,89% |
| Change in inventory of finished goods and WIP | 5.208 | 3,6% | 907 | 0,8% | 474,27% |
| Other revenues and income | 1.661 | 1,2% | 1.869 | 1,6% | -11,12% |
| **Value of production** | **149.746** | **104,8%** | **122.951** | **102,3%** | **21,79%** |
| Purchase of raw materials | 79.766 | 55,8% | 62.332 | 51,9% | 27,97% |
| Change in inventory of raw material | (237) | -0,2% | (2.463) | -2,0% | -90,39% |
| Other direct services | 10.708 | 7,5% | 9.818 | 8,2% | 9,07% |
| **Gross margin** | **59.509** | **41,7%** | **53.264** | **44,3%** | **11,72%** |
| Other operating services and charges | 17.977 | 12,6% | 15.446 | 12,9% | 16,38% |
| **Added value** | **41.532** | **29,1%** | **37.818** | **31,5%** | **9,82%** |
| Staff cost | 26.062 | 18,2% | 22.251 | 18,5% | 17,13% |
| **EBITDA** | **15.469** | **10,8%** | **15.567** | **13,0%** | **-0,63%** |
| Depreciation, amortization and other accruals | 2.335 | 1,6% | 2.043 | 1,7% | 14,30% |
| **EBIT** | **13.134** | **9,2%** | **13.524** | **11,3%** | **-2,88%** |
| Net financial income (charges) | (2.204) | -1,5% | (464) | -0,4% | 374,81% |
| Share of profit of associated companies | (49) | 0,0% | (100) | -0,1% | -50,84% |
| Other non-operating income (charges) | 0 | 0,0% | 23.019 | 19,2% | -100,00% |
| **Income (loss) before taxes** | **10.881** | **7,6%** | **35.979** | **29,9%** | **-69,76%** |
| Income taxes | 2.824 | 2,0% | 4.656 | 3,9% | -39,35% |
| **Income (loss) for the financial period** | **8.057** | **5,6%** | **31.323** | **26,1%** | **-74,28%** |
| Net profit (loss) of minority interest | 2.047 | 1,4% | 1.029 | 0,9% | 98,86% |
| **Net income (loss)** | **6.010** | **4,2%** | **30.293** | **25,2%** | **-80,16%** |

The gross margin was 59.509 thousand Euros, an increase of 11,7% with respect to the 53.264 thousand Euros shown on June 30th 2016 thanks to an increase in sales volume.
The decrease in margins from 44,3% to 41,7% during the first half of 2017 was in part due to the decrease in revenue from research grants, but above all, to the variation in the mix of sales. There are two important factors from this point of view: the first and most significant was the increase in sales volume in the industrial sector, in particular, on the Chinese market, a sector in which the margins on sales are lower than in the medical sector. The second is derived instead from the different mix within the medical sector in which systems with lower margins registered higher sales rates than they had in the preceding quarters. With the objective of maintaining and increasing the market quotas, the sales policies that were followed this half had a positive effect on the overall sales volume while comporting at the same time a slight decrease in the margins.

The costs for operating services and charges were 17.977 thousand Euros showing an increase of 16,4% over the 15.446 thousand Euros registered on June 30th 2016; the incidence on the sales volume decreased from 12,9% for last year to 12,6% for this year.

Costs for personnel were 26.062 thousand Euros, showing an increase of 17,1% over the 22.251 thousand Euros for the same period last year, while the incidence on the sales volume remained practically the same, decreasing from 18,5% on June 30th 2016 to 18,2% on June 30th 2017.

As of June 30th 2017, the number of employees in the Group was 1.182, showing an increase over the 1.042 employees on June 30th 2016 and the 1.093 on December 31st 2016. New employees were hired mainly by the Chinese subsidiary Penta Laser Equipment (Wenzhou), currently in rapid expansion.

A large portion of the personnel expenses is directed towards research and development costs, for which the Group receives grants and reimbursements in relation to specific contracts underwritten by the institutions created for this purpose.
The grants entered into accounts as of June 30th 2017 amounted to 127 thousand Euros, showing a decrease with respect to the 1.044 thousand Euros registered for the same period in 2016.

Consequently, the EBITDA was 15.469 thousand Euros, an amount which is substantially unchanged with respect to the 15.567 thousand Euros shown for June 30th 2016. The stability of the EBITDA which had an incidence on the sales volume which fell from 13,0% to 10,08% is derived mainly from the reduction of the margins on the sales; the costs for personnel and overhead, especially the former maintained a growth rate that was still within the percentage limits of the growth of the sales volume.

The costs for amortizations, depreciations and accruals showed a slight increase, from 2.043 thousand Euros on June 30th 2016 to 2.335 thousand Euros on June 30th 2017 and, again in this case, represents an increase which is of a percentage amount that is less than the increase in revenue.

The EBIT consequently amounted to 13.134 thousand Euros, a slight decrease with respect to the 13.524 thousand Euros shown for June 30th 2016. The incidence on the sales volume was 9,2% and shows a decrease with respect to the 11,3% registered last year.

Net financial charges amounted to 2.204 thousand Euros with respect to the 464 thousand Euros registered for the same period last year. Negative exchange differences, particularly that on the US dollar, determined the negative result for this period.

Pre-tax income amounted to 10.881 thousand Euros, a decrease with respect to the 35.979 thousand Euros shown on June 30th 2016. It should be recalled that last year the pre-tax income included the heading of “Other non-operating income and charges” for an amount of 23.019 thousand Euros which represented the capital gains earned from the sale by the Parent Company, El.En. S.p.A., of 998.628 shares of Cynosure Inc. (Nasdaq CYNO), at the average price of 45,10 US dollars per share net of sales commissions, for a total amount of about 45 million US dollars.

The income taxes amounted to 2,8 million Euros: the taxes for this half have been calculated on the basis of the best estimates of the fiscal aliquots expected for the year2017.

The tax rate for the period was about 26%, far greater than the 13% registered for the same period last year. The tax burden on June 30th 2016 in fact was relieved by the so-called PEX on the capital gains registered for the sale of the Cynosure shares.

The first half of this year closed with a net income of the Group of 6.010 thousand Euros, a decrease with respect to the 30.293 thousand Euros for the first half 2016.

## 1.8. Consolidated statement of financial position and net financial position as of June 30th 2017

The statement of financial position shown on the chart below makes it possible to compare the financial position for this half with that of last year.

| Statement of financial position | 30/06/2017 | 31/12/2016 | Variation |
|---|---|---|---|
| Intangible assets | 4.096 | 3.896 | 200 |
| Tangible assets | 38.186 | 39.616 | -1.431 |
| Equity investments | 3.600 | 3.818 | -218 |
| Deferred tax assets | 6.702 | 6.526 | 176 |
| Other non current assets | 11.979 | 10.881 | 1.097 |
| **Total non current assets** | **64.562** | **64.737** | **-175** |
| Inventories | 66.492 | 62.138 | 4.354 |
| Accounts receivable | 71.427 | 62.446 | 8.981 |
| Tax receivables | 6.341 | 5.213 | 1.128 |
| Other receivables | 8.657 | 8.564 | 93 |
| Financial instruments | 499 | 0 | 499 |
| Cash and cash equivalents | 81.932 | 97.589 | -15.657 |
| **Total current assets** | **235.348** | **235.950** | **-602** |
| **Total Assets** | **299.910** | **300.687** | **-777** |
| Share capital | 2.509 | 2.509 | |
| Additional paid in capital | 38.594 | 38.594 | |
| Treasury stock | 0 | 0 | |
| Other reserves | 98.095 | 64.137 | 33.958 |
| Retained earnings / (accumulated deficit) | 35.115 | 36.188 | -1.072 |
| Net income / (loss) | 6.010 | 40.408 | -34.398 |
| **Group shareholders' equity** | **180.323** | **181.835** | **-1.512** |
| Minority interest | 11.808 | 10.864 | 944 |
| **Total shareholders' equity** | **192.131** | **192.699** | **-568** |
| Severance indemnity | 3.951 | 3.861 | 91 |
| Deferred tax liabilities | 1.314 | 1.607 | -293 |
| Reserve for risks and charges | 3.591 | 3.514 | 77 |
| Financial debts and liabilities | 6.561 | 4.342 | 2.218 |
| **Total non current liabilities** | **15.417** | **13.324** | **2.093** |
| Financial liabilities | 9.237 | 10.613 | -1.376 |
| Accounts payable | 41.994 | 44.694 | -2.700 |
| Income tax payables | 2.391 | 4.285 | -1.894 |
| Other current payables | 38.741 | 35.072 | 3.669 |
| **Total current liabilities** | **92.363** | **94.664** | **-2.301** |
| **Total Liabilities and Shareholders' equity** | **299.910** | **300.687** | **-777** |

| **Net financial position** | **30/06/2017** | **31/12/2016** |
|---|---|---|
| Cash and bank | 81.932 | 97.589 |
| Financial instruments | 499 | 0 |
| **Cash and cash equivalents** | **82.432** | **97.589** |
| **Current financial receivables** | **159** | **150** |
| Bank short term loan | (8.238) | (7.991) |
| Part of financial long term liabilities due within 12 months | (998) | (2.621) |
| **Financial short term liabilities** | **(9.237)** | **(10.613)** |
| **Net current financial position** | **73.354** | **87.127** |
| Bank long term loan | (3.786) | (1.231) |
| Other long term financial liabilities | (2.775) | (3.111) |
| **Financial long term liabilities** | **(6.561)** | **(4.342)** |
| **Net financial position** | **66.794** | **82.784** |

The net financial position of the Group decreased by about 16 million with respect to the closing for the year 2016.
The use of cash during this period was determined mainly by the increase in working capital which increased in order to sustain the rapid growth of the Group. In fact, the increase in working capital can be attributed to the activities in the industrial sector in China, which doubled with respect to the first half of last year and represents an investment that was necessary to sustain the development of the activities.

Internal growth of the company is the strategic option which the Group has chosen right now; with current expenses for research and development and marketing promotions, which are entered into the income statement temporarily reducing the operating revenue, and the technical investments in the production facilities, the increase in working capital is the other significant entry in the investments sustaining the growth.

During the first half dividends for a total amount of about 8,5 million Euros were paid, mostly by the Parent Company, who paid coupons for about 7,7 million Euros.

It should also be recalled that 11,5 million Euros in cash, 1 million of which was invested this year, was invested in insurance type financial instruments which, for their particular characteristics, must be entered among the non-current financial assets; even though they represent a use of cash, this amount is not part of the net financial position.

# 1.9. 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 first half of 2017.

| | Revenues 30/06/2017 | Revenues 30/06/2016 | Variation | EBIT 30/06/2017 | EBIT 30/06/2016 | Income (loss) for the financial period 30/06/2017 | Income (loss) for the financial period 30/06/2016 |
|---|---|---|---|---|---|---|---|
| El.En. S.p.A. | 24.338 | 29.153 | -16,52% | (1.502) | 2.954 | (209) | 39.492 |
| Cutlite Penta S.r.l. | 14.481 | 11.103 | 30,42% | 1.019 | (90) | 729 | (38) |
| Deka Mela S.r.l. | 18.094 | 17.447 | 3,71% | 894 | 1.063 | 1.103 | 1.099 |
| Esthelogue S.r.l. | 5.525 | 5.345 | 3,37% | 395 | 523 | 267 | 332 |
| Deka Sarl | 1.786 | 2.000 | -10,70% | 72 | (85) | 72 | (85) |
| Lasit S.p.A. | 6.519 | 4.843 | 34,61% | 918 | 478 | 600 | 307 |
| Quanta System S.p.A. | 25.693 | 22.045 | 16,55% | 4.607 | 3.898 | 3.328 | 2.699 |
| Asclepion GmbH | 16.806 | 14.461 | 16,22% | 1.816 | 1.369 | 1.221 | 917 |
| ASA S.r.l. | 5.105 | 4.141 | 23,28% | 1.298 | 950 | 972 | 681 |
| BRCT Inc. | - | - | 0,00% | 28 | (9) | 21 | 59 |
| With Us Co., Ltd | 11.037 | 10.680 | 3,34% | (111) | 1.258 | 43 | 424 |
| Penta-Chutian Laser (Wuhan) Co., Ltd | 14.413 | 13.641 | 5,66% | 1.119 | 471 | 574 | 27 |
| Cutlite do Brasil Ltda | 607 | 1.472 | -58,76% | (311) | (442) | (324) | (324) |
| Lasercut Technologies Inc. | - | - | 0,00% | (4) | 7 | (4) | 4 |
| Pharmonia S.r.l. | 428 | 6 | 7033,33% | 14 | 3 | 11 | 2 |
| Deka Medical Inc. | 15 | 66 | -77,27% | (1) | 4 | (7) | (2) |
| Deka Japan Co., Ltd | 1.213 | 1.190 | 1,93% | 136 | 24 | 90 | 41 |
| Penta-Laser Equipment Wenzhou Co., Ltd | 28.717 | 17.470 | 64,38% | 2.413 | 1.083 | 2.041 | 812 |
| JenaSurgical GmbH | 1.371 | 745 | 84,03% | (144) | (134) | (144) | (134) |
| Accure Quanta, Inc. | - | - | 0,00% | (4) | (2) | (4) | (2) |
| Merit Due S.r.l. | 29 | 29 | 0,00% | 16 | 15 | 11 | 10 |

**El.En. S.p.A.**
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).

For El.En. S.p.A. 2017 has been a year of transition. From the point of view of sales volume and margins the outcome of the acquisition of our client Cynosure by Hologic has had negative effects on the distribution of the Mona Lisa Touch systems in the United States, that are even greater than the most cautious forecasts. The sales volume in the other applicative segments and markets is growing but not enough to offset the gap created by Cynosure. Moreover, we are now proceeding with the reorganization of some of the functions and hiring other personnel in order to sustain the activities that are critical for success in this sector, from production to research, to activities for the clearance of products at an international level. The drop in sales volume that this has caused, together with the cost involved for promoting further growth, have determined the loss registered for this half. We believe that this can be recovered in the second half of the year with a gradual improvement, the results of which should become evident in 2018.

On January 1st 2017 El.En. appointed Ing. Paolo Salvadeo General Director of the Company.

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

Deka M.E.L.A. represents the main distribution channel for the range of medical laser systems developed in the El.En factory in Calenzano, which are sold under the brand name of DEKA. The company was founded by El.En. in the early 1990s and has gradually consolidated their position on the market, first in Italy and then internationally. Deka operates in the sectors of dermatology, aesthetics and surgery and uses a network of agents for direct distribution in Italy and, for export, a network of highly qualified distributors that have been selected over a period of time. After the launching of the Mona Lisa Touch laser system for the treatment of vaginal atrophy, Deka has reappeared successfully in the gynecology field in which it had previously operated with $CO_2$ laser systems during its first years of activity.

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

In early 2017 Deka started a reorganization process for distribution in Italy and using the new brand name “Renaissance” Deka also attends to the distribution of the products of the company Quanta System. The immediate success that has been registered by this operation confirms the strategy of development of the company. In fact, the highest growth rate registered by Deka during the first half of 2017 was on the Italian market.

Because of a slight drop in sales margins due to the product mix and the increase in marketing expenses derived from the launching of the new brand Renaissance and other marketing functions, Deka’s EBIT showed a decrease in the first half. We are convinced that the increase in expenses will rapidly give rise to a further growth in the sales volume which we believe that the market and our market position can allow.

