

# Quarterly Financial Report as of March 31<sup>st</sup> 2014



## **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

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

# **CORPORATE BOARDS OF THE PARENT COMPANY**

(as of the date of approval of the financials on March 31<sup>st</sup> 2014)

## **Board of Directors**

CHAIRMAN

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangioli

BOARD MEMBERS

Paolo Blasi

Michele Legnaioli

Stefano Modi

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.

**ELEN. GROUP**

**QUARTERLY MANAGEMENT  
REPORT**

**AS OF MARCH 31<sup>st</sup> 2014**

# Quarterly report

## Introduction

This quarterly report as of March 31<sup>st</sup> 2014 for the El.En. Group was drawn up in compliance with to Art. 154-ter of Legislative Decree 58/1998 and later modifications as well as the regulations for listed companies issued by Consob. This document contains the information usually included by the company in the preceding quarterly reports.

The information shown below has been drawn up in compliance with IAS/IFRS international accounting principles which have been obligatory since 2005 for the preparation of the consolidated financial statements of companies quoted on the regulated stock markets.

The task of examining the data and the information provided in this report has not been assigned to Independent auditors, because, as of this writing, it is not compulsory.

The quarterly results as of March 31<sup>st</sup> 2014 are shown in comparative form with those for the same quarter last year. All amounts are expressed in thousands of Euros unless otherwise indicated.

## Alternative Non-GAAP measures

In compliance with the CESR/05-178b recommendations regarding alternative performance indicators, the Group presents, as part of the Director's report, in addition to the financial measures required by the IFRS, some of the measures derived from these latter but not required by the IFRS (non – GAAP measures). These measures are defined here for the purpose of facilitating a better evaluation of the performance of the Group and should not be considered alternatives to those required by the IFRS.

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

- The **earnings before interests and income taxes** or EBIT represents an indicator of operating performance and is determined by adding to the Net Income (Loss) for the period: the income tax, the other net income and charges, the quota of the associated companies, the results of the financial items;
- the **"EBITDA"**, also represents an indicator of operating performance and is determined by adding to the EBIT, the amount of "Amortizations, depreciations and accruals";
- the **added value** is determined by adding to the EBITDA the "staff cost";
- the **gross margin** represents the indicator of the sales margin determined by adding to the Added Value the "Costs for operating services and charges".
- the **incidence** that the various entries in the income statement have on the sales volume.

As alternative performance indicators to evaluate its capacity to meet their financial obligations, the Group uses:

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

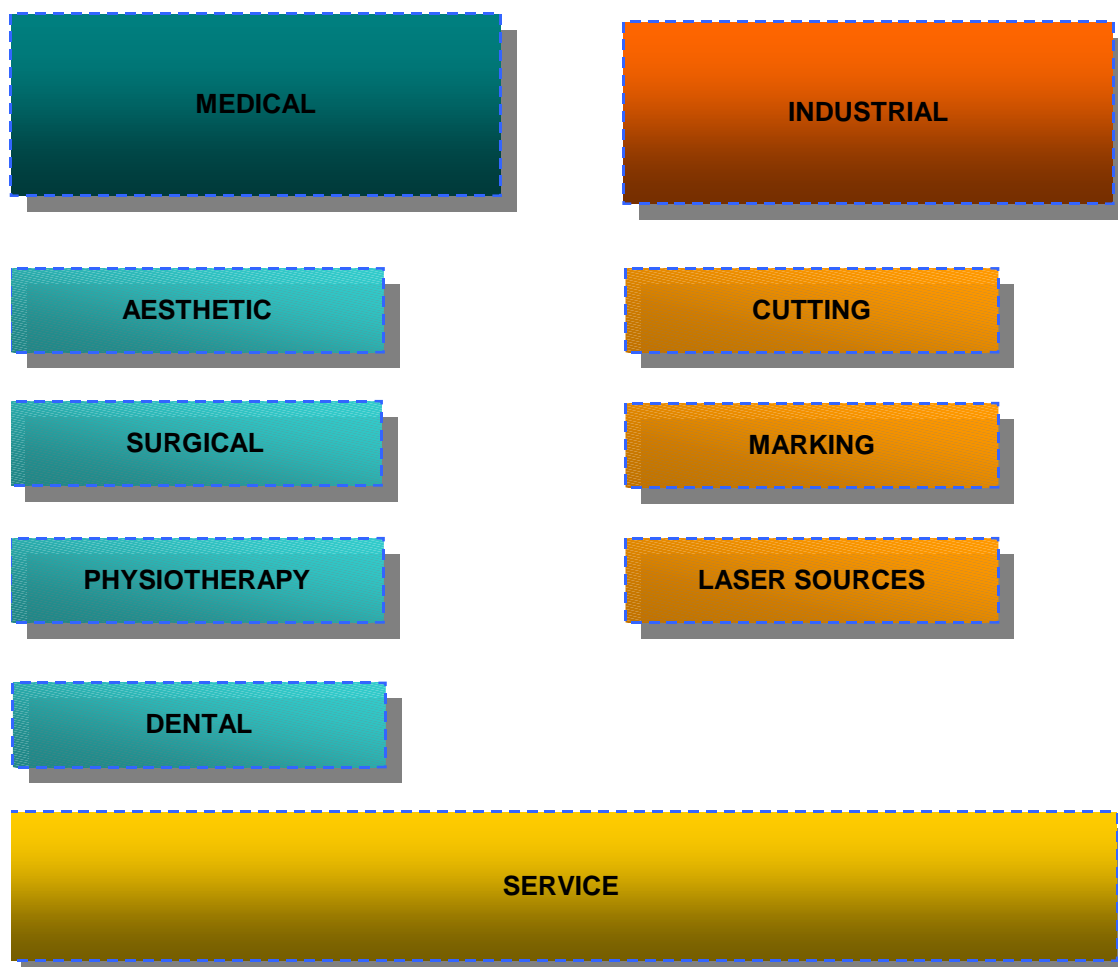
The alternative performance indicators are measures used by the company to monitor and evaluate the performance of the Group and they are not defined as accounting measures either in the Italian Accounting Standards or in the IAS/IFRS. Consequently, the determining criteria applied by the Group may not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

