

# Quarterly Financial Report as of September 30<sup>th</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

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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 September 30<sup>th</sup> 2014)

## **Board of Directors**

CHAIRMAN

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangoli

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.

**EL.EN. GROUP**

**QUARTERLY MANAGEMENT  
REPORT**

**As of September 30<sup>th</sup> 2014**

# Quarterly report

## Introduction

This quarterly report as of September 30<sup>th</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 September 30<sup>th</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, 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 results of the associated companies, the financial income/charges;
- the **earnings before income taxes, devaluations, depreciations and amortizations** or “EBITDA”, also represents an indicator of operating performance and is determined by adding to the EBIT the amount of “Depreciations, Amortizations, accruals and devaluations”;
- the **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.

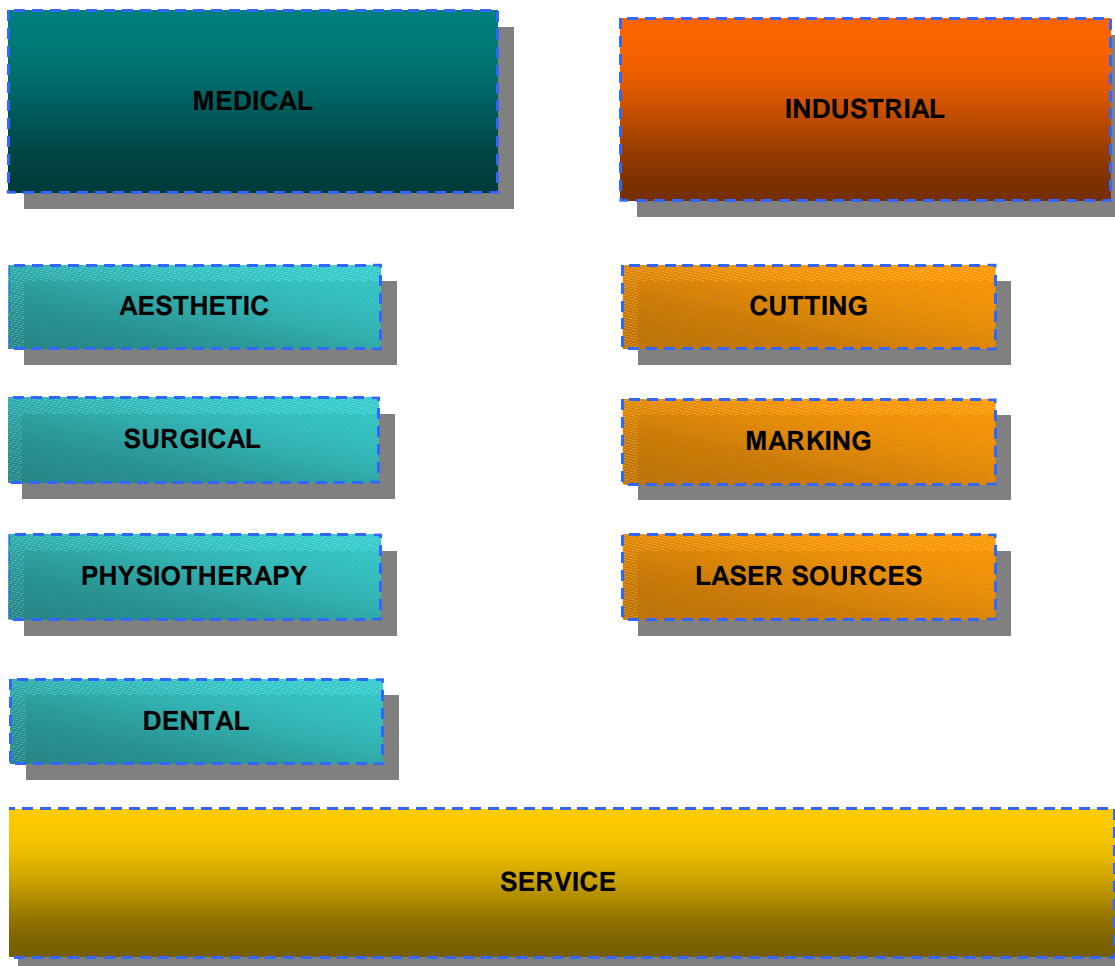
The alternative performance indicators are measures used by the company to monitor and evaluate the performance of the Group and they are not defined as accounting measures either in the Italian Accounting Standards or in the IAS/IFRS. Consequently, the determining criteria applied by the Group may not 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.