**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 extremely positive phase of the company has continued. After years of crisis in the manufacturing sector and minimal demand for production plants like the ones we manufacture, the recovery of manufacturing has taken place with a renewed interest in the special characteristics of laser systems. Moreover, in the metal cutting sector, a technological shift with fiber laser sources replacing the $CO_2$ laser sources has extended the potential applications for laser systems and widened the range of potential new clients so that an important new market for replacements has been opened because of the technological improvement which has made the old installations become obsolete more rapidly. The sales volume this half grew by 30% with the result being a significant increase in profitability.

While the high powered $CO_2$ laser sources have become obsolete, on the other hand, the $CO_2$ RF sources manufactured by El.En for mid-powered applications and marking systems remain an important product. Moreover, the financial support that the parent company provides remains indispensable even for mid-term projects like the expansion on the Chinese market through the subsidiary **Penta Chutian Laser (Wuhan).**

This latter company was founded ten years ago for the purpose of giving the Group a local factory serving the most important manufacturing market in the world and has carried out its role successfully and become a significant presence on the Chinese market.

Penta Chutian of Wuhan now operates jointly with **Penta Laser Equipment (Wenzhou),** which was founded in order to take advantage of the favorable conditions offered by the city of Wenzhou for a new high-tech factory which began production in the Summer of 2016. The two companies operate exclusively in the segment of laser cutting of metal.

The new plant has doubled the production capacity in a factory that was specially designed to manufacture our products. The factory was completed in the exact moment that the Chinese market was accelerating due to the extension of the applicative potential of laser systems as described above for Cutlite Penta. The Chinese joint ventures, in fact, are now going through an extremely positive phase: the sales volume for this half doubled with respect to 2016 and the EBIT has shown an increase that is even greater.

**Quanta System S.p.A.**
Quanta System was created as a research center specialized in the manufacture of scientific lasers and the company has been able to maintain over time their superior ability to produce technologically advanced lasers for the medical sector, to which it has almost completely dedicated all of its activity. The excellent trend of the company has continued in 2017 which is now taking advantage of the new headquarters in Samarate and the improved logistic conditions. The favorable market conditions and the ability of the company to offer innovative solutions have made it possible for Quanta to register a growth of over 15% during this half and take another step forward in profitability which, considering the market position of the company, places it at a level of absolute excellence.

In the wide range of Quanta products, the leaders are: Discovery Pico and Pico Plus for the removal of tattoos using picosecond technology, the range of holmium systems for lithotripsy and that of thulium laser systems for BPH (benign prostate hypertrophy) and, last but not least, the range of alexandrite and Nd:YAG systems for hair removal, in which Quanta proposes Mixt emission modality to increase the effectiveness and comfort of the treatment.

**Lasit S.p.A.** is specialized in the production of marking systems for small surfaces mainly for identification and small decorations. Production and development is conducted 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 economic phase is positive and Lasit is organized in such a way as to take advantage of it, as is demonstrated by the results which continued to grow this half ( +35%) and an EBIT which doubled.

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

Asclepion has demonstrated that they are able to take advantage of the opportunities that the favorable economic conditions are offering thanks to activities aimed at specific markets. The outcome has been a brilliant first half with a sales volume of over 15% and a significant increase in earnings. Jena Surgical has also been gradually consolidating its position and although still very small, has doubled their sales volume for this half.

**With Us Co Ltd**
With Us Co. has achieved an important market position in the field of aesthetics in Japan, by proposing the systems produced by the Group and offering all-inclusive maintenance service for the growing number of systems already installed. For this company, 2016 was characterized by events that are not repeatable to the same extent in 2017 but they are maintaining their level of sales volume to the detriment of margins and EBIT which have declined significantly and registering a negative result.

**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 low-powered semi-conductors, and it also is active in the distribution and marketing of some of the equipment produced by the Parent Company El.En. S.p.A.

The therapeutic effectiveness and the valid clinical and marketing support have allowed Asa to grow progressively in the past few years. Thanks to the investments which have gradually re-enforced both the marketing area and that of clinical support for the sales, Asa continues to grow and in the first half of this year showed a sales volume of over 5 million Euros along with a brilliant EBIT.

**Other companies, medical sector**

**Deka Sarl** distributes Deka brand medical systems in France**.**
Its presence represents an important outpost which is valuable for maintaining the position of the brand on the French market and those of the French speaking countries of North Africa. Although the company showed a slight decrease in sales volume with respect to the first half of 2016 it obtained a net income.

**Deka Japan,** which operates distributing Deka brand medical systems on the Japanese market showed a growth in sales volume and earnings during this half. In order to re-enforce their distribution capacity on the market, starting in Autumn 2017, Deka Japan has assigned the marketing and distribution activities to a commercial partner DKSH so that they can take advantage of their long standing and widespread presence in Japan to accelerate our penetration of the market. Deka Japan will continue to conduct their activity of service and certification of the products.

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

**Esthelogue S.r.l.** distributes the laser systems of the Group in the professional aesthetic sector in Italy where it has assumed an increasingly important role in the applicative segment in which it excels. The Mediostar family of laser systems for hair removal represents a standard of reference for performance, reliability and effectiveness and, again in 2017 registered a growing number of installations. For photo-rejuvenation the Kobra system is been obtaining great success. The Group is counting on the mid-term benefits of the solid market position achieved and the trust that the clientele has shown in the Esthelogue technologies in order to promote new and different applicative technologies on this interesting market. During 2017 this distribution activity showed a further increase in sales volume and maintained a positive EBIT.

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

**Other companies, industrial sector**

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

**Cutlite do Brasil Ltda** has a factory in Blumenau in the state of Santa Catarina and has about twenty employees. They produce laser systems for industrial applications and, to a lesser degree, attends to the distribution of laser systems produced by the Italian associated companies. In 2017 the difficulties of the company continued as it accumulated further losses.

# 1.10. Research and Development activities

During 2017 the Group conducted an intense research and development activity for the purpose of discovering new laser applications and different light sources for both the medical and the industrial sectors and to place innovative products on the market. In general, for highly technological products in particular, the global market requires that the competition be met by rapidly and continually placing on the market completely new products and innovative versions of old products with new applications or improved performance which use the most recent technologies and components. For this reason extensive and intense research and development programs must be conducted and organized according to brief and mid- to long-term schedules.
In our laboratories we conduct research on new or unsolved problems in medicine and industry and we try to find solutions on the basis of the experience and know-how that we have developed on the interaction between laser light and biological and inert materials. As far as laser lights are concerned, we develop the sources on one hand by making a selection of its spectral content, the methods for generating it and the optimal level of power and, on the other hand, we program its management over time in relation to the laws governing its disbursement and in space as far as the shape and movement of the light beam is concerned.
The research which is aimed at obtaining mid-long-term results is generally oriented towards subjects which represent major entrepreneurial risks, inspired by intuitions which have arisen within our companies or by prospects indicated by the scientific work conducted by advanced research centers throughout the world, some of which we collaborate with.
Research which is dedicated to achieving results according to a short-term schedule is concentrated on subjects for which all the preliminary feasibility studies have been completed. For these subjects a choice has already been made regarding the main functional characteristics and performance specifications. The elements for this activity are determined on the basis of information obtained from the work of specialists employed by the company and also as a result of activities of the public and private structures which acted as consultants in the phase of preliminary study and some in the phase of field verification. This mechanism concerns the sector of laser light applications to medicine but also to industry and to the conservation of our cultural and artistic heritage.
The research which is conducted is mainly applied and is basic for some specific subjects generally related to long and mid-term activities. Both the applied research and the development of the pre-prototypes and prototypes are sustained by our own financial resources and, in part, by grants which derive from research contracts stipulated with the managing institutions set up for this purpose by the Ministry of University and Research (MUR) and the European Union, as well as directly with Regional structures in Tuscany or the Research Institutions in Italy and other countries.
The El.En. Group is currently the only corporation in the world that produces such a vast range of laser sources, in terms of the different types of active means (liquid, solid, with semiconductor, gas) each one with different wave lengths, various power versions in some cases, and using various manufacturing technologies. Consequently, research and development activity has been directed to many different systems and subsystems and accessories. Without going into excessive detail, a description of the numerous sectors in which the research activities of the Parent Company and some of the subsidiary companies have been involved is given below.

**Systems and applications for lasers in medicine**

The Parent Company, El.En., in collaboration with the subsidiary DEKA, has been active in research on biological samples and cell cultures in the laboratory for surgical applications of the devices and sub-systems for the SMARTXIDE$^2$ family of products (the product name is pronounced “Smartxide quadro” to highlight the Italian origin of the devices belonging to this family, considering the characteristics and performance that are particularly appreciated by the clientele) which has recently been developed and placed on the market for different applications in surgery, gynecology, for cutaneous ulcers and for aesthetic medicine.
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.
An application that is extremely important and has already obtained considerable commercial success, is related to urogynecoloy and urology. We have continued the experimentation activities with the Monna Lisa treatment (or Mona Lisa, depending on the country), our treatment to reduce the effects of the atrophy of vaginal mucous. Moreover, at several centers that operate in university structures or highly prestigious private clinics in Italy or other countries (particularly in the USA) we are conducting important research to increase our knowledge of the acting mechanisms and obtain new applications from further scientific advancements. The fundamental clinical studies conducted on laser treatment of the atrophy of vaginal mucous have confirmed that it is effective, safe and has no negative collateral effects. It can be stated that this is an extremely important innovation for medicine which will always remain among the basic requirements for the specific therapy. It is our precise intention to remain at the top of the global development of this new therapeutic sector and we will direct and re-enforce the scientific and technological developments in order to maintain our pre-eminent position. The atrophy of the vaginal mucous is a very common and incapacitating condition which interacts with other pathologies and affects a high percentage of women in menopause and young women with tumors for whom therapies that alter the hormone balance and provoke a sort of premature menopause are indicated. Moreover, we are conducting research on a new class of applications in gynecology based on the exceptional

characteristics of the *restitutio ad integrum* that the use of $CO_2$ lasers supplies to soft tissues in the various anatomic areas being treated.
For surgical applications we are now obtaining interesting results for the treatment for diabetic feet. In this sector we have introduced the possibility of cleaning (debridement) and removal of the necrotic tissue and the lesions with a laser which leaves the treated portion practically sterile and with the additional advantage of reducing the pain suffered by the patient during the treatment; in fact, the laser light works without mechanical contact with the various parts of the ulcer and vaporizes or cuts the parts to be eliminated with extreme precision; when, on the other hand, for this kind of treatment, scalpels or other contact instruments are used, more nerve endings are involved by the mechanical pressure applied by the scraping or cutting which necessarily comports a tearing effect which involves a volume of material which includes the area surrounding the portions to be eliminated both on the sides and underneath it.
Moreover, the laser energy is emitted in impulses of extremely short duration which instantaneously vaporize the nerve endings which may be present only in a small superficial layer of biological material to be eliminated; in fact, due to the brevity of the impulses, the heat does not affect the layers below it. The healing of chronic ulcers by means of laser treatments is based on the above characteristics of the laser beam opportunely designed by us to be used in the clearing phase of the lesion but also on the capacity for bio-stimulation operated by the laser light, our cultural heritage because of the numerous experiments and research that we have conducted over the years.
We have applied for a patent for this method and for the devices for the treatment of cutaneous ulcers along with our patents on the regeneration of tissues stimulated by high-powered lasers.
For this purpose we had previously coined the acronym HILT, *High Intensity Laser Therapy*, which characterized the range of laser products. The specific distribution on the market was entrusted to our subsidiary ASA; in this regard we should also mention the completion of the development of the new Hiro TT system, the first example of this new approach of "multi-level" control which makes use of advanced graphics, with latest generation LCD capacitors; the device received the CE approval mark in January 2017.
For the applications on cutaneous ulcers we have concluded development of a mono-mirror scanner accessory for $CO_2$ laser equipped with feedback position, miniaturized with speed and precision performance comparable to those of the Hi Scan with double galvanometer which was more costly and cumbersome.
We participated successfully at the recent world convention on the treatment of ulcers (World Union Wound Healing Societes – 27/30 September 2016) and the European convention on the same subject in the Spring of 2017. At this meeting we presented the clinical results we had obtained and, among these, the extraordinary method we had developed with our laser which had made it possible, in the first twenty cases treated, to completely cure a very high percentage of patients with ulcers with exposed bone who had already been designated for amputation. We are continuing this activity and we have planned clinical experiments in multiple locations which will involve both Italian and foreign centers. We are setting up collaboration with national companies for the treatment of ulcers with our lasers, in particular for diabetic feet.
Among the applied research activities, we also continued to work on the BI-TRE project "*BIophotonic technologies for Tissue REpair"* (BiophotonicsPlus Transnational Call 2012-2013, co-financed by the Region of Tuscany), on methods of anastomosis of the blood vessels using semi-conductor lasers and special patches and, in the field of neurosurgery in particular, the technique would allow the surgeon to save hours in the duration of operations on the brain.
We have continued research on a new laser surgery assisted by 3-dimensional high resolution X-ray with robot arm which part of the operating table to which the X-ray system is attached.
As part of the FOMEMI Project, with El.En leading the project, which has recently received approval for funding on the basis of the Regione Toscana contest for European Funds, we are conducting research activities for the characterization of the components present in the ulcers of diabetic feet, using visible light and near infrared; we have also scheduled research on the tissue/air interface using the analysis of the radio-frequency version of the ultrasound echo signal. We are also conducting research on a static illuminator for laser bio-stimulation in collaboration with some of the partners in the FOMEMI research project.
We are now developing dedicated software and refining the hardware components to cover all of the areas where there is still room for improvement: one interesting possibility is that of a study of the distribution of blood vessels in the ankle for the study and treatment of the diabetic foot.
In collaboration with Elesta, we are working on the development of a device for the percutaneous laser ablation of breast tumors, with delivery of energy from a diffusing tip which is cooled by closed forced circulation of biocompatible sterile liquid.
We have completed the study and planning phase of an innovative system for "Body Shaping"(reduction of the adipose layer in various parts of the body) based on the use of a new form of energy that is able to provoke a reduction of the adipocites by necrosis or apoptosis. We are now running laboratory experiments to improve the control of the superficial and in depth temperature. The study for the interpretation of the action mechanisms intended to optimize the usage protocols has continued.
We continued operations to extend the intellectual property of the Group by formulating international patents and assistance in granting them on an international basis; at the same time, we have been taking the necessary measures for the protection of our brand names and applications in the most important countries.

In the PHOTOBIOLAB created at El.En. for research on the interaction between light and biological tissue, we have conducted experiments on new medical applications in the fields of ophthalmology, proctology and neurology, results of which are used mainly for the development of DEKA products.

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

At Quanta System they are conducting intense research on the development of laser instruments intended for aesthetic medicine and medical therapies in urology. As part of this project they have developed a prototype for a new single-use morcellator which is now in the experimental phase.
They have concluded the development of the Thunder system for hair removal with high powered Alexandrite and Nd:Yag sources that can also be activated with simultaneous emission and with a highly original delivery mechanism.
They have completed laboratory and clinical experiments on incremental innovations of the Q-switched systems with fractional hand-pieces, universal adaptors with different spot shapes for automatic recognition; development of special beam delivery accessories for laser applications for the treatment of benign hypertrophy of the prostate (BHP); development of incremental innovations on holmium systems for lithotripsy, improving the performance of the cavity, of the launch of the fiber and of the fibers themselves.
Research is now being conducted on new laser systems for the treatment of skin blemishes and clinical verification has been started.
They have developed the armored Thunder Compact for the restoration of art works; this system is compact and easy to move and is particularly suitable for use on site.

They have continued an updating strategy of all the Asclepion systems: a new philosophy of user interface, new electronics and new design.
They have developed automatic vessel recognition for vascular treatments by camera and experimentation has started.
They have continued the activity for the evaluation of new concepts of optical fibers and ferrules; they also have conducted studies for uses of applications in the medical field and technologies for the recognition and cataloguing of images.