## Description of the activities of the Group

El.En. SpA controls a group of companies operating in the field of manufacture, research and development, distribution and sales of laser systems. The structure of the Group has been created over the years as a result of the founding of new companies and the acquisition of the control of others. Each company has a specific role in the general activities of the Group which is determined by the geographical area it covers, by its technological specialization or by the particular position within one of the merchandise markets served by the Group.

The Group conducts its activities in two major sectors: that of laser systems for medicine and aesthetics, and that of laser systems for manufacturing uses. In each of these two sectors the activities can be subdivided into different segments which are heterogeneous in the application required from the system and consequently for the underlying technology and the kinds of users. Within the activity sector of the Group, which is generally defined as the manufacture of laser sources and systems, the range of clients 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:



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

We believe that the tendency of the two main macro-markets to develop will continue to be favorable in the next few years thanks mainly to an increasing demand for medical and aesthetic treatments by an aging population that wants to appear younger, as well as the continuing need of manufacturers to have equipment with innovative and flexible technologies like laser instruments which are extremely receptive to innovation and optimization of industrial processes and products.

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

## Group financial highlights

On the 31<sup>st</sup> of March 2014 the Group registered income before taxes of 7.954 thousand Euros, an increase with respect to the 1.695 thousand Euros registered on March 31<sup>st</sup> of last year.

Before commenting in detail on the results for the first quarter of 2014, we wish to call attention to the three factors which determined these results.

In the first place, the sale of the Cynosure Inc. stock for a total of 23 million Euros and a consolidated gross capital gains of 4,5 million which consolidates the net financial position of the Group which was 43 million Euros at the closing of this quarter, and contributes to the results achieved for this financial period.

In second place, the underwriting of a settlement agreement with Palomar Inc., which has now merged with Cynosure Inc. and which, after a long dispute with the Group company, Asclepion Laser Technologies GmbH, finally approved the closure of all pending suits related to the patent rights on laser devices for hair removal manufactured by all the companies of the Group; this agreement had a beneficial effect on the EBIT thanks to the release of part of the reserves that had been set aside and which were 1.5 million more than the approx. 0,6 million which had been stipulated for the transaction.

Last but not least, the excellent results achieved with a consolidated sales volume which increased 12% over last year and the EBIT which, net of the benefits derived from the patent agreements, is already ahead of the forecasts made for 2014.

The macro-economic indicators remained substantially stable this quarter, which has certainly not been a favorable phase in any part of the world, but certainly better than some of the situations which we have dealt with in the recent past. During this phase the exchange rates of the currencies which interest us directly have not been subject to particular modifications. The American dollar, worth about 1,37 dollars per Euro and the Yen which is worth about 140 Yen per Euro, have remained at a level which penalizes us. The Yen, which has continued to fall after the new government was installed in 2012, makes exports to Japan less profitable but, above all, the American dollar gives the advantage to our main competitors since it is the currency that is the point of reference on all the other non-European markets and the currency in which our competitors sustain their expenses.

The strategy of the Group has always been to create a competitive advantage through technological innovation acquired by means of a systematic program of research for the development of new products or technical innovations and applications for pre-existing products. When there are technical innovations and new applications, the general difficulties of the market can be overcome by the unique characteristics of the product being offered, while in the more advanced phases of the life cycle of the products even a hi-tech activity like ours is subject to the ordinary market dynamics and pressures.

It should be recalled that, since 2013, the results of Cynosure (NASDAQ CYNO) are no longer wholly consolidated in the statements of the El.En. Group on account of the diminished influence of El.En. on the company after the increase in capital underwritten by Cynosure in November of 2012 and the acquisition of Palomar last June. This operation, which created in the state of Massachusetts one of the most important groups in the market of laser systems for medical and aesthetic applications, comported a reduction in El.En's quota of ownership due to the issuing by Cynosure of shares as half of the payment of the purchase price of about 300 million US dollars.



The chart below shows the income statement for the first quarter of 2014 shown in comparative form with the results for the same quarter last year.

