

Annual Financial Report 2012

EL.EN. S.p.A.

ANNUAL FINANCIAL REPORT AS OF DECEMBER 31ST 2012

El.En. S.p.A.
Headquarters in Calenzano (FI) – Via Baldanzese n. 17
Capital stock: € 2.591.871,36 approved € 2.508.671,36 underwritten and paid
Company registered with the Registro delle Imprese di Firenze n. 03137680488

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

CORPORATE BOARDS OF THE PARENT COMPANY

Board of Directors

CHAIRMAN

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangioli

BOARD MEMBERS

Paolo Blasi

Michele Legnaioli

Stefano Modi

Alberto Pecci

Board of statutory auditors

CHAIRMAN

Vincenzo Pilla

STATUTORY AUDITORS

Paolo Caselli

Gino Manfriani

Executive officer responsible for the preparation of the Company's financial statements in compliance with Law 262/05

Enrico Romagnoli

Independent auditors

Deloitte & Touche S.p.A.

Management Report 2012

INTRODUCTION

To our shareholders,

The financial year which ended on December 31st 2012 closed with a net profit for the Group of 23.199 thousand Euros.

The capital gains that was achieved after the sale of a block of 840.000 shares of the 2,9 million Cynosure shares is the main feature of the financial year 2012 both in the income statement and its effects on the structure of the Group. This operation, which is described in a special section of this report that illustrates the nature and financial details of the transaction, made it possible for the company to enter into the consolidated income statement capital gains for an amount of about 5.4 million Euros, and marked the end of Cynosure's inclusion in the area of consolidation since, with the decrease in the amount of the equity, the conditions that were the basis for the control of the company and consequently for its inclusion in the area of consolidation, no longer existed. The residual shares of Cynosure after the closing date of the public offering for sale by the company were evaluated at fair value which was represented by the closing price of the offer and comported a re-evaluation in the income statement for an amount of 13,5 million Euros.

This was not the only exceptional operation that occurred during this financial year: the acquisition of the minority share of Quanta System S.p.A. brought the equity in this company, which right now is one of the best performers in the Group, up to 100%; moreover, there was a merger between Cutlite Penta Srl and Ot-las Srl, the two subsidiaries manufacturing industrial systems for cutting and marking, thus making the operating structure of the Group in the industrial sector simpler and more effective.

Another significant feature of this financial year was the outstanding performance of Cynosure, whose excellent results, thanks to the rise of its stock (Nasdaq, CYNO), allowed the company to appear on the market with an increase in capital which further consolidated its financial position which is now substantial enough even for important M&A operations. With this same transaction a part of the equity of El.En. S.p.A.. was liquidated.

The other companies in the Group showed a growth and EBIT that were basically in line with the forecasts that had been made at the beginning of the year. The sales volume showed an increase of 10% and the EBIT was close to 5% of the sales volume. Because they mark the return of the Group to a current profitability these results should be considered in a positive light, even though we are well aware of the potential for much higher earnings which have not been achieved on account of the factors that will be explained further on in this report.

Although we were able to mitigate some of the negative effects that had influenced the results for 2011, the Group still has to face market conditions that are very critical in Europe both in the medical and the industrial sectors. One of the major difficulties, and one which became increasingly serious as the year progressed, was the availability of financing for clients who wished to purchase our machines. The limitations on growth that the lack of cash available for investments is generating in our market are very evident, particularly in Italy and in the industrial sector. It is only thanks to the global position of the Group and the percentages of the sales volume from the Far East, the Middle East and Latin America, besides the USA, that it was possible to meet our goals and achieve a growth of over 10%. The excellent results of some of the companies in the Group like Quanta System, Asa, Asclepion and Lasit, are particularly significant in view of the critical conditions in which they were achieved and which were responsible for the uncertain performance of other companies and activities.

REGULATORY FRAMEWORK

In compliance with the *European Regulation* n. 1606 of July 19th 2002, the El.En. Group has formulated the consolidated statement as of December 31st 2012 in compliance with the international accounting standards approved by the European Commission.

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

SIGNIFICANT EVENTS WHICH OCCURRED DURING THE FINANCIAL YEAR 2012

On January 30th 2012 the subsidiary Cynosure, Inc. (NASDAQ: CYNO), which became an associated company starting from the end of November 2012, announced that the U.S. Food and Drug Administration ("FDA") had authorized the commercial distribution of the Cellulaze™ system in the United States. After almost four years of clinical research Cellulaze is truly in a class by itself: it is the only product that is clinically demonstrated to reduce cellulitis in a single treatment. Cellulaze consequently will complete the line of Smartlipo™ systems for body shaping.