Apart from the sub-division of the roles of the various companies, 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

The consolidated earnings as of September 30<sup>th</sup> 2014 show an excellent result with an Income before taxes of 18.744 thousand Euros which is more than triple the result of 5.996 thousand Euros registered for September 2013.

The Group was able to overcome the usual slowdown that the summer months create in the third quarter and register a sales volume of 44,2 million Euros which was greater than the preceding quarter and accelerated the growth which was over 33% on a quarterly basis and 16% with respect to the first nine months of 2013.

The brilliant results in the sales volume made it possible for most of the business units of the Group to benefit from the operating conditions and significantly improve their profits. The incidence of the EBIT on the sales volume, in fact, rose to 9,2% this quarter which is one of the best results since the start of the financial crisis in 2009 and is without a doubt the best shown for the third quarter. It is with great satisfaction therefore that we have registered the consolidated EBIT for the end of the third quarter which is double that for the same period last year and is greater than that for the entire year 2013. The forecasts were exceeded and even more ambitious objectives will be set for the end of the year and will be described further on in this report.

In the overall picture of the performance of the various operating units there are many bright lights and a few shadows during the third quarter: the medical and industrial sectors are growing vigorously and both contribute to the EBIT. In the medical sector, the excellent results in the Far East and in some specific markets like the Italian one, are apparent and the streamlining of the operating structures carried out in 2013 has helped reduce overhead and improve operating profit. In the industrial sector the very rapid growth of the Chinese market was the main feature of the year.

There were also significant successes for some products and on some particular markets as will be described later on, but the main feature of this stage of development of the Group is the consolidation and expansion of all the areas of business thanks to the reliability, innovation and variety of the range of products being offered which, due to our increased awareness of the markets, have been transformed into the good results which are shown.

It should be recalled that there were two important transactions which were concluded in the first semester of this year: the agreement that resolved the law suit over patent rights with Palomar Inc. so that Cynosure Inc. contributes to the EBIT after the release of about 1,5 million Euros from the reserve for risks; the sale of a block of Cynosure Inc. shares which produced a collection of 23 million Euros and a capital gains of 4,5 million. Along with the improvement in the EBIT these two operations helped make the income before taxes extremely significant.

The overall economic situation does not appear to be improving and has depressed the European markets; as far as our markets are concerned only the USA and China show a significant increase in their economies. In the last few months the exchange rates, particularly between the US dollar and the Euro have moved in a favourable direction. The strengthening of the Dollar has not only allowed us to register considerable gain in the exchange of our cash holdings and receivables in Dollars, but it has also alleviated a situation that was unfavourable for the Group in relation to our competitors, most of which are American, who had a significant cost advantage due to the continued and unnatural weakness of the American currency. If the exchange rate remains at a level of 1,2 Dollars per Euro our competitors' advantage will be reduced and the Group will be more competitive and achieve greater profits on all the international markets.

The strategy of the Group has always been to create a competitive advantage through technological innovation achieved by a systematic activity of research and development of innovative products or technical or applicative innovations of pre-existing products. By offering technical innovations and new applications the difficulties present on the market can be overcome by the unique quality of the product while, in more advanced phases of the life cycle of the products, even a hi-tech business like ours is always subject to more ordinary market dynamics and pressures.