Income Statement	31/03/14	Inc. %	31/03/13	Inc. %	Var. %
Revenues	37.570	100,0%	33.523	100,0%	12,1%
Change in inventory of finished goods and WIP	3.081	8,2%	2.185	6,5%	41,0%
Other revenues and income	438	1,2%	331	1,0%	32,6%
<b>Value of production</b>	<b>41.090</b>	<b>109,4%</b>	<b>36.038</b>	<b>107,5%</b>	<b>14,0%</b>
Purchase of raw materials	20.832	55,4%	17.468	52,1%	19,3%
Change in inventory of raw material	(1.291)	-3,4%	(883)	-2,6%	46,2%
Other direct services	3.247	8,6%	2.699	8,1%	20,3%
<b>Gross margin</b>	<b>18.301</b>	<b>48,7%</b>	<b>16.754</b>	<b>50,0%</b>	<b>9,2%</b>
Other operating services and charges	5.726	15,2%	6.089	18,2%	-6,0%
<b>Added value</b>	<b>12.575</b>	<b>33,5%</b>	<b>10.665</b>	<b>31,8%</b>	<b>17,9%</b>
For staff costs	9.129	24,3%	8.569	25,6%	6,5%
<b>EBITDA</b>	<b>3.446</b>	<b>9,2%</b>	<b>2.096</b>	<b>6,3%</b>	<b>64,4%</b>
Depreciation, amortization and other accruals	(182)	-0,5%	1.137	3,4%	
<b>EBIT</b>	<b>3.628</b>	<b>9,7%</b>	<b>959</b>	<b>2,9%</b>	<b>278,3%</b>
Net financial income (charges)	(109)	-0,3%	480	1,4%	
Share of profit of associated companies	2	0,0%	27	0,1%	-94,5%
Other Income (expense) net	4.433	11,8%	229	0,7%	1838,9%
<b>Income (loss) before taxes</b>	<b>7.954</b>	<b>21,2%</b>	<b>1.695</b>	<b>5,1%</b>	<b>369,1%</b>

The chart below shows the net financial position of the Group:

Net financial position	31/03/2014	31/12/2013
Cash and bank	64.238	42.868
Financial instruments	100	300
<b>Cash and cash equivalents</b>	<b>64.338</b>	<b>43.168</b>
<b>Short term financial receivables</b>	<b>626</b>	<b>1.383</b>
Bank short term loan	(13.076)	(13.612)
Part of financial long term liabilities due within 12 months	(2.229)	(2.151)
<b>Financial short term liabilities</b>	<b>(15.304)</b>	<b>(15.763)</b>
<b>Net current financial position</b>	<b>49.660</b>	<b>28.788</b>
Bank long term loan	(4.387)	(4.670)
Other long term financial liabilities	(2.180)	(2.299)
<b>Financial long term liabilities</b>	<b>(6.567)</b>	<b>(6.968)</b>
<b>Net financial position</b>	<b>43.093</b>	<b>21.820</b>

## Operational performance

The table below shows the sales volume for the first three months of 2014 divided by sector of activity of the Group compared with that for the same period last year.

	31/03/2014	Inc%	31/03/2013	Inc%	Var%
Industrial systems and lasers	9.125	24,29%	8.087	24,12%	12,85%
Medical and aesthetic lasers	21.918	58,34%	19.229	57,36%	13,99%
Service	6.527	17,37%	6.207	18,52%	5,15%
<b>Total</b>	<b>37.570</b>	<b>100,00%</b>	<b>33.523</b>	<b>100,00%</b>	<b>12,07%</b>

The sales volume shows a considerable increase at the consolidated level, with a growth of about 13% in the industrial sector thanks mainly to the sales in China and an increase of about 14% in the main sector, the medical one. There was an increase of about 5% in the post-sales service sector.

The chart below shows the sales volume for this quarter according to geographic distribution.

	31/03/2014	Inc%	31/03/2013	Inc%	Var%
Italy	8.550	22,76%	6.662	19,87%	28,34%
Europe	7.587	20,20%	8.218	24,52%	-7,68%
Rest of the world	21.433	57,05%	18.642	55,61%	14,97%
<b>Total</b>	<b>37.570</b>	<b>100,00%</b>	<b>33.523</b>	<b>100,00%</b>	<b>12,07%</b>

There was an excellent recovery in Italy, thanks mainly to the systems for flat cutting and marking in the industrial sector and to the aesthetic and medical systems. The sales volume dropped in Europe on account of the decreased market in certain countries, while, as evidence of the international stature of the company, the sales volume in the rest of the world increased significantly and represents more than half of the consolidated sales.

For the medical sector, which represents more than 58% of the sales of the Group, the results in the various segments are shown on the chart below:

	31/03/2014	Inc%	31/03/2013	Inc%	Var%
Surgical CO2	1.929	8,80%	2.217	11,53%	-12,99%
Physiotherapy	2.134	9,73%	1.805	9,38%	18,24%
Aesthetic	13.144	59,97%	11.295	58,74%	16,37%
Dental	271	1,24%	215	1,12%	26,14%
Other medical lasers	3.606	16,45%	2.864	14,90%	25,88%
Accessories	835	3,81%	833	4,33%	0,25%
<b>Total</b>	<b>21.918</b>	<b>100,00%</b>	<b>19.229</b>	<b>100,00%</b>	<b>13,99%</b>

Results for this quarter were very good in all the segments of the medical sector with the only exception being the flat trend in the sector of "Accessories" and the decrease in the CO<sub>2</sub> laser segment which can be attributed to the advanced stage in the life cycle of some of the basic products in this segment which, in fact, are now being renovated through the release of new models which have significant functional innovations. The aesthetic sector also showed excellent results in particular thanks to the applications for hair removal, body shaping, and tattoo removal, which represents more than half of the sales volume in this sector and grew over 16% this quarter. The residual segment "Other medical lasers" which includes systems for surgical applications and the importance of which has continued to increase for the Group,

also continued to grow. Brilliant results were also achieved by the therapy sector which is serviced by the products of ASA and with Hilt therapy. The dental sector is recovering slowly with very low sales volumes.