After the clearance for sale in the United States of this innovative system which is the result of collaboration between the research teams of Cynosure and El.En., Cynosure was able to benefit from a significant rise in sales which consolidated their position of leadership in the Group for minimally invasive laser-lipolysis, a sector in which Cellulaze represents a specific application for the treatment of cellulitis.

On January 31st 2012 the Parent Company sold to a third party its equity in Alfa Laser S.r.l. (19%) for the amount of 1.000 Euros.

On March 31st 2012 the Japanese subsidiary With US co. acquired from a minority partner shares for an amount equal to 35% of the company's capital. As a result of this transaction, the Group's equity in the company increased from the previous amount of 51,25% to 78,85%. The shares were purchased at the nominal amount of 35.000.000 Japanese Yen on the basis of the corresponding value of the amount of the equity of the company as of March 31st 2012 which was about 107 million Yen. The higher value obtained in this way, for an amount of about 650 thousand Euros, does not represent operating revenue and increases the consolidated equity and, consequently, the equity of the Group.

On May 7th 2012 the shareholders' meeting of Elesta S.r.l., in which the Parent Company El.En. S.p.A. has an equity of 50%, voted to cover the losses that had been shown in the financial statements issued on December 31st 2011 and in the statement of financial position of March 31st 2012 drawn up in conformity with art. 2482-bis c.c., for an amount of 643.602 Euros, by reducing the capital to zero, making use of the special reserve fund that had been set up for this purpose the preceding year for an amount of 128.472 Euros plus a further payment. They also voted to reconstitute the capital stock for the original amount of 110 thousand Euros; the increase was entirely underwritten by the partners.

On May 15th 2012 the shareholders' meeting of the Parent Company El.En. S.p.A. in ordinary assembly approved the following measures:

Approval of the financial statement as of December 31st 2011

The Assembly approved the financial statement of El.En. S.p.A. and voted to use the profits for the year, amounting to 1.264.103,00 Euros to set up an extraordinary reserve.

Approval of the report on remuneration

The Assembly approved the report on remuneration in conformity with art. 123-ter D.Lgs. 24 February 1998, n. 58.

Appointment of the Board of Directors

After establishing the number of members, the Assembly renewed the Board of Directors of the Company and confirmed all of the present members whose term is now expiring and the president, Ing. Gabriele Clementi. The term for the new administrative body will expire when the assembly meets to approve the financials issued on December 31st 2014.

The Assembly also voted on the maximum gross annual indemnity to be assigned to the members of the Board of Directors..

Appointment of Independent auditors for the years 2012/2020

In conformity with articles. 12, 14 and 17 of D.Lgs. 27 January 2010, n. 39, after the expiration of the term of Reconta Ernst & Young S.p.A. the Assembly assigned the job of independent auditors the auditing firm of Deloitte & Touche S.p.A. for the financial years 2012/2020; the amounts to be paid the firms for this work were also voted on after the proposal moved by the Board of Auditors.

In an extraordinary meeting, the Assembly also approved:

Adjustment of the company by-laws

The Assembly voted to adjust the company by laws in conformity with L. 12 July 2011 n. 120 and with the new Self-Disciplining Code for companies quoted on the stock market with the modification of articles 19, 25, 20 and 25.

Other modifications in the by-laws

In conclusion, the Assembly voted to modify art. 13 by changing the title of the publication of the notice calling the Assembly.

On May 15th 2012 the Board of Directors that had just been appointed, confirmed as executive members the President Ing. Gabriele Clementi and the members Barbara Bazzocchi and Andrea Cangioli and assigned them, separately and with independent signature, all of the ordinary and extraordinary administrative for conducting all of the activities that are part of the company purpose with the exception of those activities that are prohibited by law or by the company statutes. The Board then proceeded with the appointment of the commissions required by the Self-Disciplining Code of

quoted companies and confirmed the members whose terms had expired. They also revised the regulations and naming of the committees in accordance with the recent changes in the Self-Disciplining Code.

On August 3rd 2012 the subsidiary Ot-las S.r.l. sold its equity of 17,33% in Lasit S.p.A., to the Parent Company El.En. S.p.A. for the amount of 450 thousand Euros.

Also on August 3rd 2012, the Parent Company El.En. S.p.A. brought its equity in Ot-las to 100% by buying the residual 10% from the minority partners for the amount of 150 thousand Euros.