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

<b>Income Statement - 3 months</b>	<b>30/09/14</b>	<b>Inc.%</b>	<b>30/09/13</b>	<b>Inc.%</b>	<b>Var.%</b>
Revenues	44.218	100,0%	33.210	100,0%	33,1%
Change in inventory of finished goods and WIP	1.244	2,8%	2.725	8,2%	-54,4%
Other revenues and income	367	0,8%	508	1,5%	-27,7%
<b>Value of production</b>	<b>45.829</b>	<b>103,6%</b>	<b>36.443</b>	<b>109,7%</b>	<b>25,8%</b>
Purchase of raw materials	23.043	52,1%	18.211	54,8%	26,5%
Change in inventory of raw material	530	1,2%	23	0,1%	2210,0%
Other direct services	3.041	6,9%	2.735	8,2%	11,2%
<b>Gross margin</b>	<b>19.215</b>	<b>43,5%</b>	<b>15.474</b>	<b>46,6%</b>	<b>24,2%</b>
Other operating services and charges	5.623	12,7%	5.274	15,9%	6,6%
<b>Added value</b>	<b>13.593</b>	<b>30,7%</b>	<b>10.200</b>	<b>30,7%</b>	<b>33,3%</b>
For staff costs	8.674	19,6%	7.935	23,9%	9,3%
<b>EBITDA</b>	<b>4.919</b>	<b>11,1%</b>	<b>2.265</b>	<b>6,8%</b>	<b>117,2%</b>
Depreciation, amortization and other accruals	871	2,0%	1.162	3,5%	-25,1%
<b>EBIT</b>	<b>4.048</b>	<b>9,2%</b>	<b>1.102</b>	<b>3,3%</b>	<b>267,3%</b>
Net financial income (charges)	3.370	7,6%	(979)	-2,9%	
Share of profit of associated companies	(13)	-0,0%	(37)	-0,1%	-66,1%
Other Income (expense) net	(21)	-0,0%	2.523	7,6%	
<b>Income (loss) before taxes</b>	<b>7.385</b>	<b>16,7%</b>	<b>2.609</b>	<b>7,9%</b>	<b>183,0%</b>

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

<b>Income Statement</b>	<b>30/09/14</b>	<b>Inc.%</b>	<b>30/09/13</b>	<b>Inc.%</b>	<b>Var.%</b>
Revenues	124.616	100,0%	107.048	100,0%	16,4%
Change in inventory of finished goods and WIP	5.067	4,1%	4.150	3,9%	22,1%
Other revenues and income	1.644	1,3%	1.575	1,5%	4,4%
<b>Value of production</b>	<b>131.327</b>	<b>105,4%</b>	<b>112.773</b>	<b>105,3%</b>	<b>16,5%</b>
Purchase of raw materials	64.822	52,0%	55.233	51,6%	17,4%
Change in inventory of raw material	(489)	-0,4%	(2.852)	-2,7%	-82,9%
Other direct services	9.719	7,8%	8.575	8,0%	13,3%
<b>Gross margin</b>	<b>57.274</b>	<b>46,0%</b>	<b>51.817</b>	<b>48,4%</b>	<b>10,5%</b>
Other operating services and charges	18.141	14,6%	18.033	16,8%	0,6%
<b>Added value</b>	<b>39.132</b>	<b>31,4%</b>	<b>33.784</b>	<b>31,6%</b>	<b>15,8%</b>
For staff costs	27.169	21,8%	25.579	23,9%	6,2%
<b>EBITDA</b>	<b>11.964</b>	<b>9,6%</b>	<b>8.204</b>	<b>7,7%</b>	<b>45,8%</b>
Depreciation, amortization and other accruals	1.432	1,1%	3.369	3,1%	-57,5%
<b>EBIT</b>	<b>10.532</b>	<b>8,5%</b>	<b>4.835</b>	<b>4,5%</b>	<b>117,8%</b>
Net financial income (charges)	3.795	3,0%	(909)	-0,8%	
Share of profit of associated companies	(13)	-0,0%	(682)	-0,6%	-98,0%
Other net income (expense)	4.430	3,6%	2.752	2,6%	61,0%
<b>Income (loss) before taxes</b>	<b>18.744</b>	<b>15,0%</b>	<b>5.996</b>	<b>5,6%</b>	<b>212,6%</b>

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

<b>Net financial position</b>	<b>30/09/2014</b>	<b>30/06/2014</b>	<b>31/12/2013</b>
Cash and bank	67.335	58.618	42.868
Financial instruments	50	50	300
<b>Cash and cash equivalents</b>	<b>67.385</b>	<b>58.668</b>	<b>43.168</b>
<b>Short term financial receivables</b>	<b>668</b>	<b>623</b>	<b>1.383</b>
Bank short term loan	(17.960)	(11.812)	(13.612)
Part of financial long term liabilities due within 12 months	(2.210)	(2.006)	(2.151)
<b>Financial short term liabilities</b>	<b>(20.170)</b>	<b>(13.818)</b>	<b>(15.763)</b>
<b>Net current financial position</b>	<b>47.884</b>	<b>45.473</b>	<b>28.788</b>
Bank long term loan	(3.582)	(3.741)	(4.670)
Other long term financial liabilities	(1.630)	(1.645)	(2.299)
<b>Financial long term liabilities</b>	<b>(5.212)</b>	<b>(5.386)</b>	<b>(6.968)</b>
<b>Net financial position</b>	<b>42.671</b>	<b>40.087</b>	<b>21.820</b>