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

	31/03/2014	Inc%	31/03/2013	Inc%	Var%
Cutting	6.625	72,60%	4.859	60,08%	36,36%
Marking	2.302	25,23%	2.826	34,94%	-18,54%
Laser sources	139	1,52%	186	2,30%	-25,43%
Welding, other industrial systems	60	0,65%	216	2,67%	-72,46%
<b>Total</b>	<b>9.125</b>	<b>100,00%</b>	<b>8.087</b>	<b>100,00%</b>	<b>12,85%</b>

The overall results were good also in the industrial sector this quarter, with an increase in the main sector of cutting systems which completely offsets the small decreases in the other segments, including laser sources and restoration, which had a minor impact during this period.

For the first three months of 2014 the consolidated gross margin was 18.301 thousand Euros, an increase with respect to the 16.754 thousand Euros registered for March 31<sup>st</sup> 2013, while the incidence on the sales volume decreased from 50,0% to 48,7%.

It should be noted that, again in the first three months of 2014, although the Group cashed in the sale price, some of the sales financed by the clientele by means of operative leasing have been considered, in conformity with IAS/IFRS principles, as revenue from multi-year rentals; in any case the phenomenon had a limited effect on the period.

Costs for operating services and charges were 5.726 thousand Euros, a decrease since March 31<sup>st</sup> 2013 when they were 6.089 thousand Euros.

The cost for personnel was 9.129 thousand Euros, an increase of 6,5% with respect to the 8.569 thousand Euros registered for the same period last year, while the incidence on the sales volume decreased, falling from 25,6% on March 31<sup>st</sup> 2013 to 24,3% on March 31<sup>st</sup> 2014.

As of March 31<sup>st</sup> 2014 the Group had 881 employees, an increase over the 859 employees registered on December 31<sup>st</sup> 2013 and the 824 employees registered on March 31<sup>st</sup> 2013, mainly due to the employees hired by the Chinese subsidiaries.

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 registered into accounts on March 31<sup>st</sup> 2014 were 235 thousand Euros, an increase with respect to the 43 thousand Euros registered for the same period last year.

Due to the situation described above, the EBITDA was 3.446 thousand Euros, an increase over the 2.096 thousand Euros registered on March 31<sup>st</sup> 2013.

The amount for amortization, depreciations and accruals is positive for 182 thousand Euros, which represents an additional component of the income; this entry, in fact, includes the effects of the transaction concluded in March by Asclepion, also on behalf of other companies in the Group, with Palomar Inc. for an amount of 630 thousand Euros. With this transaction we finally closed a long dispute in which Asclepion filed suit in courts both in Italy and Germany and also contested their patent rights in the European patent office. In order to hedge their risks in case the Group lost the suit, starting in 2004, they accrued a reserve of 2,1 million Euros: the difference of 1,5 million therefore was released during this financial year and was greater than the other amortizations, depreciations and accruals set aside by the Group during this quarter.

The EBIT was 3.628 thousand Euros, a significant increase with respect to the 959 thousand Euros registered on March 31<sup>st</sup> 2013; these earnings showed a marked improvement even subtracting the favorable outcome of the suit on the patent rights. The incidence on the sales volume was 9,7%.

The financial charges amounted to 109 thousand Euros, a loss which was mainly due to the differences in the currency exchange. On March 31<sup>st</sup> 2013, however, the Group had registered a financial income of 480 thousand Euros.

Other net income amounted to 4,4 million Euros, most of which had been generated by the sale at the end of the first quarter of 2014, of 1.100.000 shares of Cynosure Inc. by El.En. S.p.A., for an overall amount of 32 million US dollars which comported the entry under this heading of a capital gains of about 4,5 million Euros.

Thanks to the capital gains derived from the sale of the Cynosure stock described above and thanks to the release of the funds for risks and charges after the settlement of the dispute with the American company Palomar, the income before taxes was 7.954 thousand Euros, an improvement over the result of 1.695 thousand Euros registered for March 31<sup>st</sup> 2013.

## Financial position and Investments

### Comments on the net financial position

The net financial position of the Group increased by about 21,2 million Euros with respect to December 31<sup>st</sup> 2013, and now amounts to 43 million Euros. The increase was due mainly to the sale of a block of Cynosure shares which occurred in the month of March and cashed in for about 32 million dollars. During this quarter there were no other unusual operations which had significant effects on the cash flow.

### Gross investments made this quarter

The charts below show the gross investments made during this quarter.