**Laser systems and applications for industry**
At El.En., in collaboration with the subsidiary Cutlite Penta, we continued research for the development of innovative pre-cutting processes and machine micro-perforation of labels and systems for applications in the field of cutting and welding plastic materials and for the beverage sector in order to prolong the shelf-life of food products.
We continued the study that had been begun on software and algorithms for high-speed advanced coding in the sector of transactional paper-digital converting.
We are conducting intense activity aimed at increasing the maximum power of sources in the RF range by improving and increasing the power of the emissions and laser sources while maintaining a high quality and modulability of the beam in order to make innovative applications possible like the micro-piercing of panels and special applications in the field of digital converting and the cutting of rigid modular wooden packing materials in MDF (Medium Density Fibreboard).
At El.En. for the development of laser sources, we have concluded the project for 850W sources and we have begun the experimentation with a sealed 300W source based on a new concept.
For carbon dioxide ($CO_2$) sources with planar discharge, we have designed, developed and tested a new system for the treatment of the beam with a stronger spatial filter, in preparation for use with more powerful sources; we have designed and tested optical filtering techniques inside the resonator for the selection of the wave length and of the fundamental mode of the stable branch. The purpose is to improve the stability of the focal spot and to increase the speed of the start up and testing. Verification tests are now being conducted.
We have studied a new laser source with planar symmetry equipped with a power of over 1kW and we have studied its optical resonator and the system for conditioning the beam. Applicative tests are now under way.
For the development of the new source, in comparison with those already in production, we have focused on the mechanical and thermo-mechanical stability of the supporting structure and the electrodes by using simulations of the finished elements of the critical parts of the system. For the new source we have begun and continued to work on the development of a radio frequency delivery system with enough power for the discharging surface by combining the

exits of several amplifiers on a single delivery point. Important resources have been dedicated to the improvement of the performance of the repeatability/mid-long term drift of the galvanometers used for the scansion heads for high-speed applications in the so-called sector of digital converting and we are now conducting experimental tests and characterization of the devices. Besides this, we have conducted minor research on focalization systems of laser sources both the carbon dioxide type we manufacture and the solid state type in optical fiber.

At Cutlite Penta they have developed and experimented with new process sensors installed in machines for metal cutting.
We have also continued testing and experimentation of scanning and focalizing heads for lasers in fibre developed in our factory, for remote welding plants for metal materials, and the manufacture of large series of furniture accessories. As part of this project we have also initiated the development of a new dynamic focalization system with high-speed response.
We have developed and started production of laser systems for metal cutting equipped with high-powered laser sources in fiber with sources up to 12 kW installed for high-speed cutting of sheet metal even of considerable thickness.

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

| *Thousand of Euros* | **30/06/2017** | **30/06/2016** |
|---|---|---|
| Staff costs and general expenses | 3.909 | 3.533 |
| Equipment | 84 | 106 |
| Costs for testing and prototypes | 1.348 | 776 |
| Consultancy fees | 306 | 398 |
| Other services | 26 | 30 |
| Intangible assets | - | - |
| **Total** | **5.674** | **4.843** |

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 8% of its sales volume.

# 1.11 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. in preceding years stipulated three derivatives of the type called "currency rate swap" in order to hedge the risk in currency exchange for purchases in Euro.

| ***Operation*** | *Notional value* | *Fair value* |
|---|---|---|
| Currency swap | € 650.000 | € 14.320 |
| Currency swap | € 1.050.000 | -€ 56.320 |
| Currency swap | € 1.750.000 | -€ 130 |
| **Total** | **€ 3.450.000** | **-€ 42.130** |

*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 8% of the total trade receivables from third parties. For an analysis of the due dates on trade receivables from third parties, please consult the relative note in the consolidated financial statement.

As far as guarantees granted to third parties are concerned:

the Parent Company El.En. S.p.A. has underwritten:
- in 2013, a bank guarantee for a maximum of 50 thousand Euros as a guarantee for customs duties as per ex art. 34 of the T.U.L.D., payable for temporary imports, with expiration date in June 2017 with possibility of extension annually.
- in 2014 a bank guarantee for a maximum of 253 thousand Euros as a guarantee for the restitution of the amount requested as a down payment on the “BI-TRE” research project, which was accepted for a grant in the Bando Regionale 2012 approved by the Regione Toscana with *Decreto Dirigenziale* n. 5160 on November 5th 2012, with expiration date in February 2018.
- during 2016 a bank guarantee for a maximum of 11.368 Euros as a guarantee against the delivery and functioning of the $CO_2$ laser for a cutting and piercing system to be added to the prototype station at the Department of Industrial Engineering of the University of Salerno, project PON03PE_00129_1 in implementation of *Decreto Direttoriale* rep.n.3118/2016, expiring in July 2017.

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

The Chinese subsidiary Penta-Laser Equipment (Wenzhou) obtained two types of financing for the construction of the new factory and for the purchase of the equipment by taking out a mortgage for an overall amount of about 30 million RMB.

*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.

# 1.12 Governance

In compliance with Art. 19 of the company bylaws, the company is administered by a Board of Directors with a number of members which may vary from a minimum of three to a maximum of fifteen. The Assembly which convened on April 28th 2015 to discuss the renewal of the Board of Directors (which will remain until the approval of the financials for the year ending on December 31st 2017) voted to set the number at six.

As of June 30th 2017 the Board of Directors was composed as follows:

| Name | Position | Place and date of birth |
|---|---|---|
| Gabriele Clementi | President and executive director | Incisa Valdarno (FI), 8 July 1951 |
| Barbara Bazzocchi | Executive director | Forlì, 17 June 1940 |
| Andrea Cangioli | Executive director | Firenze, 30 December 1965 |
| Fabia Romagnoli (*) | Board Member | Prato, 14 July 1963 |
| Michele Legnaioli (*) | Board Member | Firenze, 19 December 1964 |
| Alberto Pecci | Board Member | Pistoia, 18 September 1943 |

(*) Independent administrators in conformity with article 3 of the "Codice di Autodisciplina delle Società Quotate"

The members of the Board of Directors, for the period in which they are in office, have their legal residence at company headquarters, El. En. S.p.A. in Calenzano (Florence), Via Baldanzese 17.

On May 15th 2015, the Board of Directors assigned as executive directors, the President of the Board, Gabriele Clementi and the board members, Andrea Cangioli and Barbara Bazzocchi, separately from each other and with free signature, all of the powers of ordinary and extraordinary administration for conducting the activities related to the company business, and excluding only those powers which, in compliance with the law and with company bylaws cannot be delegated.

In order to act in conformity with the Self-disciplining Code for companies listed on the stock market:

a) On August 31st 2000 the Board of Directors presented two independent administrators among its members, in compliance with Art. 3 of the Self-disciplining code mentioned above. These independent administrators are now Prof. Paolo Blasi and Michele Legnaioli;
b) On September 5th 2000 the Board created the following committees composed mainly by non-executive administrators:
   1. the "Nomination committee", to which are assigned the tasks in conformity with art. 5 of the self-disciplining Code for companies quoted on the stock market;
   2. the "Compensation committee" to which are assigned the tasks in conformity with art. 6 of the self-disciplining Code for companies quoted on the stock market;
   3. the "Committee for controls and risks" formerly named "Internal controls committee" to which are assigned the tasks in conformity with art. 7 of the self-disciplining Code for companies quoted on the stock market in relation to internal controls as well as those derived from the CONSOB Regulations for Related parties concerning operations with related parties.
c) Up until 2000 the Board of Directors had appointed one or more subjects to verify that the system of internal controls was always adequate, completely operative and functioning.

The Board of Directors meets at least every quarter in order to guarantee adequate information for the Board of Statutory Auditors concerning the activities and the most important operations conducted by the Company and its subsidiaries.
Internal auditing of the company is conducted by the parent company of the Group in collaboration with the personnel of the subsidiary companies. From an organizational point of view, the administrators of the parent company of the Group attend the board meetings of the subsidiary companies as board members or have the office of single administrator, or else, the administrative organ of the subsidiary supplies the fully detailed information required for establishing the organization of the activities of the Group.
As far as the accounting information is concerned, before the end of the month following the quarter being considered, the subsidiaries are required to supply to the parent company of the Group all the information necessary for drawing up the consolidated financial and economic reports.

## 1.13 Inter-Group relations and with related parties

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

## 1.14 Atypical and unusual operations

In compliance with Consob Communication DEM/6064293 of July 28th 2006, we wish to state that during the first half of 2017 the Group did not make any unusual or atypical operations, as defined in the aforementioned communication.

## 1.15 Opt-out Regime

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

## 1.16 Significant events during the first half of 2017

On May 15th 2017 the ordinary Shareholders' meeting approved the financial statement for the year ending on December 31st 2016 and allocated the net income for the year amounting to 41.510.952,00 Euros as follows:

- 33.791.963,20 Euros as extraordinary reserve;
- to distribute to the shares in circulation on the date that coupon 1 came due on May 29th 2017 – in compliance with art. 2357-ter, second sub-section of the Civil Code – a dividend for the amount of 0,40 Euros gross for each share in circulation for an overall amount on the date of the resolution of 7.718.988,80 Euros.

The assembly also voted to approve the report on the incentive remuneration as per art. 123-ter T.U.F..

In the month of May, Cutlite Penta S.r.l. participated in the founding of Laser Emme S.r.l. by acquiring an equity of 19% for an amount of 7.600 Euros.

## 1.17 Subsequent events

No significant events took place after the closing of this half.

# 1.18 Current outlook

The results registered for the first half of 2017 are aligned with the forecasts issued for the year 2017. We are going through a favorable phase on our markets, in particular in the industrial sector whose rapid development caused the Group to grow over 10% this half and we believe that we can even go beyond this figure on an annual basis. From a point of view of EBIT, the mix of products sold and the intensification of some of the expenses in view of further growth make it so that the EBIT achieved in 2016 now represents the objective for this year.

***For the Board of Directors***
Managing Director
Ing. Andrea Cangioli

# EL.EN. GROUP

# HALF YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENT AS OF JUNE 30th 2017

# *Consolidated statement of financial position*

| Assets | Note | | 30/06/2017 | | 31/12/2016 |
|---|---|---|---|---|---|
| Intangible assets | 1 | | 4.095.617 | | 3.895.675 |
| Tangible assets | 2 | | 38.185.612 | | 39.616.260 |
| Equity investments | 3 | | | | |
| - in associated companies | | 2.997.146 | | 3.222.303 | |
| - other | | 603.068 | | 595.468 | |
| Total Equity investments | | | 3.600.214 | | 3.817.771 |
| Deferred tax assets | 4 | | 6.702.103 | | 6.525.995 |
| Other non current assets | 4 | | 11.978.741 | | 10.881.451 |
| **Total non current assets** | | | **64.562.287** | | **64.737.152** |
| Inventories | 5 | | 66.492.049 | | 62.138.288 |
| Accounts receivable | 6 | | | | |
| - third parties | | 70.143.811 | | 61.185.150 | |
| - associated companies | | 1.282.707 | | 1.260.495 | |
| Total Accounts receivable | | | 71.426.518 | | 62.445.645 |
| Tax receivables | 7 | | 6.340.531 | | 5.212.719 |
| Other receivables | 7 | | | | |
| - third parties | | 8.530.101 | | 8.106.549 | |
| - associated companies | | 127.285 | | 457.481 | |
| Total Other receivables | | | 8.657.386 | | 8.564.030 |
| Securities and other current financial assets | 8 | | 499.364 | | - |
| Cash and cash equivalents | 9 | | 81.932.170 | | 97.589.445 |
| **Total current assets** | | | **235.348.018** | | **235.950.127** |
| **Total Assets** | | | **299.910.305** | | **300.687.279** |

| **Liabilities** | **Note** | | **30/06/2017** | | **31/12/2016** |
|---|---|---|---|---|---|
| Share capital | 10 | | 2.508.671 | | 2.508.671 |
| Additional paid in capital | 11 | | 38.593.618 | | 38.593.618 |
| Other reserves | 12 | | 98.095.126 | | 64.137.298 |
| Treasury stock | 13 | | - | | - |
| Retained earnings / (accumulated deficit) | 14 | | 35.115.237 | | 36.187.694 |
| Net income / (loss) | | | 6.010.034 | | 40.407.578 |
| **Group shareholders' equity** | | | **180.322.686** | | **181.834.859** |
| Minority interest | | | 11.808.049 | | 10.864.356 |
| **Total shareholders' equity** | | | **192.130.735** | | **192.699.215** |
| Severance indemnity | 15 | | 3.951.335 | | 3.860.583 |
| Deferred tax liabilities | | | 1.313.574 | | 1.607.046 |
| Other accruals | 16 | | 3.591.409 | | 3.514.297 |
| Financial debts and liabilities | 17 | | | | |
| - third parties | | 6.560.569 | | 4.342.074 | |
| Total Financial debts and liabilities | | | 6.560.569 | | 4.342.074 |
| **Total non current liabilities** | | | **15.416.887** | | **13.324.000** |
| Financial liabilities | 18 | | | | |
| - third parties | | 9.236.600 | | 10.612.756 | |
| Total Financial liabilities | | | 9.236.600 | | 10.612.756 |
| Accounts payable | 19 | | | | |
| - third parties | | 41.979.459 | | 44.693.970 | |
| - associated companies | | 15.000 | | - | |
| Total Accounts payable | | | 41.994.459 | | 44.693.970 |
| Income tax payables | 20 | | 2.390.662 | | 4.285.066 |
| Other current payables | 20 | | | | |
| - third parties | | 38.740.962 | | 35.072.272 | |
| Total Other current payables | | | 38.740.962 | | 35.072.272 |
| **Total current liabilities** | | | **92.362.683** | | **94.664.064** |
| **Total Liabilities and Shareholders' equity** | | | **299.910.305** | | **300.687.279** |

# *Consolidated Income Statement*

| Income Statement | Note | | 30/06/2017 | | 30/06/2016 |
|---|---|---|---|---|---|
| Revenues | 21 | | | | |
| - third parties | | 140.038.262 | | 117.946.381 | |
| - associated companies | | 2.838.743 | | 2.229.278 | |
| Total Revenues | | | 142.877.005 | | 120.175.659 |
| Other revenues and income | 22 | | | | |
| - third parties | | 1.651.190 | | 1.866.290 | |
| - associated companies | | 9.680 | | 2.437 | |
| Total Other revenues and income | | | 1.660.870 | | 1.868.727 |
| **Revenues and income from operating activity** | | | **144.537.875** | | **122.044.386** |
| Purchase of raw materials | 23 | | | | |
| - third parties | | 79.760.459 | | 62.332.344 | |
| - associated companies | | 5.771 | | | |
| Total Purchase of raw materials | | | 79.766.230 | | 62.332.344 |
| Changes in inventory of finished goods | | | (5.208.358) | | (906.955) |
| Change in inventory of raw material | | | (236.663) | | (2.463.003) |
| Direct services | 24 | | | | |
| - third parties | | 10.707.770 | | 9.777.467 | |
| - associated companies | | | | 40.271 | |
| Total Direct services | | | 10.707.770 | | 9.817.738 |
| Other operating services and charges | 24 | | | | |
| - third parties | | 17.927.234 | | 15.324.107 | |
| - associated companies | | 49.996 | | 122.299 | |
| Total Other operating services and charges | | | 17.977.230 | | 15.446.406 |
| Staff cost | 25 | | 26.062.289 | | 22.250.954 |
| Depreciation, amortization and other accruals | 26 | | 2.335.159 | | 2.043.063 |
| **EBIT** | | | **13.134.218** | | **13.523.839** |
| Financial charges | 27 | | | | |
| - third parties | | (350.830) | | (306.498) | |
| Total Financial charges | | | (350.830) | | (306.498) |
| Financial income | 27 | | | | |
| - third parties | | 400.200 | | 325.242 | |
| - associated companies | | 6.351 | | 2.191 | |
| Total Financial income | | | 406.551 | | 327.433 |
| Exchange gain (loss) | 27 | | (2.259.939) | | (485.164) |
| Share of profit of associated companies | | | (49.010) | | (99.689) |
| Other non operating charges | 28 | | - | | - |
| Other non operating income | 28 | | 74 | | 23.019.204 |
| **Income (loss) before taxes** | | | **10.881.064** | | **35.979.121** |
| Income taxes | 29 | | 2.823.787 | | 4.656.189 |
| **Income (loss) for the financial period** | | | **8.057.278** | | **31.322.932** |
| Net profit (loss) of minority interest | | | 2.047.243 | | 1.029.493 |
| **Net income (loss)** | | | **6.010.034** | | **30.293.439** |

| | | | |
|---|---|---|---|
| Basic net income (loss) per share | 30 | 0,31 | 1,57 |
| Diluted net income (loss) per share | 30 | 0,31 | 1,57 |