On August 27th 2012 the company received the notice of resignation of one of the board members, Dott. Angelo Ercole Ferrario.

On October 3rd 2012 the Board of Directors of El.En. S.p.A. voted to adopt the regime of opt-out in conformity with art. 70, comma 8 and 71, comma 1-bis Regolamento Emittenti Consob 11971/99, thus benefitting from the option to omit publication of the information documents required as a hypothesis of significant extraordinary operations involving mergers, splits, increases in capital by means of granting of goods in kind, acquisition and disposal.

On October 8th 2012 El.En. S.p.A. acquired from the minority partner Laserfin S.p.A. 40% of the shares in Quanta System S.p.A. and 10% of the quotas in DEKA M.E.L.A. S.r.l.. Both of these companies were already subsidiaries and wholly consolidated in the statements of the Group. After this transaction, El.En. S.p.A. holds 100% of the shares of Quanta System and 85% of DEKA M.E.L.A.. This operation was conducted for the purpose of streamlining the equities within the Group and simplifying its structure. In exchange for the acquisition of the two equities, El.En. S.p.A. transferred to the seller 82.000 ordinary shares of El.En. S.p.A. which were held as treasury stock besides a cash payment of 3,4 million Euros to be paid over a period of three years and also an “earn out” payment of 125 thousand Euros. With reference to the evaluation of 25 Euros used for the El.En. S.p.A. shares, which was equal to the value of these same shares, the overall cost for the operation was 5,6 million Euros.

On October 9th 2012 the subsidiary Quanta System S.p.A. sold to a third party its equity in T.F.D. Ticino Forniture Dentali S.r.l. (19%) for the amount of 1.000 Euros.

On October 30th 2012 the shareholders assemblies of Cutlite Penta S.r.l. and Ot-las S.r.l. voted to approve a merger of the two companies with the former incorporating the latter (the merger project had been previously approved by the boards of the two companies on October 24th 2012).

Later, after the legal time period had expired and none of the creditors of the two companies had raised any opposition, on December 18th 2012 the companies stipulated a merger contract according to which Ot-las S.r.l. was incorporated into Cutlite Penta S.r.l.. As a result of this merger the incorporating company acquired full title to the assets and liabilities of the company being incorporated. The merger took effect on December 31st 2012, the last day of the month in which the last enrollment in the Register of Companies was effected in compliance with art. 2504 bis c.c.. In compliance with art. 2501 ter, I paragraph, n. 6, c.c. the operations of the company that is incorporated are entered into the accounts of the company that is incorporating starting on January 1st 2012, the first day of the financial year in progress on the date of effect of the merger in relation to third parties. The imposition of direct taxation also takes effect starting on the same date. After the merger, the equity of El.En. S.p.A. in Penta S.r.l. rose from 90,67% to 93,76%.

With a public offering initiated on November 12th 2012, Cynosure Inc. promoted a public offering of 2,6 million newly issued ordinary shares. As part of the same offering, El.En. put up for sale 600.000 of its Cynosure shares. Afterwards, Leerink Swann LLC, the bank responsible for placing the offering, exercised its “Greenshoe” right by buying 240.000 more shares from El.En. S.p.A. and 240.000 newly issued shares. On November 21st the operation was concluded at a price of 20,50 US dollars per share.

Cynosure intends to use the net earnings from the newly issued shares which were part of the offering for generic company purposes which might include the purchase of products, technology, or complementary companies. The amounts received from the sale of the shares belonging to El.En. S.p.A. will pertain exclusively to El.En. S.p.A. El.En. S.p.A. also intends to use the earnings from the operation for generic purposes related to the development of the company.

With the conclusion of the closing of the offering and due to the sale of the shares, the equity held by El.En. S.p.A. in Cynosure Inc. fell below the threshold of 20% to about 13%. Consequently, the company by-laws that assigned to El.En. S.p.A. the right to control the Board of Directors of Cynosure through the appointment of four members out of seven is no longer in force and the equity in Cynosure, also in relation to the consolidated statements, is no longer considered controlling. For this reason, starting on the closing date, the financial results of Cynosure Inc., will no longer be entirely consolidated in the statements of the El.En. Group.

The collaboration in the activities of development and marketing between El.En. and Cynosure will not be altered by the different relationship between the two companies; the sales contract which is at the base of the commercial success of the Cellulaze system was renewed and extended until 2019.

The sale of the shares comported the entering into the consolidated accounts a capital gains obtained on the shares sold, details of which will be explained further on in this report.