<i>Progressive</i>	31/03/14	31/03/13
Intangible assets	64	55
Tangible assets	647	383
Equity investments	0	1
<i>Total</i>	711	438

No significant investments were made during this quarter; the assets shown in the chart represent ordinary investments for the management of current activities.

## Comments on Research and Development

During the first three months of 2014 the Group conducted an intense research and development activity for the purpose of discovering new laser applications both in the medical and the industrial sectors and to place innovative products on the market. This activity was intensified by the economic crisis which required even more attractive items for the market through the presentation of new products and applications. Effective innovations, in fact, can convince both our medical and industrial clients to overcome their fears about investing, since they can look forward to attracting clients with the improvements and novelties that we offer.

In general, for highly technological products in particular, the global market requires that the competition be met by rapidly and continually placing on the market completely new products and innovative versions of old products with new applications or improved performance which use the most recent technologies and components. For this reason, extensive and intense research and development programs must be conducted and organized according to brief and mid-to long-term schedules.

In our laboratories we conduct research in order to understand unresolved or new problems in the fields of medicine and industry and we look for solutions on the basis of our experience and culture on the interaction between laser light and biological and inert materials. As far as the source of the laser energy is concerned, we operate, on one hand, on the selection of the spectral content, the methods for generating it, and the level of power and, on the other hand, we engineer the ways in which it can be managed over time on the basis of the laws of emission and, in space, as far as the shape and the motion of the beam are concerned.

The research which is aimed at obtaining mid-to-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 specifications. The elements for this activity are determined on the basis of information obtained from the work of specialists employed by the company and also as a result of activities of the public and private structures which acted as consultants in the phase of preliminary study and some in the phase of field verification.

The research which is conducted is mainly applied and is basic for some specific subjects generally related to long and mid-term activities. Both the applied research and the development of the pre-prototypes and prototypes are sustained by our own financial resources and, in part, by grants which are derived 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 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 various power versions in some cases, and using various manufacturing technologies. Consequently, research and development activity has been directed to many different systems and subsystems and accessories. Without going into excessive detail, a description of the numerous sectors in which the research activities of the parent company and some of the subsidiary companies have been involved is given below.

### Systems and applications for lasers in medicine

The parent company, El.En. has developed a new family of equipment and sub-systems for the SMARTXIDE<sup>2</sup> family products for surgical uses and aesthetic medicine. The systems are equipped with a laser source fed by radio frequency with an average power of up to 80w and interface management from personal computer installed on the device.

These are multi-disciplinary systems which can be used in general surgery, otolaryngology, dermatology, gynecology, odontostomatology, neurology, laparoscopic surgery, aesthetic surgery, and, in the same field, research for new clinical applications in gynecology, paradontology and endodontics, in neurology and ophthalmology has been continued or initiated. For this purpose we are now working on further technological innovations contained in scanning systems characterized by optical systems and newly developed electronic controls, which make it possible to perform surgical operations on various parts of the anatomy with extreme precision. For some of the versions of this type of instruments we have developed a way to install a second semiconductor laser source in which the wave length can be selected by the client when ordering. For the semiconductor sources we are now conducting research with medical specialists for the

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

An application that is extremely important is used in gynecology and, in particular, for a new treatment to reduce the effects of the atrophy of vaginal mucous. There are already several centers in Italy and other countries that perform this treatment which is called the "Mona Lisa Touch". This particular pathology is common and quite disabling with interactions with other pathologies that often causes urinary incontinence; it afflicts a high percentage of women in menopause and younger women with tumors.

We have developed a new applicator for laser treatments. For surgical applications we are now developing applications in otolaryngology, proctology and neurosurgery, in particular patch application using semi-conductor lasers.

The research activities that are part of the MILORDS project were continued. This project was approved by the Region of Tuscany and co-financed by the European Union; the MILORDS project involves the development of new robot-controlled laser systems for surgical applications in ophthalmology, cutaneous ulcers, treatment of benign hypertrophy of the prostate, and, eventually, the percutaneous ablation of masses inside the human body. The project, in which El.En. is the leader, has as its partners the leading research centers in Tuscany in this sector and companies that are connected to multinationals in the field of robotics. The research of this type is part of the trend involving development of systems for minimally invasive surgery which has a major impact both on the quality of life of the patient and on the reduction of expenses for the health care agencies.

In particular, we have recently developed a system for obtaining 3D X-ray images with CONEBEAM technology. The performance in terms of speed of acquisition and spatial resolution make it the world leader in its category. We are now developing dedicated software and special hardware components in order to improve this device in every possible way. A study is now in progress to develop a new instrument that would reduce the fat layer in the body based on a new form of energy.

In the important and highly innovative field of the development of laser devices and procedures for regenerative medicine, we have continued to develop new laser equipment and to conduct clinical experimentation in the veterinary field in the United States and in Europe, in particular in relation to valuable horses involved in competitive sports, with innovative laser equipment for therapies that are part of regenerative medicine belonging to the HILT family (High Intensity Laser Therapy) and RLT (Regenerative Laser Treatment) which we introduced and which have recently been successfully used in physical therapy for the treatment of trauma and chronic infections.

We have actively continued the engineering and development activities related to the results of the TRAP project financed by the European Union through the Department of Economic Development of the Region of Tuscany.