## Operational performance

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

	30/09/2014	Inc%	30/09/2013	Inc%	Var%
Medical	84.885	68,12%	75.605	70,63%	12,27%
Industrial	39.731	31,88%	31.442	29,37%	26,36%
<b>Total</b>	<b>124.616</b>	<b>100,00%</b>	<b>107.048</b>	<b>100,00%</b>	<b>16,41%</b>

The excellent results in growth are particularly significant in the industrial sector thanks mainly to the sales in China; sales in the medical sector were not quite so intense but still showed a highly satisfactory increase of 12% .

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

	30/09/2014	Inc%	30/09/2013	Inc%	Var%
Italy	22.286	17,88%	20.627	19,27%	8,05%
Europe	25.201	20,22%	22.609	21,12%	11,47%
Rest of the world	77.128	61,89%	63.812	59,61%	20,87%
<b>Total</b>	<b>124.616</b>	<b>100,00%</b>	<b>107.048</b>	<b>100,00%</b>	<b>16,41%</b>

The markets outside of Europe again showed the highest growth rate, however, the Italian and European markets also showed a significant increase.

The chart below shows the sales in the medical/aesthetic sector which represents more than 68% of the sales of the Group:

	30/09/2014	Inc%	30/09/2013	Inc%	Var%
Aesthetic	51.612	60,80%	48.089	63,61%	7,33%
Surgical	11.673	13,75%	7.302	9,66%	59,86%
Physiotherapy	5.218	6,15%	4.852	6,42%	7,53%
Dental	497	0,59%	844	1,12%	-41,17%
Other medical lasers	0		83	0,11%	-100,00%
<b>Total medical systems</b>	<b>68.999</b>	<b>81,29%</b>	<b>61.171</b>	<b>80,91%</b>	<b>12,80%</b>
Medical service	15.885	18,71%	14.434	19,09%	10,05%
<b>Total medical revenue</b>	<b>84.885</b>	<b>100,00%</b>	<b>75.605</b>	<b>100,00%</b>	<b>12,27%</b>

The sector shows an overall increase of about 12%. The main segment, aesthetics shows an increase of 7% which demonstrates the ability of the Group to continue their expansion in the most significant markets like hair removal, photo-rejuvenation, resurfacing, tattoo removal, and body shaping. It should be recalled that the Group is able to offer a vast variety of products in this sector through their distribution network. For hair removal, the Alexandrite/Yag Re:play and Light systems produced respectively by Deka and Quanta System, and the Mediostar Next system by Asclepion, which is distributed in Italy by Esthelogue in the professional aesthetics sector; Deka also maintains a range of IPL systems which have been highly successful on some markets especially in the versions for professional aesthetics. In the laser lipolysis sector Deka offers Smartlipo, the first system to provide this application, and the Group continues to develop a significant amount of business with Cynosure, to which it provides the technology necessary for the Triplex and Cellulaze system. For resurfacing the CO<sub>2</sub> laser systems of Deka, Smartxide and Smartxide<sup>2</sup> with their relative accessories represent a point of reference for the market; this position will almost certainly be consolidated by the recently introduced Smartxide Touch system which offers new levels of performance to the clientele.

Quanta System and Asclepion are also present respectively with the You laser MT and Multipulse systems; in the sector of ablative systems with erbium technology Asclepion has always been a leader with its MCL series now offered in the MCL31 version. For the removal of tattoos and pigmented lesions Quanta offers a high quality range with its Q+ systems with two or three wave lengths; Asclepion offers the reliable Tattoo Star and Deka has recently launched the new QS4 model. For vascular treatments Deka offers an up-dated version of one of the classic dermatological laser technologies, the Dye with VASQ system. Asclepion's Quadro Star Pro Yellow system which uses a different technology and emission method for the energy has been quite successful. For many of the groups of products and applications there are new features with accessories that are available to complete the range of functions for some of the operative platforms like the XL handpiece for the Mediostar Next hair removal device and real systems like the EVO platform launched by Quanta System.