# *Consolidated statement of comprehensive income*

| | Note | 30/06/2017 | 30/06/2016 |
|---|---|---|---|
| Income (loss) for the financial period (A) | | 8.057.278 | 31.322.932 |
| Other income/(loss) that will not be entered in income statement net of fiscal effects: | | | |
| Measurement of defined-benefit plans | | 57.889 | (361.610) |
| Other income/(loss) that will be entered in income statement net of fiscal effects: | | | |
| Cumulative conversion adjustments | | (676.080) | 1.105.992 |
| Unrealized gain (loss) on investment AFS | | 0 | (23.775.949) |
| Total other income/(loss), net of fiscal effectes (B) | | (618.190) | (23.031.567) |
| | | | |
| Total comprehensive (loss) income (A)+(B) | | 7.439.087 | 8.291.365 |
| Referable to: | | | |
| Parent Shareholders | | 5.784.250 | 7.282.539 |
| Minority Shareholders | | 1.654.837 | 1.008.826 |

# *Consolidated cash flow statement*

| **Cash Flow Statement** | **Note** | **30/06/2017** | **Related parties** | **30/06/2016** | **Related parties** |
|---|---|---|---|---|---|
| **Cash flow generated by operating activity:** | | | | | |
| Profit (loss) for the financial period | | 8.057.278 | | 31.322.932 | |
| Amortizations and depreciations | 26 | 1.910.604 | | 1.608.583 | |
| Gain on investment AFS | 28 | | | -23.017.522 | |
| Share of profit of associated companies | | 49.010 | 49.010 | 99.689 | 99.689 |
| Stock Option | | 431.331 | | | |
| Change of employee severance indemnity | 15 | 90.752 | | 550.791 | |
| Change of provisions for risks and charges | 16 | 77.111 | | 459.528 | |
| Change of provisions for deferred income tax assets | 4 | -176.108 | | -458.250 | |
| Change of provisions for deferred income tax liabilities | | -293.472 | | -206.473 | |
| Inventory | 5 | -4.353.760 | | -3.298.423 | |
| Accounts receivable | 6 | -8.980.875 | -22.213 | -52.085 | -151.944 |
| Tax receivables | 7 | -1.127.815 | | 1.131.859 | |
| Other receivables | 7 | -413.940 | | -494.226 | |
| Accounts payable | 19 | -2.699.511 | 15.000 | -1.500.541 | -4.740 |
| Income Tax payables | 20 | -1.894.404 | | 35.296 | |
| Other payables | 20 | 3.668.689 | | 4.714.988 | |
| | | -13.712.388 | | -20.426.786 | |
| **Cash flow generated by operating activity** | | -5.655.111 | | 10.896.146 | |
| **Cash flow generated by investment activity:** | | | | | |
| (Increase) decrease in tangible assets | 2 | -352.185 | | -4.073.277 | |
| (Increase) decrease in intangible assets | 1 | -327.714 | | -221.529 | |
| (Increase) decrease in equity investments and non current assets | 3-4 | -928.745 | | 40.018.047 | 46.738 |
| Increase (decrease) in financial receivables | 7 | 320.591 | 330.196 | 119.723 | 1.335 |
| (Increase) decrease current investments | 8 | -499.364 | | -50.694 | |
| **Cash flow generated by investment activity** | | -1.787.416 | | 35.792.270 | |
| **Cash flow from financing activity:** | | | | | |
| Increase (decrease) in non current financial liabilities | 17 | 2.218.496 | | -552.906 | |
| Increase (decrease) in current financial liabilities | 18 | -1.376.156 | | -4.665.786 | |
| Dividends paid | 31 | -8.478.956 | | -6.384.219 | |
| **Cash flow from financing activity** | | -7.636.616 | | -11.602.911 | |
| **Change in cumulative conversion adjustment reserve and other no monetary changes** | | -578.132 | | 749.411 | |
| **Increase (decrease) in cash and cash equivalents** | | -15.657.275 | | 35.834.916 | |
| **Cash and cash equivalents at the beginning of the financial period** | | 97.589.445 | | 46.989.707 | |
| **Cash and cash equivalents at the end of the financial period** | | 81.932.170 | | 82.824.623 | |

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 half on bank accounts amounted to 390 thousand Euros (325 thousand Euros on June 30th 2016).
Income taxes for this half amounted to 2.824 thousand Euros (4.656 thousand Euros on June 30th 2016).

# *Changes in consolidated shareholders' equity*

| *Total shareholders' equity* | **31/12/2015** | **Net income allocation** | **Dividends distributed** | **Other movements** | **Comprehensive income (loss)** | **30/06/2016** |
|---|---|---|---|---|---|---|
| Share capital | 2.508.671 | | | | | 2.508.671 |
| Additional paid in capital | 38.593.618 | | | | | 38.593.618 |
| Legal reserve | 537.302 | | | | | 537.302 |
| Treasury stock | - | | | | | - |
| *Other reserves:* | | | | | | |
| Extraordinary reserve | 60.749.843 | 518.065 | | | | 61.267.908 |
| Special reserve for grants received | 426.657 | | | | | 426.657 |
| Cumulative translation adjustment | -377.584 | | | | 1.064.961 | 687.377 |
| Other reserves | 25.539.115 | | | | -23.865.904 | 1.673.211 |
| Retained earnings / (accumulated deficit) | 28.117.462 | 13.852.785 | -5.789.242 | 7.014 | -209.956 | 35.978.063 |
| Net income / (loss) | 14.370.850 | -14.370.850 | | | 30.293.439 | 30.293.439 |
| *Total Group shareholders' equity* | 170.465.934 | - | -5.789.242 | 7.014 | 7.282.540 | 171.966.246 |
| Capital and reserve of minority interest | 7.394.709 | 1.678.257 | -594.977 | -1.986 | -20.667 | 8.455.336 |
| Result of minority interest | 1.678.257 | -1.678.257 | | | 1.029.493 | 1.029.493 |
| *Total Minority interest* | 9.072.966 | - | -594.977 | -1.986 | 1.008.826 | 9.484.829 |
| | | | | | | |
| *Total shareholders' equity* | 179.538.900 | - | -6.384.219 | 5.028 | 8.291.366 | 181.451.075 |

| *Total shareholders' equity* | **31/12/2016** | **Net income allocation** | **Dividends distributed** | **Other movements** | **Comprehensive income (loss)** | **30/06/2017** |
|---|---|---|---|---|---|---|
| Share capital | 2.508.671 | | | | | 2.508.671 |
| Additional paid in capital | 38.593.618 | | | | | 38.593.618 |
| Legal reserve | 537.302 | | | | | 537.302 |
| Treasury stock | | | | | | |
| *Other reserves:* | | | | | | |
| Extraordinary reserve | 61.267.908 | 33.791.963 | | | | 95.059.871 |
| Special reserve for grants received | 426.657 | | | | | 426.657 |
| Cumulative translation adjustment | -50.751 | | | | -276.928 | -327.679 |
| Other reserves | 1.956.182 | | | 431.323 | 11.470 | 2.398.975 |
| Retained earnings / (accumulated deficit) | 36.187.694 | 6.615.615 | -7.718.989 | -8.757 | 39.674 | 35.115.237 |
| Net income / (loss) | 40.407.578 | -40.407.578 | | | 6.010.034 | 6.010.034 |
| *Total Group shareholders' equity* | 181.834.859 | | -7.718.989 | 422.566 | 5.784.250 | 180.322.686 |
| Capital and reserve of minority interest | 8.278.805 | 2.585.551 | -759.968 | 48.824 | -392.406 | 9.760.806 |
| Result of minority interest | 2.585.551 | -2.585.551 | | | 2.047.243 | 2.047.243 |
| *Total Minority interest* | 10.864.356 | | -759.968 | 48.824 | 1.654.837 | 11.808.049 |
| | | | | | | |
| *Total shareholders' equity* | 192.699.215 | | -8.478.957 | 471.390 | 7.439.087 | 192.130.735 |

The amount entered in the "comprehensive income (loss)" column refers to:

- for the conversion reserve, to the variations that have involved the assets in currency held by the Group;
- the other reserves and retained earnings (accumulated deficit) are mainly influenced by the remeasurement of the employee severance indemnity fund at the end of the year for the amount relative to the subsidiary companies.

For further details, please refer to 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 condensed consolidated Half-yearly Financial Statement for the El.En. Group as of June 30th 2017 was examined and approved by the Board of Directors on September 5th 2017.

## PRINCIPLES USED FOR DRAWING UP THE STATEMENT AND ACCOUNTING STANDARDS

### PRINCIPLES USED FOR DRAWING UP THE STATEMENT

The condensed 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 condensed half-yearly consolidated financial statement is drawn up in Euros which is the working currency of the Parent Company and of many of its subsidiaries.
This Report consists of:

- the Consolidated Statement of Financial Position,
- the Consolidated Income Statement
- the Consolidated Statement of Comprehensive Income
- the Consolidated Cash Flow Statement
- the Statement of Changes in the Shareholders' Equity
- the following Notes

The economic information which is provided here is related to the first half of 2017 and the first half of 2016. The financial information, however, is supplied with reference to June 30th 2017 and December 31st 2016.

Some of the data contained in these Notes concerning the first half of 2016 have been reclassified for a more consistent comparison with those of June 30th 2017.

### COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

This consolidated statement for the half ending on June 30th 2017 has been drawn up in consolidated form according to article 154-ter of D.Lgs February 24th 1998 n. 58 (TUF) and later modifications and additions, is 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).

This half-yearly consolidated financial report is drawn up in summary form in conformity with the IAS 34 regulations for interim reports. The document therefore does not include all of the information required for the annual financial report and must be read along with the consolidated report drawn up for the period which ended on December 31st 2016.

#### ACCOUNTING STANDARDS AND EVALUATION CRITERIA

Since new IFRS accounting standards, amendments and interpretations did not come into force on January 1st 2017, the Group has drawn up the half-yearly consolidated financial statement using the same standards they used for the consolidated financial statement published on December 31st 2016.

**IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union but not yet obligatory and not applied early by the Group as of June 30th 2017**

- Standard **IFRS 15 – *Revenue from Contracts with Customers*** (published on May 28th 2014 and added with further clarifications published on April 12th 2016) which is intended to replace standards IAS 18 – *Revenue* and IAS 11 – *Construction Contracts*, as well as interpretations IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The standard established a new model for recognition of revenue which will be applied to all contracts stipulated with clients with the exception of those governed by other IAS/IFRS standards like leasing, insurance contracts and financial instruments. The fundamental steps for the recognition of revenue according to the new model are as follows:
    - Identification of the contract with the client;
    - Identification of the performance obligations of the contract;
    - Establishing the price;
    - Allocation of the price to the performance obligations of the contract;
    - The criteria for entering the revenue when the entity has satisfied the performance obligations.

The new standard, which will replace all of current requirements shown in the IFRS concerning the recognition of revenue, will become effective starting on January 1st 2018 or later, with complete retrospective or modified application and with the possibility of early application. The Group plans to apply the new standard starting on the date when it becomes obligatory and using the modified retrospective model. The evaluation of the effects of the new standard are now being conducted according to a schedule that will be concluded at the end of 2017.
On the basis of the analysis made up to now, the Group does not expect that the new standards will have a significant impact on their shareholders' equity, however, as mentioned above, they are waiting for the final results of the detailed analysis to be concluded by the end of the year in order to take into account all of the information available.

- Final version of **IFRS 9 – *Financial Instruments*** (published on July 24th 2014). The document contains the results of the IASB project for the replacement of IAS 39:
    - Introduces new criteria for the classification and evaluation of financial assets and liabilities;
    - With reference to the impairment model, the new standard requires that the estimate of the losses on receivables be made on the basis of the model of *expected losses* (and not the model of *incurred losses* used by IAS 39) using information that can be documented, available free of charge and without unreasonable effort, which include past, present and future data;

The new standard must be applied to the financial documents which are issued on January 1st 2018 or later.

At this time, the board member are evaluating the possible effects of the introduction of these modifications on the consolidated financial statement of the Group.

- Standard **IFRS 16 – *Leases*** (published on January 13th 2016), intended to replace standard IAS 17 – *Leases*, as well as the interpretations IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* e SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.
  The new standard gives a new definition of lease and introduces a criteria based on right of use of an asset in order to distinguish leasing contracts from service contracts and establishes the discriminating factors: the identification of the asset, the right to replace it, the right to obtain all of the economic benefits derived from the use of the asset and the right to direct the use of the asset that is the subject of the contract.
  The standard establishes a sole model for the recognition and evaluation of leasing contracts for the lessee which includes the entry of the asset which is the subject of the leasing, even operative, among the assets as a financial debt, offering, moreover, the possibility of not recognizing as leasing the contracts which have as their subject *low-value asset*s and leasing with a contract that lasts 12 months or less. On the other hand, the standard does not contain significant modifications for the lessees.

The standard must be applied starting on January 1st 2019 but early application is allowed only for the companies using early application of IFRS 15 - *Revenue from Contracts with Customers*. At this time, the board members are evaluating the possible effects of the introduction of these modifications on the consolidated financial statement of the Group.