In this field, in collaboration with the associated company Elesta Srl, constituted by El.En. and Esaote, research activities and technological development have been conducted for new cooled percutaneous applicators with circulation of liquids and diffusive terminals. Research and experimentation have continued *in vitro* and *in vivo* on animal subjects for new devices and methods for the percutaneous laser ablation of the liver, thyroid, breast, prostate and lungs. Research and experimentation has been conducted in collaboration with university clinics in Florence and Pisa and with the Department of Electronic Engineering and Telecommunications of the University of Florence. In particular, we have also continued research to try to identify methods for the characterization of the tissue, treated with laser for ablative purposes and with ultrasound signals with radiofrequency, in order to verify the effects of the treatment that has been received.

We have conducted operations for the industrial development and certification of the therapeutic effectiveness of the laser equipment and devices for the treatment of cutaneous ulcers that were developed as part of the TROPHOS project. This project was conducted with grants from the European Union issued through the Department of Economic Development of the Region of Tuscany and is now in the phase of clinical testing.

At the same time, active clinical experimentations have continued in Italy and in qualified foreign centers in order to confirm and document the effectiveness of innovative therapeutic laser treatments in various fields of medicine: odontostomatology and aesthetics.

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 in the most important countries of our brand names and applications.

We have conducted studies on the feasibility of new dye laser applications in dermatology. The dye laser system also underwent new technological developments.

We have conducted research on new applications in medicine in the fields of ophthalmology, proctology and neurology in the PHOTOBIO LAB laboratory which was built at El.En.; this research studies the interaction between light and

biological tissue. We are now conducting experiments with laser devices for surgical operations in the fields of orthopedics and specifically, the spinal column..

DEKA M.E.L.A., in collaboration with El.En., carried on an intense research activity with the objective of identifying new applications and the experimentation of new methods to be used by laser equipment in various medical sectors: aesthetic, surgical, gynecological, otolaryngology and odontostomatology. This activity is conducted by involving highly specialized personnel working for the company and the Group to which the company belongs, as well as for Italian and foreign academic and professional medical centers

At Quanta System they have conducted an intense activity of instrumentation directed to the markets of aesthetic medicine and of medical therapies.

These activities are composed of multiple minor activities like, for example, the project for the design and development of the external skins of some of the systems; a feasibility study of a system for treating onychomycosis; incremental innovations of the Q-switched systems with fractional handpieces, universal spot adaptors of different shapes with automatic recognition; feasibility of UVB applicators for psoriasis; development of special accessories for beam delivery for laser application for BHP; development of incremental innovations of the Holmium systems for lithotripsy, with improvement of the cavity, of beam delivery.

Another important development was the regulatory activity with the testing aimed at obtaining 510(k) equipment and elements for the transmission of energy.

We continued the Qscale project and we also started to appoint the members of the team for the Horizon 020 project on pleurodesis lasers.

At Asclepion Laser Technologies they conducted research on the evaluation of a new concept of optical fibers and ferrules; they also conducted studies for the use of applications in the medical field and technologies for the recognition and cataloguing of images.

They concluded the evaluation stage of the European project in collaboration with ACTIS, an associated company of El.En., on the therapy of tumours through the activation of nanoparticles using laser light and ultrasound. The project is called LUS BUBBLE (Light and Ultrasound Activated microbubbles for cancer treatment).

### **Laser systems and applications for industry**

At El.En., in collaboration with our subsidiary Cutlite Penta, we are conducting research on the development of innovative processes for machine pre-cutting and micro-perforation of labels and systems for the applications in the field of cutting and welding of plastic materials and in the beverage sector for increasing the shelf-life of food products. We continued research activities for the development of software and algorithms for high-speed advance coding in the transnational paper-digital-converting sector.

For the development of laser sources, we continued towards the conclusion of the 850W source project, began experimentation of a 300W sealed source, and we created and tested a new power pack on the Bright 30 source of the Milord project. We developed and tested a focusing head for fibre lasers and dedicated process sensors. We added OEM modules on cutting machines. We studied and added new sensors on metal cutting machines..

We also continued tests and experiments on scansion heads and focalizing for fiber lasers for remote control welding plants for metal materials in the automotive field and the mass production of furniture parts. As part of this research, we have begun to develop a new dynamic system for high-speed response focalizing.

We have also been working on the development of systems for focalizing and beam scanning to be used for the cutting and welding of plastic materials in the sector of equipment for making packaging of food and for chemicals for various uses. We have conducted tests and experiments on algorithms and sensors for new high-speed marking methods with variable jobs in real time, according to the codes that are present on the material that needs to be processed in reels of paper and other materials.

We developed a stand-alone system for the marker which makes it possible to create self-teaching work programs for every size of insole. For high quality footwear, often women's sandals with very high heels, in fact, there are no rules that regulate the development of sizes and the approach through self-teaching becomes by far the easiest system.

We are conducting experiments that are now in progress on the applications of marking of large size objects using a head with a small opening (35mm) instead of the high definition head (opening 70mm). In this optical configuration, the depth of field is such that the z dynamic becomes useless. In the sector of sheet metal cutting, we concluded the development phase for fast piercing and we developed the software for the fly cut of thin sheets.