Growth in the surgical sector was overwhelming, thanks firstly to the acceleration in the spread of laser systems for treating vaginal atrophy, the "Mona Lisa Touch" application launched by Deka and the vigorous growth of holmium and thulium lasers for the treatment of benign hyperplasia of the prostate (Quanta's Cyber system and Asclepion's Multipulse 100Ho) as well as the holmium lasers for lithotripsy (Quanta's Litho and vast OEM production systems).

The positive performance of the physical therapy sector continues under the expert management of ASA, while the dental sector saw a slight decrease and was not the subject of significant investments by the Group at this stage.

As far as after sales service and sales of consumables are concerned, the sales volume showed a growth that was normal for the increased volume of business.

For the sector of industrial applications the chart below shows the break-down by market segments in which the Group operate.

	30/09/2014	Inc%	30/09/2013	Inc%	Var%
Cutting	26.931	67,78%	18.825	59,87%	43,06%
Marking	7.311	18,40%	7.454	23,71%	-1,92%
Laser sources	340	0,86%	549	1,75%	-38,04%
Conservation	161	0,40%	359	1,14%	-55,16%
<b>Total industrial systems</b>	<b>34.742</b>	<b>87,44%</b>	<b>27.187</b>	<b>86,47%</b>	<b>27,79%</b>
Industrial service	4.989	12,56%	4.256	13,53%	17,23%
<b>Total industrial revenue</b>	<b>39.731</b>	<b>100,00%</b>	<b>31.442</b>	<b>100,00%</b>	<b>26,36%</b>

In the industrial sector the results for this quarter were very good. The increase in the main sector of cutting systems offsets the results in other sectors like laser sources and restoration which were of negligible entity in this period.

In this quarter there was also a significant increase in the sales for service, especially on the Chinese market, as well as a growth in the sales volume for systems.

For the first nine months of 2014 the consolidated gross margin was 57.274 thousand Euros, an increase with respect to the 51.817 thousand Euros registered on September 30<sup>th</sup> 2013, while, on account of the increase of sales in China in the industrial sector and a mix of sales with a lower margin in the medical sector, the incidence on the sales volume decreased from 48,4% to 46%.

It should be noted that, again in the first nine 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 18.141 thousand Euros, which is substantially the same as that registered for September 30<sup>th</sup> 2013 when they were 18.033 thousand Euros, thanks to the re-organization of some of the structures during 2013 which helped decrease the incidence on the sales volume.

Staff costs were 27.169 thousand Euros, an increase of 6,2% with respect to the 25.579 thousand Euros shown for the same period last year, but the increase in the sales volume made it so that the incidence on the sales volume decreased from 23,9% on September 30<sup>th</sup> 2013 to 21,8% on September 30<sup>th</sup> 2014.

As of September 30<sup>th</sup> 2014 there were 918 employees in the Group, showing an increase over the 859 on December 31<sup>st</sup> 2013 and the 832 on September 30<sup>th</sup> 2013. The Chinese companies showed the greatest increase in the number of employees which is mainly due to the rapid increase in their volume of business.

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 September 30<sup>th</sup> 2014 amounted to 337 thousand Euros, a decrease with respect to the 832 thousand Euros registered for the same period in 2013.

Due to the situation described above, the EBITDA was 11.964 thousand Euros, an increase of 45% over the 8.204 thousand Euros registered on September 30<sup>th</sup> 2013.

The costs for amortization, depreciations and accruals were 1.432 thousand Euros, a decrease of 57,5% with respect to the 3.369 thousand Euros on September 30<sup>th</sup> 2013. This decrease is due to the release of 1.478 thousand Euros from the reserve for risk and charges because of the conclusion in the month of March of the transaction between the German subsidiary Asclepion also on behalf of other companies in the Group and Palomar Inc., and therefore represents an additional component in the income. In order to face the possibility that the Group might lose the law suit, starting in 2004 they began to accrue funds for a total of 2,1 million Euros. The transaction, however, was closed for the amount of 630 thousand Euros: the difference of about 1,5 million Euros was released during this year.

The EBIT was 10.532 thousand Euros, significant increase with respect to the 4.835 thousand Euros registered on September 30<sup>th</sup> 2013; the incidence on the sales volume was 8,5%, an increase with respect to the 4,5% shown on September 30<sup>th</sup> 2013. In any case, even without the one-off amount obtained from the Palomar/Cynosure patent deal, the EBIT would have shown an increase of 87% and reached 9.054 thousand Euros for this period.