The chart below shows the other modifications which have been made to existing accounting standards and interpretations, or specific requirements contained in the standards and in the interpretations approved by the IASB, showing those which have been approved and those which have not been approved by the European Union on the date that this condensed consolidated half-yearly financial statement was prepared:

| **Description** | **Approved by the date of this statement** | **Date when the standard should become effective** |
|---|---|---|
| Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014) | NO | Not set |
| Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (issued in January 2016) | NO | Not set |
| Amendments to IAS 7: Disclosure Initiative (issued in January 2016) | NO | Not set |
| Amendments to IFRS 2: Classification and measurement of share-based payment transactions (issued in June 2016) | NO | 01-Jan-18 |
| Amendments to IFRIC 23: Uncertainty over Income Tax Treatments (issued in June 2017) | NO | 01-Jan-19 |
| IFRS 17 Insurance Contracts | NO | 01-Jan-21 |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | NO | 01-Jan-18 |
| IAS 40 Transfers of Investment Property | NO | 01-Jan-18 |

# SCOPE OF CONSOLIDATION

## SUBSIDIARY COMPANIES

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

| Company name | Note | Headquarters | Currency | Share capital | Percentage held | | | Consolidated percentage |
|---|---|---|---|---|---|---|---|---|
| | | | | | Direct | Indirect | Total | |
| **Parent company** | | | | | | | | |
| El.En. S.p.A. | | Calenzano (ITA) | EUR | 2.508.671 | | | | |
| **Subsidiary companies** | | | | | | | | |
| Cutlite Penta S.r.l. | | Calenzano (ITA) | EUR | 154.621 | 96,65% | | 96,65% | 96,65% |
| Deka Mela S.r.l. | | Calenzano (ITA) | EUR | 40.560 | 85,00% | | 85,00% | 85,00% |
| Esthelogue S.r.l. | 1 | Calenzano (ITA) | EUR | 100.000 | 50,00% | 50,00% | 100,00% | 100,00% |
| Deka Sarl | | Lione (FRA) | EUR | 155.668 | 100,00% | | 100,00% | 100,00% |
| Lasit S.p.A. | | Torre Annunziata (ITA) | EUR | 1.154.000 | 70,00% | | 70,00% | 70,00% |
| Quanta System S.p.A. | | Milano (ITA) | EUR | 1.500.000 | 100,00% | | 100,00% | 100,00% |
| Asclepion GmbH | 2 | Jena (GER) | EUR | 2.025.000 | 50,00% | 50,00% | 100,00% | 100,00% |
| ASA S.r.l. | 3 | Arcugnano (ITA) | EUR | 46.800 | | 60,00% | 60,00% | 51,00% |
| BRCT Inc. | | New York (USA) | USD | no par value | 100,00% | | 100,00% | 100,00% |
| With Us Co., Ltd | 4 | Tokyo (JAP) | JPY | 100.000.000 | | 78,85% | 78,85% | 78,85% |
| Deka Japan Co., Ltd | | Tokyo (JAP) | JPY | 10.000.000 | 55,00% | | 55,00% | 55,00% |
| Penta-Chutian Laser (Wuhan) Co., Ltd | 5 | Wuhan (CHINA) | CNY | 20.467.304 | | 55,00% | 55,00% | 53,16% |
| Penta-Laser Equipment Wenzhou Co., Ltd | 6 | Wenzhou (CHINA) | CNY | 31.369.325 | | 55,00% | 55,00% | 53,16% |
| Cutlite do Brasil Ltda | | Blumenau (BRAZIL) | BRL | 11.666.678 | 68,56% | | 68,56% | 68,56% |
| Lasercut Technologies Inc. | 7 | Hamden (USA) | USD | 50.000 | | 100,00% | 100,00% | 100,00% |
| Pharmonia S.r.l. | | Calenzano (ITA) | EUR | 50.000 | 100,00% | | 100,00% | 100,00% |
| Deka Medical Inc. | 8 | San Francisco (USA) | USD | 10 | | 100,00% | 100,00% | 100,00% |
| JenaSurgical GmbH | 9 | Jena (GER) | EUR | 200.000 | | 100,00% | 100,00% | 92,50% |
| Accure Quanta, Inc. | 10 | Wilmington (USA) | USD | 5 | | 100,00% | 100,00% | 100,00% |
| Merit Due S.r.l. | 11 | Calenzano (ITA) | EUR | 13.000 | | 100,00% | 100,00% | 96,65% |

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

**Operations conducted during this period**
For the operations conducted during this period, please consult the paragraph on "Significant events which occurred during the first half of 2017" in the Management Report.

**ASSOCIATED COMPANIES**

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

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

| Company name | Note | Headquarters | Currency | Share capital | Percentage held | | | Consolidated percentage |
|---|---|---|---|---|---|---|---|---|
| | | | | | Direct | Indirect | Total | |
| Immobiliare Del.Co. S.r.l. | | Solbiate Olona (ITA) | EUR | 24.000 | 30,00% | | 30,00% | 30,00% |
| Actis S.r.l. | | Calenzano (ITA) | EUR | 10.200 | 12,00% | | 12,00% | 12,00% |
| Elesta S.r.l. | | Calenzano (ITA) | EUR | 110.000 | 50,00% | | 50,00% | 50,00% |
| Chutian (Tiajin) Laser Technologies Co.,Ltd | 1 | Tianjin (CHINA) | CNY | 2.000.000 | | 41,00% | 41,00% | 21,79% |
| Quanta Aesthetic Lasers Usa, LLC | 2 | Englewood (USA) | USD | 500.200 | | 19,50% | 19,50% | 19,50% |
| Accure LLC | 3 | Delaware (USA) | USD | 1.000 | | 43,82% | 43,82% | 43,82% |

(1) owned by Penta Chutian Laser (Wuhan) Co. Ltd (41%)
(2) owned by BRCT (19,50%)
(3) owned by Accure Quanta (43,82%)

**Operations conducted during this period**
For the operations conducted during this period, please consult the paragraph on "Significant events which occurred during the first half of 2017" in the Management Report.

**EQUITIES IN OTHER COMPANIES**

For the operations conducted during this year, please refer to the description given in the paragraph "Significant events which occurred during 2017" in the Management Report.

**TREASURY STOCK**

The resolution approved by the shareholders' meeting of the Parent Company El.En. S.p.A on April 28th 2015 authorizing the Board of Directors to purchase treasury stock expire definitively in October of 2016 without any purchases having been made. Consequently, El.En. S.p.A. does not possess any treasury stock.

# STANDARDS OF CONSOLIDATION

The half-yearly accounting statements used for the consolidation represent the half-yearly accounting reports as of June 30th 2017 for 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.
In drawing up the consolidated financial statement the assets and liabilities, the income and charges of the companies included in the area of consolidation have all been included. We have not included the payables and receivables, income and charges, profits and losses which have been generated by transactions made between the consolidated companies.
The book value of the equity in each of the subsidiaries is eliminated in the place of the corresponding portion of the shareholders' equity of each of the subsidiaries including the final adaptation at fair value on the date of purchase; the difference which emerges, if it is in the black (positive), is treated as goodwill, and as such is entered into accounts, in accordance with IFRS 3, as illustrated below. If it is in the red (negative) it is entered directly into the Income Statement.
The amount of capital and reserves of subsidiary companies corresponding to equities of third parties is entered under a heading of the shareholders' equity titled "Capital and Reserves of third parties"; the portion of the consolidated economic result which corresponds to the equities of third parties is entered into accounts under the heading "Income (loss) this year pertaining to third parties".

# TRANSACTIONS IN FOREIGN CURRENCY

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

# CONSOLIDATION OF FOREIGN CURRENCY

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

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

| | Exchange Rate | Average exchange rate | Exchange Rate |
|---|---|---|---|
| **Currencies** | **31/12/2016** | **30/06/2017** | **30/06/2017** |
| USD | 1,05 | 1,08 | 1,14 |
| Yen | 123,40 | 121,78 | 127,75 |
| Yuan | 7,32 | 7,44 | 7,74 |
| Real | 3,43 | 3,44 | 3,76 |

# USE OF ESTIMATES

In applying the IFRS, the drawing up of the Consolidated half-yearly 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. 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.

# STOCK OPTION PLAN

***El.En. S.p.A.***

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

| | Max. expiration date | Outstanding options | Options issued | Options cancelled | Options exercised | Expired option not exercised | Outstanding options | Exercisable options | Exercise price |
|---|---|---|---|---|---|---|---|---|---|
| | | 01/01/2017 | 01/01/2017 - 30/06/2017 | 01/01/2017 - 30/06/2017 | 01/01/2017 - 30/06/2017 | 01/01/2017 - 30/06/2017 | 30/06/2017 | 30/06/2017 | |
| Plan 2016-2025 | 31-dic-25 | | 800.000 | | | | 800.000 | | € 12,72 |

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

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

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

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

During 2017 the average price recorded for El.En. stock was about 27,31 Euros.

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

# *Information on the Consolidated Statement of financial position - Assets*

## *Non-current assets*

### *Intangible assets (note 1)*

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

| | 31/12/2016 | Increase | Decrease | Revaluation / Devaluation | Other movements | Depreciation | Translation adjustment | 30/06/2017 |
|---|---|---|---|---|---|---|---|---|
| Goodwill | 3.038.065 | | | | | | | 3.038.065 |
| Research and development costs | 99.219 | | | | 1 | -35.051 | | 64.169 |
| Patents and rights to use patents of others | 39.418 | 3.362 | | | | -11.097 | | 31.683 |
| Concessions, licences, trade marks and similar rights | 216.170 | 166.149 | | | 2 | -66.627 | -2.672 | 313.022 |
| Other intangible assets | 36.220 | 37.789 | | | -1 | -14.998 | | 59.010 |
| Intangible assets under construction and advance payments | 466.583 | 184.222 | | | -61.137 | | | 589.668 |
| Total | **3.895.675** | **391.522** | | | **-61.135** | **-127.773** | **-2.672** | **4.095.617** |

## Goodwill

Goodwill, which constitutes the most significant component of the intangible fixed assets, represents the excess of the purchase cost with respect to the fair value of the assets acquired net of the current and potential liabilities assumed. Goodwill is not subject to amortization and is subject to an impairment test at least once a year.

At the end of each impairment test, the single entries of goodwill have been placed in the respective "*cash generating unit*" (CGU) which has been identified. The identification of the CGU coincides with each juridical subject and corresponds to what the directors envision as their own activity.

The following chart shows the book value of goodwill for each "*Cash generating unit":*

| *CASH GENERATING UNIT (CGU)* | Goodwill 30/06/2017 | Goodwill 31/12/2016 |
|---|---|---|
| Quanta System S.p.A. | 2.079.260 | 2.079.260 |
| ASA S.r.l. | 439.082 | 439.082 |
| Cutlite Penta S.r.l. | 415.465 | 415.465 |
| Asclepion Laser Technologies GmbH | 72.758 | 72.758 |
| Deka MELA S.r.l. | 31.500 | 31.500 |
| **Total** | **3.038.065** | **3.038.065** |

It should be recalled that, at the end of last year, the recoverable value of the CGUs shown in note (1) of the explanatory Notes of the consolidated financial statement closed on December 31st 2016 was subject to an impairment test for the purpose of verifying the existence of any losses in value by comparing the accounting value of the unit with the useful value, i.e., the present value of the expected future financial flows which we suppose will be derived from the continued use and eventual discontinuation of the unit and the end of its useful life. For the results of the test, please consult the previously mentioned note (1).
On the basis of the results obtained from the CGUs during the first half of 2017, the results are aligned with the prospective plans prepared for purposes of the impairment test on December 31st 2016 and no impairment indicators were found which, as of the date of this half-yearly statement, would make further tests necessary in order to verify the existence of any losses of long duration.

## Other intangible fixed assets

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

## *Tangible fixed assets (note 2)*

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

| **Cost** | **31/12/2016** | **Increase** | **(Disposals)** | **Revaluation / Devaluation** | **Other movements** | **Translation adjustment** | **30/06/2017** |
|---|---|---|---|---|---|---|---|
| Lands | 5.355.886 | 56.871 | | | 3.430.195 | -71.242 | 8.771.710 |
| Buildings | 24.881.676 | 58.728 | | | | -308.872 | 24.631.532 |
| Plants & machinery | 7.646.225 | 82.617 | -2.405 | | 1 | -99.628 | 7.626.810 |
| Industrial and commercial equipment | 12.347.825 | 364.608 | -512.720 | | -1 | -59.743 | 12.139.969 |
| Other assets | 9.661.431 | 578.610 | -238.173 | | -1 | -126.792 | 9.875.075 |
| Tangible assets under construction and advance payments | 3.744.087 | 102.737 | -1.900 | | -3.430.196 | -196.012 | 218.716 |
| Total | **63.637.130** | **1.244.171** | **-755.198** | | **-2** | **-862.289** | **63.263.812** |

| **Accumulated depreciation** | **31/12/2016** | **Depreciations** | **(Disposals)** | **Revaluation / Devaluation** | **Other movements** | **Translation adjustment** | **30/06/2017** |
|---|---|---|---|---|---|---|---|
| Lands | | | | | | | |
| Buildings | 4.879.775 | 375.841 | | | | -8.730 | 5.246.886 |
| Plants & machinery | 3.953.682 | 300.376 | -1.620 | | | -25.523 | 4.226.915 |
| Industrial and commercial equipment | 9.871.367 | 539.605 | -436.828 | | -1 | -50.495 | 9.923.648 |
| Other assets | 5.316.046 | 567.010 | -133.949 | | | -68.356 | 5.680.751 |
| Tangible assets under construction and advance payments | | | | | | | |
| Total | **24.020.870** | **1.782.832** | **-572.397** | | **-1** | **-153.104** | **25.078.200** |

| **Net value** | **31/12/2016** | **Increase** | **(Disposals)** | **Revaluation / Devaluation / Depreciations** | **Other movements** | **Translation adjustment** | **30/06/2017** |
|---|---|---|---|---|---|---|---|
| Lands | 5.355.886 | 56.871 | | | 3.430.195 | -71.242 | 8.771.710 |
| Buildings | 20.001.901 | 58.728 | | -375.841 | | -300.142 | 19.384.646 |
| Plants & machinery | 3.692.543 | 82.617 | -785 | -300.376 | 1 | -74.105 | 3.399.895 |
| Industrial and commercial equipment | 2.476.458 | 364.608 | -75.892 | -539.605 | | -9.248 | 2.216.321 |
| Other assets | 4.345.385 | 578.610 | -104.224 | -567.010 | -1 | -58.436 | 4.194.324 |
| Tangible assets under construction and advance payments | 3.744.087 | 102.737 | -1.900 | | -3.430.196 | -196.012 | 218.716 |
| Total | **39.616.260** | **1.244.171** | **-182.801** | **-1.782.832** | **-1** | **-709.185** | **38.185.612** |

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 lands on June 30th 2017 was 8.772 thousand Euros.

The amount entered under the column of "other movements" is related to the purchase of land by the subsidiary Penta-Laser Equipment (Wenzhou) which was entered on December 31st 2016 among the tangible assets under construction.

The heading of "Buildings" includes the building complex in Via Baldanzese a Calenzano (Florence), where the Parent Company operates along with the subsidiaries Deka M.E.L.A. Srl, Cutlite Penta Srl, Esthelogue Srl, Pharmonia Srl and Merit Due Srl, the building in the city of Torre Annunziata purchased in 2006 for the research, development and production activities of the subsidiary Lasit SpA, the building in Jena, Germany which since May of 2008 houses the activities of the subsidiary Asclepion GmbH, 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, and the new factory owned by the subsidiary Penta Laser Equipment (Wenzhou) on which work was completed last year.

The heading of "Plants and machinery" refers mainly to the investments made by Asclepion GmbH, by Penta Laser Equipment (Wenzhou) Co Ltd, Quanta System SpA, Cutlite Penta S.r.l. and the Parent Cmpany, El.En. SpA.

The heading of "Industrial and commercial equipment" refers mainly to El.En. and the subsidiaries With Us, Asclepion GmbH, Quanta System SpA, Lasit S.p.A., Cutlite Penta Srl, Deka Japan, Esthelogue and Deka Mela; for this latter it should be recalled that in the past we have capitalized the costs of some of the machinery sold to the clientele using operative leasing. These sales, in fact, were considered as revenue for multi-year rentals in conformity with IAS/IFRS standards.

The increases under the heading of "Other assets" refer mainly to purchases of furniture and electronic equipment.

In the category of "Tangible assets under construction and advance payments" we have included, among other things, the costs sustained by the subsidiary Asclepion GmbH for the new building.
As mentioned above, the amount entered under the heading of "other movements" refers to the transfer in the category of "buildings" of the costs sustained for the construction of a new factory by the subsidiary Penta-Laser Equipment (Wenzhou).