In the sector of the dye board we developed a new method for securing the rotary dye board in the machine. The method is much simpler than the preceding one, offers better guarantees of precision and reduces the regulation during the testing phase so that the time required for fine tuning is significantly reduced.

In the sector of plexiglass cutting, we have implemented and tested the combination of a marker on the cutting machine; essentially we did what we had done last year in the sector of the dye board.

Further development activities and tuning processes have been carried out for cutting MDF (Medium Density Fiberboard) rigid wooden modular packaging, an expanding sector as far as high quality fruits and vegetables packaging is concerned. The work of development was focused on the optimization of the process parameters whose efficiency needs to be brought to the highest level in order to achieve the economic competitiveness required in the transition between the laser excitation and high tension discharge to the new RF laser sources with the beam being carried by optics housed on Cartesian high dynamic handling systems. We need to develop aspects and limits of this technology which manages cutting through a remote process without the aid of proximity devices for focusing and supplying process gas

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

We are now conducting feasibility studies for the manufacturing process of subsets for the oil drilling industry.

In the metal cutting sector, Cutlite Penta has been involved in the development of new systems and innovation of technical solutions for systems that are already being manufactured. They have completed tests on the structural and functional innovations developed for sealed CO<sub>2</sub> sources produced by El.En. and they have started new research on sources belonging to this group with higher power and greater level of compaction

They have developed new compact cutting systems with higher performance and lower costs. They are developing systems to eliminate most of the optical routes of the CO<sub>2</sub> laser ray with solutions that include the direct assembly of the new sources with Radiofrequency pumping on the mobile portal of the machine.

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

<i>thousands of euros</i>	<b>31/03/2014</b>	<b>31/03/2013</b>
Costs for staff and general expenses	1.565	1.583
Equipment	6	14
Costs for testing and prototypes	281	342
Consultancy fees	140	114
Other services	19	21
Intangible assets	0	0
<b><i>Total</i></b>	<b>2.011</b>	<b>2.074</b>

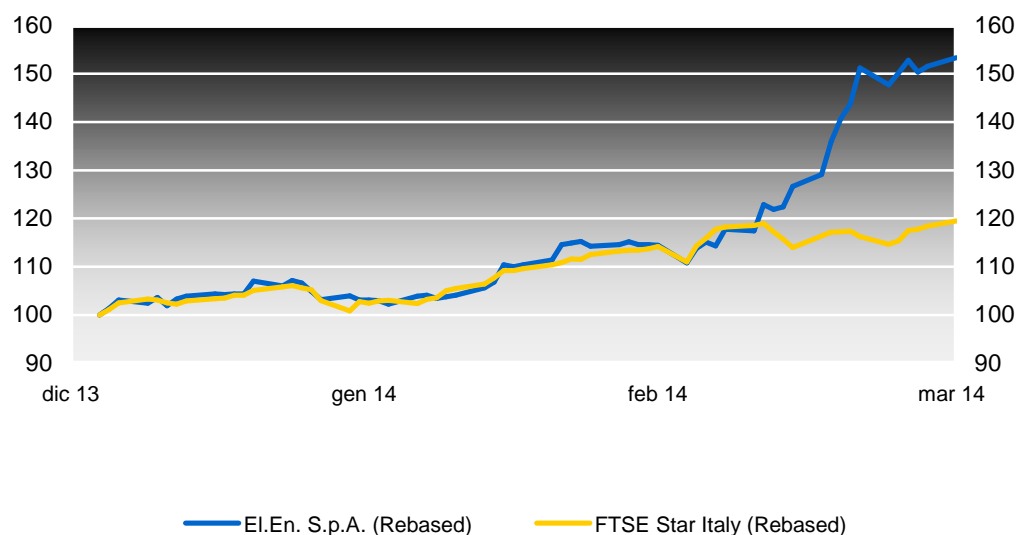
As has been the regular company policy in the past, the expenses listed in the table have been entirely entered into accounts with the operating costs.

The amount of expenses sustained corresponds to 5,4% of the consolidated sales volume of the Group. The expenses are sustained mostly by El.En. and correspond to 9% of its sales volume.



## Trend of El.En. stock

The graph below shows the performance of the stock:



## Other information

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

## Significant events that occurred during this quarter

On March 21<sup>st</sup> the parent company, El.En. S.p.A. sold a block of 1.100.000 shares of Cynosure Inc., company quoted on the Nasdaq market, at the net price of 29,15 US dollars per share for which they cashed in 32 million US dollars. The consolidated capital gains registered for this transaction was 4,5 million dollars.

El.En initially paid 17 million Euros to invest in the company and afterwards there were several sales of shares for a total of 69 million Euros, while one million shares remained in the El.En. portfolio which was about a 5% interest in the American company. Moreover, besides the extremely profitable financial investment, El.En. had established a successful marketing relation with Cynosure, which distributed, in the United States, highly successful products like Smartlipo for laser lipolysis, Triactive for body shaping, and Smartskin for skin rejuvenation, and this relationship continued even when El.En. started to gradually lose control of the company. Ultimately, the years in which Cynosure was wholly consolidated and the presence of the Group as protagonist in the United States made it possible for us to accumulate important experiences which will be useful for new development initiatives and for growth on the American market.