Financial income amounted to 3.795 thousand Euros with respect to the financial charges of 909 thousand Euros for the same period last year and benefitted from the favourable trend of the exchange rates and the relative differences registered under this heading for the accounts in foreign currency.

Other net income amounted to 4.430 thousand Euros as of September 30<sup>th</sup> 2014, as opposed to the 2.752 thousand Euros shown on September 30<sup>th</sup> 2013. This result is entirely due to the capital gains of 4,5 million Euros achieved from the sale of a block of 1.100.000 shares of Cynosure stock by El.En. S.p.A. which occurred in the month of March and for which the Group received 32 million dollars.

It should be recalled that the amount of 2.752 thousand Euros registered on September 30<sup>th</sup> 2013 among the other net income was due to the 2,5 million Euros capital gains not cashed in which was derived from a different accounting of the equity in Cynosure which, as it was no longer considered an associated company, required a switch from the equity method (IAS 28) to that of fair value for assets available for sale (IAS 39).

The income before taxes was 18.744 thousand Euros, a significant increase with respect to the 5.996 thousand Euros registered for September 30<sup>th</sup> 2013.

## Financial position and Investments

### Comments on the net financial position

The net financial position of the Group increased by 20,8 million with respect to December 31<sup>st</sup> 2013, and now amounts to 42,7 million Euros.

The increase is mainly due to the receipt of about 32 million dollars, equal to about 23 million Euros, which was a result of the sale of the Cynosure stock described above.

Cash was used to pay dividends to third parties in the second quarter: about 2.402 thousand Euros by the Parent Company El.En. S.p.A, and 548 thousand Euros by the subsidiaries Deka Mela S.r.l., Lasit S.p.A., and ASA S.r.l. It should also be noted that 1,8 million dollars were paid in the month of August for the acquisition of an equity in Quanta Usa.

### Investments made during this quarter

The chart below shows the gross investments made during this period.

<i>Progressive</i>	30/09/14	30/09/13
Intangible assets	192	203
Tangible assets	2.648	2.770
Equity investments	1.962	157
<i>Total</i>	4.802	3.130

<i>3 Months</i>	30/09/14	30/09/13
Intangible assets	21	51
Tangible assets	681	1.908
Equity investments	1.962	18
<i>Total</i>	2.664	1.977

The increase in equity investments refers to the acquisition of 19,5% of the shares of Quanta Aesthetic Lasers Usa LLC (Quanta USA) by the subsidiary BRCT Inc.

No other significant investments were made; the fixed assets shown in the chart refer to ordinary investments which are part of the normal management of the company activity.

## **Comments on Research and Development**

During the first nine 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 innovations 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 light 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, urogynecology, paradontology and endodontics, in neurology and ophthalmology has been continued or initiated. For this purpose we are now working on further technological innovations contained in scanning systems characterized by optical systems and newly developed electronic controls, which make it possible to perform surgical operations on various parts of the anatomy with extreme precision.

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 urogynecology 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 and it afflicts a high percentage of women in menopause and younger women with tumors, for whom hormone therapy is not suitable.

We have developed a new applicator for laser treatment. For surgical uses we are now developing applications in otorhinolaryngoiatry, proctology and neurosurgery, in particular application of patches 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 images of X rays with CONEBEAM technology. The performance in terms of speed of acquisition and spatial resolution place it among the top devices of this type in the world. We are developing dedicated software and improved hardware components in order to improve it as much as possible.

We are in the preliminary study stage for a new instrument that would reduce the layer of body fat based on the use of a new form of energy.

We have conducted clinical experiments with the first prototype equipment on cadavers with encouraging results at Cadaverlab in Italy.

We have completed the groundwork for an original optical guiding system for the operator which is meant to further increase the safety of the treatments and the control of their uniformity. We are now preparing a prototype for the first *in vivo* experiments and a pre-series of prototypes.

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.

As part of this project, in collaboration with the associated company Elesta Srl created by El.En. and Esaote we have conducted research and technological development activities on new cooled percutaneous applicators with circulation of liquids and diffusion terminals. Research and experimentation have continued *in vitro* and *in vivo* on animal subjects for new devices and methods for the percutaneous laser ablation of the liver, thyroid, breast, prostate and lungs.

We have continued research and experimentation in collaboration with the university clinics of Pisa and Florence and with the Department of Electronic Engineering and Telecommunications of the University of Florence to augment the phase of improvement of the precision in the registration of the margins of ablation.