## *Equity investments (note 3)*

The chart below provides information on the equity investments:

| | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| Equity investment in associated companies | 2.997.146 | 3.222.303 | -225.157 | -6,99% |
| Other equity investments | 603.068 | 595.468 | 7.600 | 1,28% |
| Total | **3.600.214** | **3.817.771** | **-217.557** | **-5,70%** |

***Equities in associated companies***

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

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

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

| | | |
|---|---|---|
| Immobiliare Del.Co. S.r.l.: | 247 | Thousand Euros |
| Actis S.r.l.: | 1 | Thousand Euros |
| Elesta S.r.l.: | 590 | Thousand Euros |
| Quanta Aesthetic Laser USA, LLC: | 2.183 | Thousand Euros |
| Chutian (Tianjin) Lasertechnology Co, Ltd: | 100 | Thousand Euros |
| Accure LLC: | -124 | Thousand Euros |

*Quanta USA LLC:* the value of the equity includes goodwill for the amount of 2,3 million US dollars.
At the end of last year the recoverable value of the CGU was subjected to an impairment test for the purpose of verifying the existence of any losses in value by comparing the accounting value of the unit with the use value, i.e., the present value of the expected future financial flows which we suppose will be derived from the continued use of the unit and the eventual discontinuation of it at the end of its useful life. For the results of the test, please consult note (3) of the explanatory notes of the consolidated financial statement closed on December 31st 2016.
On the basis of the CGU results registered for the first half of 2017 no significant impairment indicators were found which, as of the date of this half-yearly report would make it necessary to conduct further test to determine the existence of long lasting losses in value.

**Equities in other companies**

For the transactions conducted during this period, please refer to the description contained in the paragraph titled "Significant events which occurred in the first half of 2017" in the Management Report for 2017.

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

| *Other non current assets* | **30/06/2017** | **31/12/2016** | **Variation** | **Var. %** |
|---|---|---|---|---|
| Financial receivables - third parties | 25.483 | 32.688 | -7.205 | -22,04% |
| Deferred tax assets | 6.702.103 | 6.525.995 | 176.108 | 2,70% |
| Other non current assets | 11.953.258 | 10.848.763 | 1.104.495 | 10,18% |
| Total | **18.680.844** | **17.407.446** | **1.273.398** | **7,32%** |

The category of "Other non-current assets" is related to the temporary use of cash by the Parent Company El.En. SpA for life insurance policies which have as a basis a separate management of securities with capital guaranteed and with the possibility of cashing them in either partially or entirely for the duration of the contract on the condition that at least a year has passed since the policy was stipulated.
Since this is a mid-term investment the company decided to classify it among the non-current assets held for sale booking the fair value 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.
The deferred tax assets amount to about 6.702 thousand Euros and refer mostly to the obsolescence fund, to the variation in the inter-group profits on end of the period inventory, to the bad debts reserve, to the product guarantee fund and to grants received by the subsidiary Penta Laser Equipment (Wenzhou) Co Ltd.

# Current Assets

## Inventory (note 5)

The chart below shows a breakdown of the inventory:

| | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| Raw materials, consumables and supplies | 31.822.764 | 32.100.873 | -278.109 | -0,87% |
| Work in progress and semi finished products | 18.456.087 | 16.314.365 | 2.141.722 | 13,13% |
| Finished products and goods | 16.213.198 | 13.723.050 | 2.490.148 | 18,15% |
| Total | **66.492.049** | **62.138.288** | **4.353.761** | **7,01%** |

The final inventory amounted to about 66.492 thousand Euros, an increase of about 7% with respect to the 62.138 thousand Euros registered on December 31st 2016, which reflects the increase in the volume of business for the period.

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

| | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| Gross amount of Inventory | 78.231.570 | 73.277.405 | 4.954.165 | 6,76% |
| Devaluation provision | -11.739.521 | -11.139.117 | -600.404 | 5,39% |
| Total | **66.492.049** | **62.138.288** | **4.353.761** | **7,01%** |

The obsolescence fund is calculated so as to align the stock value with the presumed selling price and recognizing, where necessary the obsolescence and slow rotation.
The amount in the fund increased by about 600 thousand Euros this half and its incidence on the gross value of the inventory remained substantially the same, falling from 15,2% on December 31st 2016 to 15,0% on June 30th 2017.

## Accounts receivable (note 6)

Receivables are composed as follows:

| | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| Accounts receivable from third parties | 70.143.811 | 61.185.150 | 8.958.661 | 14,64% |
| Accounts receivable from associated | 1.282.707 | 1.260.495 | 22.212 | 1,76% |
| Total | **71.426.518** | **62.445.645** | **8.980.873** | **14,38%** |

| *Accounts receivable from third parties* | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| Italy | 28.216.104 | 24.435.904 | 3.780.200 | 15,47% |
| EEC | 7.615.368 | 7.197.204 | 418.164 | 5,81% |
| ROW | 40.235.088 | 35.868.047 | 4.367.041 | 12,18% |
| minus: allowance for doubtful accounts | -5.922.749 | -6.316.007 | 393.258 | -6,23% |
| Total | **70.143.811** | **61.185.150** | **8.958.663** | **14,64%** |

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

| | 2017 |
|---|---|
| **At the beginning of the period** | 6.316.007 |
| Provision | 343.627 |
| Amounts utilized and Unused amounts reversed | -703.962 |
| Translation adjustment | -32.923 |
| **At the end of the period** | **5.922.749** |

## *Tax receivables/Other receivables (note 7)*

The chart below shows a breakdown of tax receivables and other receivables:

| | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| *Tax receivables* | | | | |
| VAT receivables | 4.174.069 | 4.351.545 | -177.476 | -4,08% |
| Income tax receivables | 2.166.462 | 861.174 | 1.305.288 | 151,57% |
| Total | **6.340.531** | **5.212.719** | **1.127.812** | **21,64%** |
| | | | | |
| *Current financial receivables* | | | | |
| Financial receivables - third parties | 159.454 | 149.849 | 9.605 | 6,41% |
| Financial receivables – associated | 127.285 | 457.481 | -330.196 | -72,18% |
| Total | **286.739** | **607.330** | **-320.591** | **-52,79%** |
| *Other current receivables* | | | | |
| Security deposits | 277.611 | 276.582 | 1.029 | 0,37% |
| Advance payments to suppliers | 4.064.675 | 3.840.092 | 224.583 | 5,85% |
| Other receivables | 4.028.361 | 3.840.026 | 188.335 | 4,90% |
| Total | **8.370.647** | **7.956.700** | **413.947** | **5,20%** |
| | | | | |
| Total Current financial receivables e Other current receivables | **8.657.386** | **8.564.030** | **93.356** | **1,09%** |

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

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

## *Securities and other current financial investments (note 8)*

| | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| *Securities and other current financial assets* | | | | |
| Other current financial assets | 499.364 | | 499.364 | |
| Total | **499.364** | | **499.364** | |

The amount entered under the heading of “Other current financial assets” 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 June 30th 2017 with value adjustment entered in the income statement.

## *Cash and cash equivalents (note 9)*

Cash and cash equivalents are composed as follows:

| | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| Bank and postal current accounts | 81.887.840 | 97.547.718 | -15.659.878 | -16,05% |
| Cash on hand | 44.330 | 41.727 | 2.603 | 6,24% |
| Total | **81.932.170** | **97.589.445** | **-15.657.275** | **-16,04%** |

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

## *Net financial position as of June 30th 2017*

The net financial position of the Group as of June 30th 2017 is as follows: (data in thousands of Euros):

| **Net financial position** | **30/06/2017** | **31/12/2016** |
|---|---|---|
| Cash and bank | 81.932 | 97.589 |
| Financial instruments | 499 | 0 |
| **Cash and cash equivalents** | **82.432** | **97.589** |
| **Current financial receivables** | **159** | **150** |
| Bank short term loan | (8.238) | (7.991) |
| Part of financial long term liabilities due within 12 months | (998) | (2.621) |
| **Financial short term liabilities** | **(9.237)** | **(10.613)** |
| **Net current financial position** | **73.354** | **87.127** |
| Bank long term loan | (3.786) | (1.231) |
| Other long term financial liabilities | (2.775) | (3.111) |
| **Financial long term liabilities** | **(6.561)** | **(4.342)** |
| **Net financial position** | **66.794** | **82.784** |

The net financial position of the Group decreased by about 16 million with respect to the closure of 2016.
The use of cash during this period was determined mainly by the increase in working capital which was required to sustain the rapid growth of the Group. In fact, the increase in working capital was due to the activity in the industrial sector in China which doubled with respect to the first half of last year, and represents an investment which is necessary to sustain the development of their activities.
Internal growth is the strategic option which the Group has chosen with current expenses for research and development and marketing promotions which are entered in the income statement which consequently temporarily reduces the operating profitability, and technical investments for the factories; the increase in working capital is the other significant entry among the investments for sustaining growth.
During the first half dividends were paid to third parties for a total amount of about 8,5 million Euros, mostly by the Parent Company El.En. which paid dividends for about 7,7 million Euros.
It should also be recalled that 11,5 million Euros cash, 1 million of which was invested during this half, was invested in financial instruments of the insurance type which, because of their particular characteristics, must be entered among the non-current financial assets; even though they represent a use of cash, this amount is not part of the net financial position.

# *Information on the Consolidated Statement of financial position - Liabilities*

## *Share Capital and Reserves*

The main components of the shareholders' equity are shown below:

## *Share Capital* (note 10)

As of June 30th 2017, the capital stock of the El.En Group, which coincides with that of the Parent Company, was as follows:

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

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

| *Category* | **30/06/2016** | **Increase** | **Decrease** | **30/06/2017** |
|---|---|---|---|---|
| No. of Ordinary Shares | 19.297.472 | 0 | 0 | 19.297.472 |
| *Total* | **19.297.472** | **0** | **0** | **19.297.472** |

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

In compliance with the resolution voted by the extraordinary shareholders' meeting of the Parent Company El.En. S.p.A. on May 12th 2016, starting on May 30th 2016 the splitting operations began on 4.824.368 ordinary shares by means of the cancellation of the ordinary shares having a nominal value of 0,52 Euros and the assigning of newly issued ordinary shares with a nominal value of 0,13 Euros each.
The stock split took place on June 1st 2016 with 4 new ordinary El.En. SpA shares for every old ordinary El.En. SpA. share.
The share capital remains unchanged for an overall amount of Euros 2.508.671,36, and consequently it is represented by 19.297.472 ordinary shares for a nominal value of 0,13 Euros each.

*Increase in share capital in the stock option plan service*

The extraordinary shareholders' meeting of the Parent Company El.En. SpA which was held on May 12th 2016 voted to assign to the Board of Directors, in compliance with art. 2443 II sub-section of the Civil Code, the faculty, for a period of five years after the approval, to increase the share capital one or more times, to a maximum amount of 104.000,00 nominal Euros, by issuing new shares to be used for underwriting by the beneficiaries of the stock option plan for 2016-2025.

On September 13th 2016 the Board of Directors of the Company, following a proposal by the Remuneration Committee, voted to activate the stock option plan for the period 2016-2025 implementing the mandate that had been conferred on them by the above mentioned shareholders' meeting and establishing the beneficiaries of the plan, the number of options assigned, the periods of time in which they can be picked up.
The Board also proceeded to exercise the powers, totally and for the exclusive use of the Stock Option Plan, conferred to them in compliance with art 2443, sub-section II, C.C. by the same Assembly, to increase, by payment, divisible and with the exclusion of the option rights in compliance with art. 2441, subsection V, C.C., the share capital by the amount of 104.000,00 Euros by issuing 800.000 ordinary shares which can be underwritten by the administrators, collaborators

and employees of El.En. S.p.A. and its subsidiaries, who have been assigned options according to the above mentioned plan.
The options can be picked up by the beneficiaries in conformity with the terms and conditions set out in the regulations of the plan approved definitively on September 13th in two equal sections: the first starting on September 14th 2019 and ending on December 31st 2025, and the second starting on September 14th 2020 and ending on December 31st 2025. The plan will end on December 31st 2025; the options that have not been picked up by that date will expire definitively and the capital will be considered definitively increased by the amount actually underwritten and approved on that date.

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

On June 30th 2017 the share premium reserve, coinciding with that of the Parent Company, amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2016.

## *Other reserves (note 12)*

| | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| Legal reserve | 537.302 | 537.302 | | 0,00% |
| Extraordinary reserve | 95.059.871 | 61.267.908 | 33.791.963 | 55,15% |
| Cumulative translation adjustment | -327.679 | -50.751 | -276.928 | 545,66% |
| Stock option reserve | 2.500.226 | 2.068.895 | 431.331 | 20,85% |
| Special reserve for grants received | 426.657 | 426.657 | | 0,00% |
| Other reserves | -101.251 | -112.713 | 11.462 | -10,17% |
| Total | **98.095.126** | **64.137.298** | **33.957.828** | **52,95%** |

As of June 30th 2017 the extraordinary reserve amounted to 95.060 thousand Euros; the increase with respect to December 31st 2016 is due to the allocation of part of the net income of the Parent Company El.En. SpA for the year 2016 in accordance with the resolution approved by the shareholders' meeting on May 15th 2017.

The "Stock options reserve" includes the amount of the costs determined in compliance with IFRS 2 for the Stock Option Plan assigned by El.En. S.p.A

The reserve for cumulative translation adjustments summarizes the effects of the variations in the exchange rates on investments in foreign currency. The effects for the first half of 2017 are shown in the column "Comprehensive (loss) income" of the Shareholders' Equity chart.

The reserve for contributions in capital account must be considered a reserve of profits and is unchanged with respect to 2016.

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

## *Treasury stock (note 13)*

As described in detail in the paragraph "Area of Consolidation" of this document, the shareholders' meeting of the Parent Company El.En. S.p.A. on April 28th 2015 authorized the Board of Directors to acquire treasury stock. This authorization expired in October 2016 without any treasury stock being acquired. Consequently, EL.En S.p.A does not possess any treasury stock.

## *Retained earnings/(accumulated deficit) (note 14)*

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

# Non-current liabilities

# Severance indemnity (note 15)

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

| 31/12/2016 | Provision | (Utilization) | Payment to complementary pension forms, to INPS fund and other movements | 30/06/2017 |
|---|---|---|---|---|
| 3.860.583 | 722.470 | -103.692 | -528.026 | 3.951.335 |

The severance indemnity represents an indemnity which is matured by the employees during their period of employment and which is paid upon termination of employment.

For IAS purposes the payment of a severance indemnity represents a “long term benefit subsequent to the termination of employment”; this is an obligation of the “defined benefit” type which entails entering a liability similar to that entered for defined benefit pension plans.
As far as the companies located in Italy are concerned, after the modifications to the severance indemnity in conformity with the Law of December 27th 2006 (and later modifications), for IAS 19 purposes, only the liability relative to the matured severance provision left in the company has been evaluated because the quota maturing has been paid to a separate entity (complementary pension type). Also for employees who have explicitly decided to keep the indemnity provision in the company, the indemnity matured since January 1st 2007 has been paid into the treasury fund managed by INPS. This provision, according to the financial law 2007, guarantees the employees working in the private sector the payment of the severance indemnity for the amount corresponding to the payments deposited to the latter.

The present value of the liabilities for the severance fund that remains in the companies of the Group as of June 30th 2017 is 3.917 thousand Euros.

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

| Financial hypotheses | Year 2016 | Year 2017 |
|---|---|---|
| Annual implementation rate | 1,31% | 1,67% |
| Annual inflation rate | 0,5% (from 2017 to 2020)<br>1% (from 2021 to 2023)<br>1,5% (for the remainder of the projection period) | 1,50% |
| Annual increase rate of salaries (including inflation) | Executives 2,00%<br>White collar workers 0,50%<br>Blue collar workers 0,50% | Dirigenti 2,00%<br>Impiegati/quadri 0,50%<br>Operai 0,50% |

The interest rate used to determine the present value of the liability was based on the rate of iBoxx AA 10+ for the amount of 1,67% 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.