During the first quarter of 2014 the Group adhered to a settlement with the American company Palomar Inc. which now belongs to the Cynosure group, thus finally putting an end to a long dispute involving some patents for laser hair removal. The transaction was concluded with a sentence that required a payment of 630 thousand Euros plus legal expenses to be paid to Palomar for the definitive settlement of the suit.

## **Subsequent events**

On April 9<sup>th</sup> the shareholder's meeting of the subsidiary AQL voted to liquidate the company.

## **Current outlook**

During the first quarter of the financial year 2014 the Group registered an increase of 12% in the sales volume and an EBIT which, even excluding the non-repeatable operations, showed a significant growth over the preceding year and in advance on the schedule for reaching the annual objectives. Although we are confident that we can improve on these results, at this time we confirm the original forecast for the year (increase of 5% in the sales volume and improvement of the EBIT over that for 2013); we also wish to point out also that the net effect of the patent rights settlement signed in March contributes to the EBIT for an amount of about 1,4 million Euros, which should be considered in addition to the expected results.

For the Board of Directors

Managing Director  
Ing. Andrea Cangioli

**Attachment “A”: List of consolidated companies as of March 31<sup>st</sup> 2014**

**Subsidiary companies**

Company name:	Headquarters	Currency	Percentage held:			Consolidated Percentage
			Direct	Indirect	Total	
<b>Parent company:</b>						
El.En. SpA	Calenzano (ITA)	EURO				
<b>Subsidiary companies:</b>						
Deka M.E.L.A. Srl	Calenzano (ITA)	EURO	85,00%		85,00%	85,00%
Cutlite Penta Srl	Calenzano (ITA)	EURO	96,65%		96,65%	96,65%
Esthelogue Srl	Calenzano (ITA)	EURO	50,00%	50,00%	100,00%	100,00%
Deka Srl	Lyons (FRA)	EURO	100,00%		100,00%	100,00%
Deka Lasertechnologie GmbH	Munchen (GER)	EURO	100,00%		100,00%	100,00%
Deka Laser Technologies Inc.	Carlsbad (USA)	USD	12,74%	87,26%	100,00%	100,00%
Lasit SpA	Vico Equense (ITA)	EURO	70,00%		70,00%	70,00%
BRCT Inc.	New York (USA)	USD	100,00%		100,00%	100,00%
Quanta System SpA	Solbiate Olona (ITA)	EURO	100,00%		100,00%	100,00%
Asclepion Laser Technologies GmbH	Jena (GER)	EURO	50,00%	50,00%	100,00%	100,00%
AQL Srl	Vimercate (ITA)	EURO		100,00%	100,00%	72,50%
ASA Srl	Arcugnano (ITA)	EURO		60,00%	60,00%	51,00%
With Us Co Ltd	Tokyo (JAP)	YEN		78,85%	78,85%	78,85%
Deka Japan Co. Ltd	Tokyo (JAP)	YEN	55,00%		55,00%	55,00%
Penta Chutian Laser (Wuhan) Co Ltd	Wuhan (CHINA)	YUAN		55,00%	55,00%	53,16%
Penta Laser Equipment (Wenzhou) Co Ltd	Wenzhou (CHINA)	YUAN		55,00%	55,00%	53,16%
Cutlite do Brasil Ltda	Blumenau (BRASIL)	REAL	68,56%		68,56%	68,56%
Lasercut Technologies Inc.	Branford (USA)	USD		100,00%	100,00%	100,00%
Pharmonia Srl	Calenzano (ITA)	EURO		100,00%	100,00%	100,00%
Deka Medical Inc	San Francisco (USA)	USD		100,00%	100,00%	100,00%
Quanta France Sarl	Paris (FRA)	EURO		60,00%	60,00%	60,00%
Jenasurgical GmbH	Jena (GER)	EURO		100,00%	100,00%	92,50%

## Associated companies

Company name:	Headquarters	Currency	Percentage held:			Consolidated percentage
			Direct	Indirect	Total	
Immobiliare Del.Co. Srl	Solbiate Olona (ITA)	EURO	30,00%		30,00%	30,00%
Actis Srl	Calenzano (ITA)	EURO	12,00%		12,00%	12,00%
SBI S.A.	Herzele (B)	EURO	50,00%		50,00%	50,00%
Elesta Srl	Calenzano (ITA)	EURO	50,00%		50,00%	50,00%
Quanta System Asia Pacific Co.LTD	Bangkok (Thailand)	BAHT		49,00%	49,00%	49,00%
Chutian (Tianjin) Lasertechnology Co. LTD	Tianjin (China)	YUAN		49,00%	49,00%	26,05%

**Attachment “B”: DECLARATION IN COMPLIANCE WITH ART. 154BIS, SUB-SECTION 2, D.LGS. N.58 / 1998**

The undersigned Dr. Enrico Romagnoli, as the executive officer responsible for the preparation of the financial statements of El.En. S.p.A. declares, in compliance with sub-section 2 of art. 154-bis of Legislative Decree n. 58 of February 24<sup>th</sup> 1998, that the accounting disclosures provided in this document correspond to the accounting records, books and entries.

Calenzano, May 15<sup>th</sup> 2014

Executive officer responsible for the preparation of the financial statements  
Dott. Enrico Romagnoli