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 experimentation.

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 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 both alone and in association with carbon dioxide laser treatments.



Moreover, the dye laser system has recently been modified with technological developments intended to increase the duration of the substances that are subject to deterioration.

In the PHOTOBIO LAB 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. We have continued to conducting experiments with laser devices for surgical operations in the fields of orthopedics and 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: from aesthetics to surgical for gynecology and uro-gynecology, otolaryngology and odontostomatology. This activity is conducted by involving highly specialized personnel working for the company and the Group to which the company belongs, as well as for Italian and foreign academic and professional medical centers.

At Quanta System they are conducting intense research on instruments for use in aesthetic medicine and medical therapies in urology.

This research is split up into numerous micro-activities including: feasibility studies on a system for treating onicomicosis; incremental innovations of Q-switched systems with fractional hand-pieces, universal adaptors with different spot shapes and automatic recognition; feasibility of UVB applicators for psoriasis 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.

Another important project has been the regulatory activity with the tests aimed at obtaining the 510(k) equipment and elements for the transmission of energy.

They have also continued work on the Qscale project and they have selected a preliminary tam for the Horizon 2020 project on Pleurodesis Laser.

At Asclepion Laser Technologies they conducted research to evaluate new concepts of optic fibers and ferrules; they also conducted studies for the use of applications in the medical field and image recognition and cataloguing technologies.

In collaboration with ACTIS, an associated company of El.En. we concluded activities related to the evaluation of a European project on the therapy of tumours using nanoparticle activation through laser light and ultrasound, the LUS BUBBLE (Light and Ultrasound Activated microbubbles for cancer treatment).

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

At El.En., in collaboration with the subsidiary Cutlite Penta they are conducting 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 have continued work on the development of software and algorithms for high-speed advanced coding in the transactional paper-digital converting.

For the development of laser sources we are about to end the project on the 850W source and are beginning the experimentation of a sealed 300W source, and designed and tested a new delivery system on the Bright 30 source of the Milord project. We have developed a focusing head for lasers in fiber and dedicated process sensors. We have also 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 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 have developed a stand-alone system for the marker which makes it possible to create the self-taught program for every size of insole.

We have continued experimenting with marking applications on large sizes using a head with a small aperture (35mm) instead of the high definition head (aperture 70mm). In this optical configuration the depth of field is such that the dynamic z becomes useless. In the sheet metal cutting sector, we concluded the studies necessary for fast piercing and developed the software for the fly cut of thin sheets.

In the die cutting sector we have developed a method for securing rotating dies to the machine. This method is much simpler than the preceding one and also offers higher precision and reduces the regulations during the testing phase so that the time required for set up is much shorter.

In the field of plexiglass cutting, we have applied and tested the combination of a marker on a cutting machine. We continued with the experiments necessary for the development of the latest innovations.

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 fruit and vegetable 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 continued research on the nature and limitations of this technology which manages cutting through a remote process without the assistance of proximity devices for focusing and delivering the 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 have conducted feasibility studies and we have examined patent rights for a hypothetical project 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 developed new compact cutting systems with better performance and lower costs.

They are studying ways to eliminate most of the optical routes of the CO<sub>2</sub> laser beam with solutions that include the assembly directly on the mobile portal of the machine of the new sources with radio-frequency pumping.