## *Other accruals (note 16)*

The chart below shows the operations made with other accruals during this half:

| | 31/12/2016 | Provision | (Utilization) | Altri movimenti | Translation adjustment | 30/06/2017 |
|---|---|---|---|---|---|---|
| Reserve for pension costs and similar | 879.676 | 103.446 | -38.294 | | | 944.828 |
| Warranty reserve on the products | 2.219.152 | 227.260 | -140.779 | | -61.521 | 2.244.112 |
| Reserve for risks and charges | 415.469 | | -13.000 | | | 402.469 |
| **Total** | **3.514.297** | **330.706** | **-192.073** | | **-61.521** | **3.591.409** |

The clients' agents' indemnity fund which is included under the heading of "Reserve for pension costs and similar" on June 30th 2017 amounted to about 908 thousand Euros, as opposed to the 839 thousand Euros shown on December 31st 2016.
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 2016 | Year 2017 |
|---|---|---|
| Annual implementation rate | 1,31% | |
| Annual inflation rate | 0,5% (from 2017 to 2020) | 1,67% |
| | 1% (from 2021 to 2023) | 1,50% |
| | 1,5% (for the remainder of the projection period) | |

The reserve for product guarantees is calculated on the basis of the costs for spare parts and servicing under warranty incurred in the previous financial year, adjusted to the volume of sales of the current financial year.

## *Financial debts and liabilities (note 17)*

| Financial m/l term debts | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| Amounts owed to banks | 3.785.526 | 1.231.152 | 2.554.374 | 207,48% |
| Amounts owed to leasing companies | 1.608.533 | 1.872.133 | -263.600 | -14,08% |
| Amounts owed to other financiers | 1.166.510 | 1.238.789 | -72.279 | -5,83% |
| Total | **6.560.569** | **4.342.074** | **2.218.495** | **51,09%** |

The mid- to long-term debts owed to banks as of June 30th 2017 mostly represent the amounts due after one year for:

a) bank financing which was granted to Asclepion GmbH for the construction of the building where the company is now operating and for sustaining their export activities;

b) bank financing granted to With Us as detailed below:

- 17.513 thousand Yen falling due on March 31st 2020 at the annual rate of 0,83%;
- 17.500 thousand Yen falling due on March 31st 2020 at the annual rate of 1,15%
- 75.000 thousand Yen falling due on February 28th 2022 at the annual rate of 0,60%;

c) bank financing granted to Penta-Laser Equipment Wenzhou Co. Ltd as detailed below:

- 7.500 thousand Rmb falling due on July 19th 2019 at the annual rate of 4,75%;
- 9.000 thousand Rmb falling due on 2nd August 2019 at the annual rate of 4,75%.

"Amounts owed to other financers" consist, among other things, in the quotas which are payable after one year for:

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

b) Financing issued by Mediocredito to the subsidiary Lasit for a research project for the amount of 272.000 at the annual rate of 0,36% to be paid back in annual installments starting in March 2018, last installment March 8th 2025;
c) Financing issued by Monte dei Paschi di Siena to the subsidiary Lasit for the purchase of motor vehicles for total of 114.000 Euros at the Euribor 6M + 2,75% rate to be paid back in installments each quarter starting in March 2017, last installment on September 30th 2021;
d) Facilitated financing for applied research (MILORD project), issued by FidiToscana to the Parent Company El.En. SpA for a total of 488.285,25 Euros, to be paid back in 6 half-yearly installments, last installment on October 31st 2022.

# *Current liabilities*

## *Financial debts (note 18)*

Below, a breakdown of the financial debts is given:

| *Financial short term debts* | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| Amounts owed to banks | 8.238.367 | 7.991.300 | 247.067 | 3,09% |
| Amounts owed to leasing companies | 587.872 | 610.035 | -22.163 | -3,63% |
| Amounts owed to other financiers | 368.230 | 1.734.919 | -1.366.689 | -78,78% |
| Total | **9.194.469** | **10.336.254** | **-1.141.785** | **-11,05%** |

| | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| Current liabilities for derivative financial instruments | 42.131 | 276.502 | -234.371 | -84,76% |
| Total | **42.131** | **276.502** | **-234.371** | **-84,76%** |

The heading of "Amounts owed to banks" is mainly composed of:
- debts for advance payments on invoices of the subsidiary Esthelogue Srl
- short-term quota on the financing granted to Asclepion (see note 17);
- short term quota on the financing contracted by With Us besides the brief term quotas referable to the same company (see note 17);
- bank financing granted to Asa Srl for a total of 300 thousand Euros, of which a residual 38 thousand Euros to finance the initial costs derived from the expansion of the company on the Chinese market, expiring on July 31st 2017 at the variable Euribor rate 3 months increate by a spread of 0,75;
- short-term bank financing granted to Penta-Laser Equipment Wenzhou Co for about 1.525 thousand Euros (corresponding to 11,8 million Yuan) with 5 million Yuan coming due in the month of May 2018 at the annual rate of 4,54% and 6,8 million Yuan in the month of February 2018 at the annual rate of 4,35% ;
- bank financing granted to Penta Chutian Laser (Wuhan) Co. Ltd for about 4,5 million Euros, corresponding to 35 milioni Yuan at the annual rate of 6,90%.
- financing granted to the subsidiary Quanta System SpA by Credem for a total of 1.000.000 Euros at the annual rate of 0,35% granted for operational needs.

The heading of "Amounts owed to other financiers" includes the amounts of the short-term quota of the financing described in the preceding note.

The heading of "Current liabilities for derivative financial instruments" includes the evaluation at fair value according to IAS 39 of the derivatives initiated by With Us. In particular:
- the subsidiary stipulated three currency rate 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 June 30th 2017 was 650.000 Euros, the fair value on June 30th was 14.320 Euros; the second contract falls due in March 2019, the nominal value on June 30th 2017 was 1.050.000 Euros, the fair value was – 56.320 Euros; the third contract falls due in August 2020, the nominal value on June 30th 2017 was 1.750.000 Euros, the fair value was –130 Euros.

## *Accounts payable (note 19)*

| | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| Accounts payable | 41.979.459 | 44.693.970 | -2.714.511 | -6,07% |
| Amounts owed to associated companies | 15.000 | | 15.000 | 0,00% |
| Total | **41.994.459** | **44.693.970** | **-2.699.511** | **-6,04%** |

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

## *Income tax payables /Other current payables (note 20)*

The income tax payables matured for some of the companies belonging to the Group on June 30th 2017 amounted to 2.391 thousand Euros and are entered net of the down payments and deductions.

The break-down of the other debts is shown on the chart below:

| | 30/06/2017 | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|
| Social security debts | | | | |
| Debts to INPS | 2.124.778 | 2.432.679 | -307.901 | -12,66% |
| Debts to INAIL | 96.119 | 168.105 | -71.986 | -42,82% |
| Debts to other Social Security Institutions | 336.138 | 373.716 | -37.578 | -10,06% |
| Total | **2.557.035** | **2.974.500** | **-417.465** | **-14,03%** |
| Other debts | | | | |
| Debts to the tax authorities for VAT | 753.492 | 792.649 | -39.157 | -4,94% |
| Debts to the tax authorities for withholding | 1.297.265 | 1.723.718 | -426.453 | -24,74% |
| Other tax liabilities | 55.648 | 71.876 | -16.228 | -22,58% |
| Debts to staff for wages and salaries | 9.986.467 | 8.457.284 | 1.529.183 | 18,08% |
| Down payments | 13.357.043 | 9.917.872 | 3.439.171 | 34,68% |
| Other debts | 10.734.012 | 11.134.373 | -400.361 | -3,60% |
| Total | **36.183.927** | **32.097.772** | **4.086.155** | **12,73%** |
| Total Social security debts e Other debts | **38.740.962** | **35.072.272** | **3.668.690** | **10,46%** |

The amounts owed to staff include, among other things, the debts for deferred salaries of personnel employed as of June 30th 2017.

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

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 factory and research and development.

# *Segment information-IFRS 8*

Within the El.En. Group, the segments that have been identified in application of IFRS 8 are the ones shown below along with the amounts shown in the financial statement associated with them.

| 30/06/2017 | | Total | Medical | Industrial | Other |
|---|---|---|---|---|---|
| Revenues | | 143.619 | 82.935 | 60.037 | 647 |
| Intersectorial revenues | | (742) | | (95) | (647) |
| **Net Revenues** | | 142.877 | 82.935 | 59.942 | |
| Other revenues and income | | 1.661 | 865 | 669 | 127 |
| **Gross Margin** | | 59.509 | 40.213 | 19.169 | 127 |
| | *Inc.%* | *41%* | *48%* | *32%* | *100%* |
| **Margin** | | 18.808 | 12.888 | 5.793 | 127 |
| | *Inc.%* | *13%* | *15%* | *10%* | *100%* |
| Not assigned charges | | 5.674 | | | |
| **EBIT** | | 13.134 | | | |
| Net financial income (charges) | | (2.204) | | | |
| Share of profit of associated companies | | (49) | (34) | (9) | (7) |
| Other Income (expense) net | | 0 | | | |
| **Income (loss) before taxes** | | 10.881 | | | |
| Income taxes | | 2.824 | | | |
| **Income (loss) before minority interest** | | 8.057 | | | |
| Minority interest | | 2.047 | | | |
| **Net income (loss)** | | 6.010 | | | |

| 30/06/16 | | Total | Medical | Industrial | Other |
|---|---|---|---|---|---|
| Revenues | | 120.882 | 80.521 | 39.740 | 621 |
| Intersectorial revenues | | (707) | | (86) | (621) |
| **Net Revenues** | | 120.176 | 80.521 | 39.654 | |
| Other revenues and income | | 1.869 | 490 | 335 | 1.044 |
| **Gross Margin** | | 53.264 | 39.420 | 12.800 | 1.044 |
| | *Inc.%* | *44%* | *49%* | *32%* | *100%* |
| **Margin** | | 18.367 | 15.542 | 1.780 | 1.044 |
| | *Inc.%* | *15%* | *19%* | *4%* | *100%* |
| Not assigned charges | | 4.843 | | | |
| **EBIT** | | 13.524 | | | |
| Net financial income (charges) | | (464) | | | |
| Share of profit of associated companies | | (100) | (102) | 1 | 1 |
| Other Income (expense) net | | 23.019 | | | |
| **Income (loss) before taxes** | | 35.979 | | | |
| Income taxes | | 4.656 | | | |
| **Income (loss) before minority interest** | | 31.323 | | | |
| Minority interest | | 1.029 | | | |
| **Net income (loss)** | | 30.293 | | | |

| 30/06/2017 | Total | Medical | Industrial | Other |
|---|---|---|---|---|
| Assets assigned | 222.536 | 120.441 | 102.095 | |
| Equity investments | 3.353 | 3.097 | 257 | |
| Assets not assigned | 74.021 | | | |
| Total assets | 299.910 | 123.538 | 102.352 | 0 |
| | | | | |
| Liabilities assigned | 82.570 | 27.039 | 55.531 | |
| Liabilities not assigned | 25.210 | | | |
| Total liabilities | 107.780 | 27.039 | 55.531 | 0 |

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

| 30/06/2017 | Total | Medical | Industrial | Other |
|---|---|---|---|---|
| Changes in fixed assets: | | | | |
| - assigned | (1.421) | (502) | (919) | |
| - not assigned | 191 | | | |
| Total | (1.231) | (502) | (919) | 0 |

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

# *Information on the consolidated Income Statement*

## *Revenue (note 21)*

The chart below shows the subdivision of the sales volume for the first half of 2017 among the various sectors of activity of the Group compared with the same subdivision for the same period last year and shows a good overall increase which is generated mainly by the rapid growth of the industrial sector.

| | 30/06/2017 | 30/06/2016 | Variation | Var. % |
|---|---|---|---|---|
| Medical | 82.934.711 | 80.523.321 | 2.411.390 | 2,99% |
| Industrial | 59.942.294 | 39.652.338 | 20.289.956 | 51,17% |
| *Total revenue* | **142.877.005** | **120.175.659** | **22.701.346** | **18,89%** |

## *Other income (note 22)*

The analysis of the other income is as follows

| | 30/06/2017 | 30/06/2016 | Variation | Var. % |
|---|---|---|---|---|
| Insurance refunds | 4.964 | 9.272 | -4.308 | -46,46% |
| Recovery of expenses | 635.706 | 466.064 | 169.642 | 36,40% |
| Capital gains on disposal of fixed assets | 39.499 | 32.345 | 7.154 | 22,12% |
| Other income | 980.701 | 1.360.596 | -379.895 | -27,92% |
| Grants related to income | | 450 | -450 | -100,00% |
| *Total* | **1.660.870** | **1.868.727** | **-207.857** | **-11,12%** |

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 127 thousand Euros and federal grants related both to the new production center and to the research projects for an amount of about 721 thousand Euros entered by the Chinese subsidiary Penta Laser Equipment Wenzhou Co. Ltd.

## *Costs for the purchase of goods (note 23)*

The analysis is shown on the following chart:

| | 30/06/2017 | 30/06/2016 | Variation | Var. % |
|---|---|---|---|---|
| Purchases of raw materials and finished products | 77.816.547 | 60.430.631 | 17.385.916 | 28,77% |
| Packagings | 644.624 | 690.537 | -45.913 | -6,65% |
| Shipping charges on purchases | 522.228 | 537.936 | -15.708 | -2,92% |
| Other purchase expenses | 229.150 | 335.740 | -106.590 | -31,75% |
| Other purchases | 553.681 | 337.499 | 216.182 | 64,05% |
| *Total* | **79.766.230** | **62.332.344** | **17.433.886** | **27,97%** |

The costs for the purchase of goods as of June 30th 2017 amounted to 79.766 thousand Euros as opposed to the 62.332 thousand Euros for the preceding half, showing an increase of 28%.

## *Direct services/ Other operating services and charges (note 24)*

Breakdown of this category is shown on the chart below:

| | 30/06/2017 | 30/06/2016 | Variation | Var. % |
|---|---|---|---|---|
| ***Direct services*** | | | | |
| Outsourced processing | 2.560.612 | 2.796.932 | -236.320 | -8,45% |
| Technical services | 349.028 | 425.973 | -76.945 | -18,06% |
| Shipment charges on sales | 1.421.778 | 1.211.875 | 209.903 | 17,32% |
| Commissions | 5.673.093 | 4.381.929 | 1.291.164 | 29,47% |
| Royalties | 1.590 | 30 | 1.560 | 5200,00% |
| Travel expenses for technical assistance | 464.606 | 470.635 | -6.029 | -1,28% |
| Other direct services | 237.063 | 530.364 | -293.301 | -55,30% |
| *Total* | **10.707.770** | **9.817.738** | **890.032** | **9,07%** |
| ***Other operating services and charges*** | | | | |
| Maintenance and technical assistance on equipment | 308.645 | 235.887 | 72.758 | 30,84% |
| Commercial services and consulting | 827.253 | 641.549 | 185.704 | 28,95% |
| Legal and administrative services and consulting | 733.295 | 620.825 | 112.470 | 18,12% |
| Audit fees | 162.162 | 148.282 | 13.880 | 9,36% |
| Insurances | 375.974 | 351.894 | 24.080 | 6,84% |
| Travel and accommodation expenses | 1.876.192 | 1.522.616 | 353.576 | 23,22% |
| Trade shows | 2.058.981 | 1.752.825 | 306.156 | 17,47% |
| Promotional and advertising fees | 2.359.891 | 1.907.676 | 452.215 | 23,71% |
| Expenses related to real estate | 1.018.840 | 942.615 | 76.225 | 8,09% |
| Other taxes | 143.369 | 123.595 | 19.774 | 16,00% |
| Vehicles maintenance expenses | 697.558 | 583.875 | 113.683 | 19,47% |
| Office supplies | 227.462 | 184.400 | 43.062 | 23,35% |
| Hardware and Software assistance | 305.278 | 253.165 | 52.113 | 20,58% |
| Bank charges | 167.565 | 156.355 | 11.210 | 7,17% |
| Leases and rentals | 1.192.801 | 1.123.292 | 69.509 | 6,19% |
| Salaries and indemnity to the Board of Directors and Board of Auditors | 1.149.228 | 1.410.500 | -261.272 | -18,52% |
| Temporary employment | 277.547 | 212.978 | 64.569 | 30,32% |
| Other services and charges | 4.095.189 | 3.274.078 | 821.111 | 25,08% |
| *Total* | **17.977.230** | **15.446.406** | **2.530.824** | **16,38%** |

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

The single most important entries under the heading of “Other operating services and charges” are represented by the promotional and publicity expenses, travel, trade show, while for the category of “Other services and charges” the main costs refer the cost for technical and scientific consultants for about 842 thousand Euros and research and development activities for about 536 thousand Euros. For the research and development activities and costs, please consult the relative paragraphs in the Management Report.

## *Staff costs (note 25)*

| | 30/06/2017 | 30/06/2016 | Variation | Var. % |
|---|---|---|---|---|
| Wages and salaries | 19.993.581 | 17.200.085 | 2.793.496 | 16,24% |
| Social security contributions | 4.881.673 | 4.317.527 | 564.146 | 13,07% |
| Severance indemnity | 697.288 | 662.713 | 34.575 | 5,22% |
| Staff costs for stock options | 346.413 | | 346.413 | 0,00% |
| Other costs | 143.334 | 70.629 | 72.705 | 102,94% |
| *Total* | **26.062.289** | **22.250.954** | **3.811.335** | **17,13%** |

The costs for personnel amounted to 26.062 thousand Euros and showed an increase of 17,13% with respect to the 22.251 thousand Euros for the same period last year. The increase is mainly due to the rise in the number of employees both in the Parent Company, the subsidiaries in Italy and abroad, which rose from 1042 on June 30th 2016 to 1.182 on June 30th 2017.

## *Depreciation, amortization and other accruals (note 26)*

The table below shows the breakdown for this category:

| | 30/06/2017 | 30/06/2016 | Variation | Var. % |
|---|---|---|---|---|
| Amortization of intangible assets | 127.773 | 121.187 | 6.586 | 5,44% |
| Depreciation of tangible assets | 1.782.832 | 1.487.396 | 295.436 | 19,86% |
| Accrual for bad debts | 223.512 | 7.190 | 216.322 | 3008,65% |
| Accrual for risks and charges | 201.042 | 427.290 | -226.248 | -52,95% |
| *Total* | **2.335.159** | **2.043.063** | **292.096** | **14,30%** |

The accrual for bad debts include some cautious write-downs on certain credit positions, the collection of which has slowed down.

## *Financial income and charges (note 27)*

The breakdown of the category is as follows:

| | 30/06/2017 | 30/06/2016 | Variation | Var. % |
|---|---|---|---|---|
| ***Financial income*** | | | | |
| Interests on bank and postal deposits | 222.939 | 121.383 | 101.556 | 83,66% |
| Dividends from other investments | 10.506 | | 10.506 | 0,00% |
| Financial income from associated companies | 6.351 | 2.192 | 4.159 | 189,74% |
| Interests from current securities and financial assets | 107.909 | 100.164 | 7.745 | 7,73% |
| Capital gain and other income from current securities and financial assets | | 51.752 | -51.752 | -100,00% |
| Other financial income | 58.846 | 51.941 | 6.905 | 13,29% |
| *Total* | **406.551** | **327.433** | **79.118** | **24,16%** |
| ***Financial charges*** | | | | |
| Interests on bank debts and on short term loans | 192.662 | 210.320 | -17.658 | -8,40% |
| Interests on bank debts and on other m/l term loans | 3.316 | 5.020 | -1.704 | -33,94% |
| Capital losses and other charges on current securities and financial assets | 606 | 899 | -293 | -32,59% |
| Other financial charges | 154.246 | 90.259 | 63.987 | 70,89% |
| *Total* | **350.830** | **306.498** | **44.332** | **14,46%** |
| ***Exchange gain (loss)*** | | | | |
| Exchange gains | 403.505 | 1.792.130 | -1.388.625 | -77,48% |
| Exchange losses | -2.899.427 | -1.754.966 | -1.144.461 | 65,21% |
| Gains on derivative financial instruments | 235.983 | | 235.983 | 0,00% |
| Losses on derivative financial instruments | | -522.328 | 522.328 | -100,00% |
| *Total* | **-2.259.939** | **-485.164** | **-1.774.775** | **365,81%** |

The "interests from current securities and financial assets" refers to the maturation of the interest on some insurance policies underwritten by the Parent Company.
The "interests on bank debts and on short term loans" refers mainly to overdrafts granted by credit institutions to some of the foreign subsidiaries.
The heading of "Other financial charges" includes about 25 thousand Euros for the interests owed due to the application of the accounting standard IAS 19 to the severance indemnity while the "Gains on derivative financial instruments" are related to the evaluation in compliance with IAS 39 of the currency swap rate derivative contracts stipulated by the subsidiary With Us.

## Other non-operating income and charges (note 28)

| | 30/06/2017 | 30/06/2016 | Variation | Var. % |
|---|---|---|---|---|
| ***Other non operating charges*** | - | - | | |
| *Total* | **-** | **-** | | |
| ***Other non operating income*** | | | | |
| Capital gains on equity investments | 74 | 23.017.522 | -23.017.448 | -100,00% |
| Other non recurring income | | 1.682 | -1.682 | -100,00% |
| *Total* | **74** | **23.019.204** | **-23.019.130** | **-100,00%** |

It should be recalled that in the month of April 2016 El.En. S.p.A. sold 998.628 shares of Cynosure Inc. stock (Nasdaq CYNO), at an average price of about 45,10 US dollars per share net of sales commissions, for a total of about 45 million US dollars. The gross consolidated capital gains registered in the income statement for this transaction was entered under the heading of "Capital gains on equity investments" for an amount of 23 million Euros.

## Income taxes (note 29)

Income taxes for this half amounted to 2,8 million Euros. The taxes due for this half have been calculated on the basis of the best estimate of the fiscal aliquots expected for the year 2017.

## Earnings per share (note 30)

The average weighted number of shares in circulation during this half remained constant and amounted to 19.297.472 ordinary shares. The earnings per share on June 30th 2017 were 0,31 Euros. The diluted earnings per share which takes into consideration also the stock options assigned last year, was 0,30 Euros.

## Dividends distributed (note 31)

The shareholders' meeting of El.En. SpA held on May 15th 2017 voted to distribute a dividend of 0,40 Euros for each of the 19.297.472 shares in circulation on the date the coupon came due. The dividend that was paid amounted to 7.718.988,80 Euros.

## Other components of the statement of comprehensive income (note 32)

It should be recalled that as of June 30th 2016 the entry in the category of "Unrealized gain (loss) on investment available for sale" (-23.776 thousand Euros) is related to the release of the reserve created for the evaluation at fair value (net of fiscal effects) of the remaining 998.628 Cynosure shares, which were sold in April 2016.

## Non-recurring significant, atypical and unusual events and operations (note 33)

In compliance with Consob Communication DEM/6064293 of July 28th 2006, we declare that during the first half of 2017 the Group did not conduct any significant non-recurring, atypical or unusual operations, as defined in the aforementioned Communication.

# *Information about related parties* (note 34)

All of the operations conducted with related parties cannot be qualified as atypical or unusual. These operations are regulated by ordinary market conditions.

In particular it should be noted that:

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 2017 are clearly shown in detail.
The prices for the transfer of goods are determined in accordance with what normally occurs on the market. The above mentioned inter-Group transactions therefore reflect the trends in market prices although they may differ slightly from them depending on the commercial policy of the Group.
The tables below show an analysis of the transactions which occurred between associated companies both as regards commercial exchanges as well as payables and receivables.

| | Financial receivables | | Accounts receivable | |
|---|---|---|---|---|
| **Associated companies:** | **< 1 year** | **> 1 year** | **< 1 year** | **> 1 year** |
| Actis Srl | 30.000 | | 6.988 | |
| Immobiliare Del.Co. Srl | 31.565 | | | |
| Elesta Srl | | | 322.153 | |
| Chutian (Tianjin) Laser Technology Co. Ltd | | | 16.382 | |
| Quanta Aesthetic Lasers USA, LLC | | | 935.201 | |
| Accure LLC | 65.720 | | 1.983 | |
| *Total* | 127.285 | - | 1.282.707 | - |

| | Financial payables | | Other payables | | Accounts payable | |
|---|---|---|---|---|---|---|
| **Associated companies:** | **< 1 year** | **> 1 year** | **< 1 year** | **> 1 year** | **< 1 year** | **> 1 year** |
| Actis Srl | | | | | 15.000 | |
| *Total* | - | - | - | - | 15.000 | - |

| **Associated companies:** | **Sales** | **Services** | **Total** |
|---|---|---|---|
| Actis Srl | 10.865 | | 10.865 |
| Elesta Srl | 181.638 | 1.932 | 183.570 |
| Quanta Aesthetic Lasers USA, LLC | 2.625.469 | 18.839 | 2.644.308 |
| *Total* | 2.817.972 | 20.771 | 2.838.743 |

| **Associated companies:** | **Other revenues** |
|---|---|
| Actis Srl | 4.027 |
| Quanta Aesthetic Lasers USA, LLC | 5.653 |
| *Total* | 9.680 |

| **Associated companies:** | **Purchase of raw materials** | **Services** | **Other** | **Total** |
|---|---|---|---|---|
| Actis Srl | 1.500 | 30.000 | | 31.500 |
| Quanta Aesthetic Lasers USA, LLC | 4.271 | 19.996 | | 24.267 |
| *Total* | 5.771 | 49.996 | - | 55.767 |

The amounts shown on the charts above refer to operations that are inherent to the ordinary operations of the Group.

The chart below shows the incidence that the operations with related parties has had on the economic and financial situation of the Group.

| Impact of related parties transactions | Total | related parties | Inc % |
|---|---|---|---|
| **Impact of related parties transactions on the statement of financial position** | | | |
| Equity investments | 3.600.214 | 2.997.146 | 83,25% |
| Receivables LT | 25.483 | - | 0,00% |
| Accounts receivable | 71.426.518 | 1.282.707 | 1,80% |
| Other current receivables | 8.657.386 | 127.285 | 1,47% |
| Non current financial liabilities | 6.560.569 | - | 0,00% |
| Current financial liabilities | 9.236.600 | - | 0,00% |
| Accounts payable | 41.994.459 | 15.000 | 0,04% |
| Other current payables | 38.740.962 | - | 0,00% |
| | | | |
| **Impact of related parties transactions on the income statement** | | | |
| Revenues | 142.877.005 | 2.838.743 | 1,99% |
| Other revenues and income | 1.660.870 | 9.680 | 0,58% |
| Purchase of raw materials | 79.766.230 | 5.771 | 0,01% |
| Direct services | 10.707.770 | - | 0,00% |
| Other operating services and charges | 17.977.230 | 49.996 | 0,28% |
| Financial charges | 350.830 | - | 0,00% |
| Financial income | 406.551 | 6.351 | 1,56% |
| Income taxes | 2.823.787 | | 0,00% |

# *Risk factors and Procedures for the management of financial risks (note 35)*

*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. in preceding years stipulated three derivatives of the type called "currency rate swap" in order to hedge the risk in currency exchange for purchases in Euro.

| ***Operation*** | *Notional value* | *Fair value* |
|---|---|---|
| Currency swap | € 650.000 | € 14.320 |
| Currency swap | € 1.050.000 | -€ 56.320 |
| Currency swap | € 1.750.000 | -€ 130 |
| **Total** | **€ 3.450.000** | **-€ 42.130** |

*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 8% of the total trade receivables from third parties. For an analysis of the due dates on trade receivables from third parties, please consult the relative note in the consolidated financial statement.

As far as guarantees granted to third parties are concerned:

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

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

The Chinese subsidiary Penta-Laser Equipment (Wenzhou) obtained two types of financing for the construction of the new factory and for the purchase of the equipment by taking out a mortgage for an overall amount of about 30 million RMB.

*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 36)*

### Fair value

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

| | Book value 30/06/2017 | Book value 31/12/2016 | Fair value 30/06/2017 | Fair value 31/12/2016 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Current financial receivables | 286.739 | 607.330 | 286.739 | 607.330 |
| Securities and other non-current financial assets | 11.954.241 | 10.846.332 | 11.954.241 | 10.846.332 |
| Securities and other current financial assets | 499.364 | - | 499.364 | - |
| Cash and cash equivalents | 81.932.170 | 97.589.445 | 81.932.170 | 97.589.445 |
| **Financial debts and liabilities** | | | | |
| Non current financial liabilities | 6.560.569 | 4.342.074 | 6.560.569 | 4.342.074 |
| Current financial liabilities | 9.236.600 | 10.612.756 | 9.236.600 | 10.612.756 |

### 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 June 30th, 2017 the Group holds the following securities evaluate at fair value:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investment contracts | | 11.954.241 | | 11.954.241 |
| Mutual funds | 499.364 | | | 499.364 |
| Currency swap | | -42.130 | | -42.130 |
| **Total** | **499.364** | **11.912.111** | **0** | **12.411.475** |

# *Other information (note 37)*

*Average number of employees*

| Personnel | Average of the period | 30/06/2017 | Average of previous period | 31/12/2016 | Variation | Var. % |
|---|---|---|---|---|---|---|
| Total | 1.138 | 1.182 | 1.029 | 1.093 | 89 | 8,14% |

***F or the Board of Directors***
Chief Executive Officer– Ing. Andrea Cangioli

# Declaration of the Half-yearly Condensed Financial Statement as of June 30th 2017 in conformity with art. 81-ter CONSOB regulation n. 11971 of May 14th 1999 and later modifications and additions

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

- the conformity in relation to the characteristics of the company and
- the actual application of the administrative and accounting procedures used in drawing up the consolidated financial statement, during the first half of 2017.

2. No significant aspects emerged concerning the above.

3. We also declare that:

3.1 this half-yearly condensed consolidated financial statement:

a) is drawn up in conformity with the applicable international accounting standards recognized by the European Union in conformity with Regulation (CE) n. 1606/2002 of the European Parliament and the Commission, in July 19th 2002;
b) corresponds to the figures in the ledgers and accounting books;
c) is suitable to supply a true and correct representation of the capital, economic and financial situation of the issuer and of the other companies included in the scope of consolidation.

3.2 The Management Report contains a reliable analysis of the important events of the first six months of this year and their impact on the half-yearly financial statement, together with a description of the principal risks and uncertainties to which they are exposed for the remaining six months of the year. The Management Report also contains a reliable analysis of the significant operations with related parties.

Calenzano, 5th September 2017

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

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# REPORT ON REVIEW OF THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**To the Shareholders of**
**El.En. S.p.A.**

## Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of El.En. S.p.A. and subsidiaries (the "El.En. Group"), which comprise the statement of financial position as of June 30, 2017, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six month period then ended and the related explanatory notes. The Directors are responsible for the preparation of the half-yearly condensed consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly condensed consolidated financial statements based on our review.

## Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of El.En. Group as of June 30, 2017 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

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

Florence, September 5, 2017

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