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

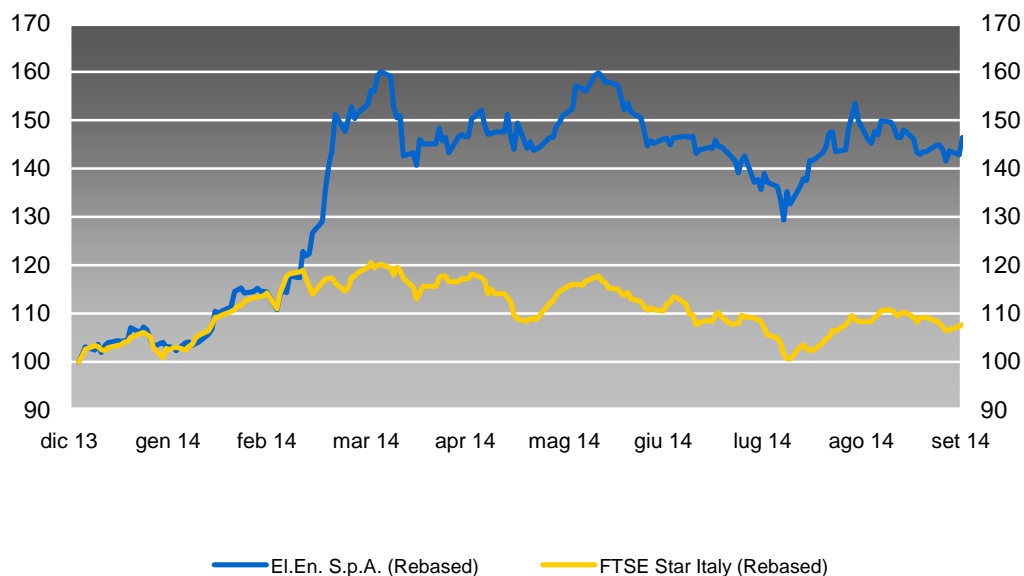
<i>thousands of euros</i>	<b>30/09/2014</b>	<b>30/09/2013</b>
Costs for staff and general expenses	4.483	4.452
Equipment	51	30
Costs for testing and prototypes	985	771
Consultancy fees	512	373
Other services	54	79
Intangible assets	0	0
<b><i>Total</i></b>	<b>6.085</b>	<b>5.705</b>

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% 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 August 1<sup>st</sup> the Group acquired 19,5% of the shares of Quanta Aesthetic Lasers Usa LLC (Quanta USA), with an investment of 2.4 million dollars including 21.148 shares of El.En. Spa stock which were part of the price and \$500.000 as an increase in capital stock. As part of the transaction El.En. also obtained the right to round off their equity in Quanta Usa to 51% by March 2017, with a mechanism which would fix the price on the basis of the economic results obtained by the company. The operation was concluded by the subsidiary BRCT Inc. which is 100% controlled by the Parent company.

Quanta Usa is an independent company to which the Group granted the use of the name of Quanta System since they are their sole distributors in North America for their medical and aesthetic products. By the third year of their collaboration, in 2013, they registered a sales volume of 6,8 million dollars with an EBIT of 450 thousand dollars. The company's sales volume and profits are growing rapidly and they registered a sales volume of 4,9 million dollars in the first six months of 2014.

The partnership of Quanta System, which is 100% controlled by El.En. Spa, with Quanta Usa represents one of the most rapidly growing companies on the American market for laser systems for aesthetic medicine. This strategic investment is emblematic of El.En.'s determination to acquire a position of leadership on the most important world markets, the North American one, as well as the European, Chinese and Japanese markets.

## Subsequent events

No significant events occurred after the closure of the third quarter 2014.

## **Current outlook**

The excellent performance during the third quarter has confirmed the acceleration of growth of the sales volume evident in the first months of the year: at the end of September the increase of 16% over the preceding year also created a significant improvement in the EBIT. These figures represent brilliant results which exceed our forecasts and allow us to confirm that the objectives for the year (growth of the sales volume by 5% and improvement of the EBIT) will be easily achieved by a sales volume which we believe will show a growth of over 10% on an annual basis and an EBIT which will also show a significant increase.

Moreover, the changes in the exchange rates have made it so of the results of the financial management made a considerable contribution to the overall profits of the Group; if there are no counter-trends in the exchange rates and thanks to the capital gains obtained in March from the sale of the Cynosure shares, the consolidated income before taxes could be more than double the 10,6 million Euros registered in 2013.

For the Board of Directors

The managing director  
Ing. Andrea Cangioli

**Attachment “A”: List of the consolidated companies as of September 30<sup>th</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 Sarl	Lyons (FRA)	EURO	100,00%		100,00%	100,00%
BC Tech GmbH (ex 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%
Lenap Inc. (ex Lasit Usa Inc.)	Hamden (USA)	USD		100,00%	100,00%	70,00%
Cutlite do Brasil Ltda	Blumenau (BRASIL)	REAL	68,56%		68,56%	68,56%
Lasercut Technologies Inc.	Hamden (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%
Chutian (Tianjin) Lasertechnology Co. LTD	Tianjin (China)	YUAN		49,00%	49,00%	26,05%
Quanta USA LLC	Englewood (USA)	USD		19,50%	19,50%	19,50%

**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, November 14<sup>th</sup> 2014

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