This sale, which has the characteristics described by IFRS 5 and by the most recent international accounting standards, is represented in this report under the heading of *Discontinued Operations*.

On November 14th 2012, the shareholders' meeting of the Parent Company El.En. S.p.A., met in ordinary assembly and voted to reduce the number of members of the Board of Directors from eight to seven; they also voted to authorize the purchase of ordinary treasury stock in compliance with the limitations imposed by the law.

On December 20th 2012, Quanta System Italia S.r.l., was created; this company, in which Quanta System S.p.A., has an equity of 19% was founded for the purpose of re-enforcing the presence of the Group in the medical-aesthetic sector in Italy by innovating, enlarging and implementing the products offered.

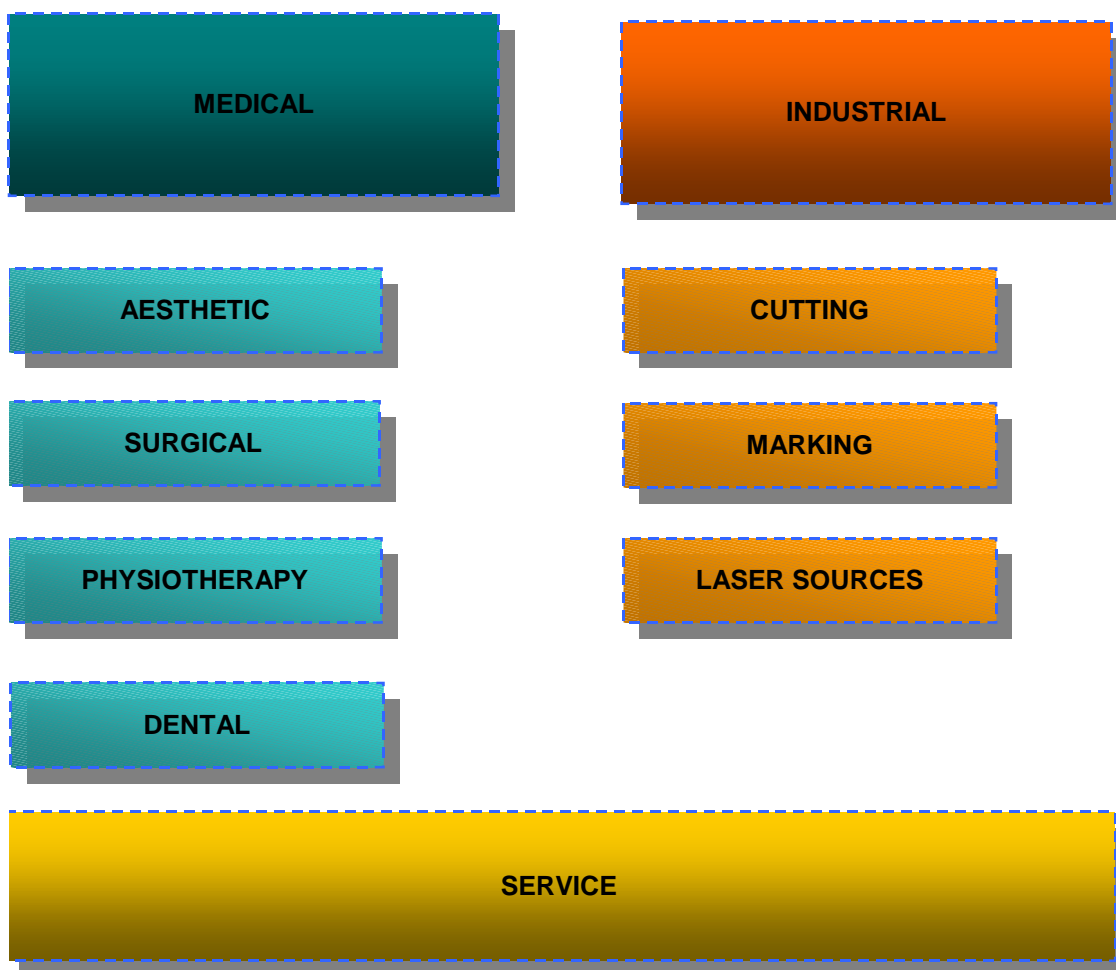
On December 21st 2012, the Parent Company El.En. S.p.A. acquired 10% of the quota of Cutlite do Brasil from a minority partner for the amount of 1.080.400 Real, equal to about 395 thousand Euros so that the amount of their equity was increased from 78% to 88%.

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:



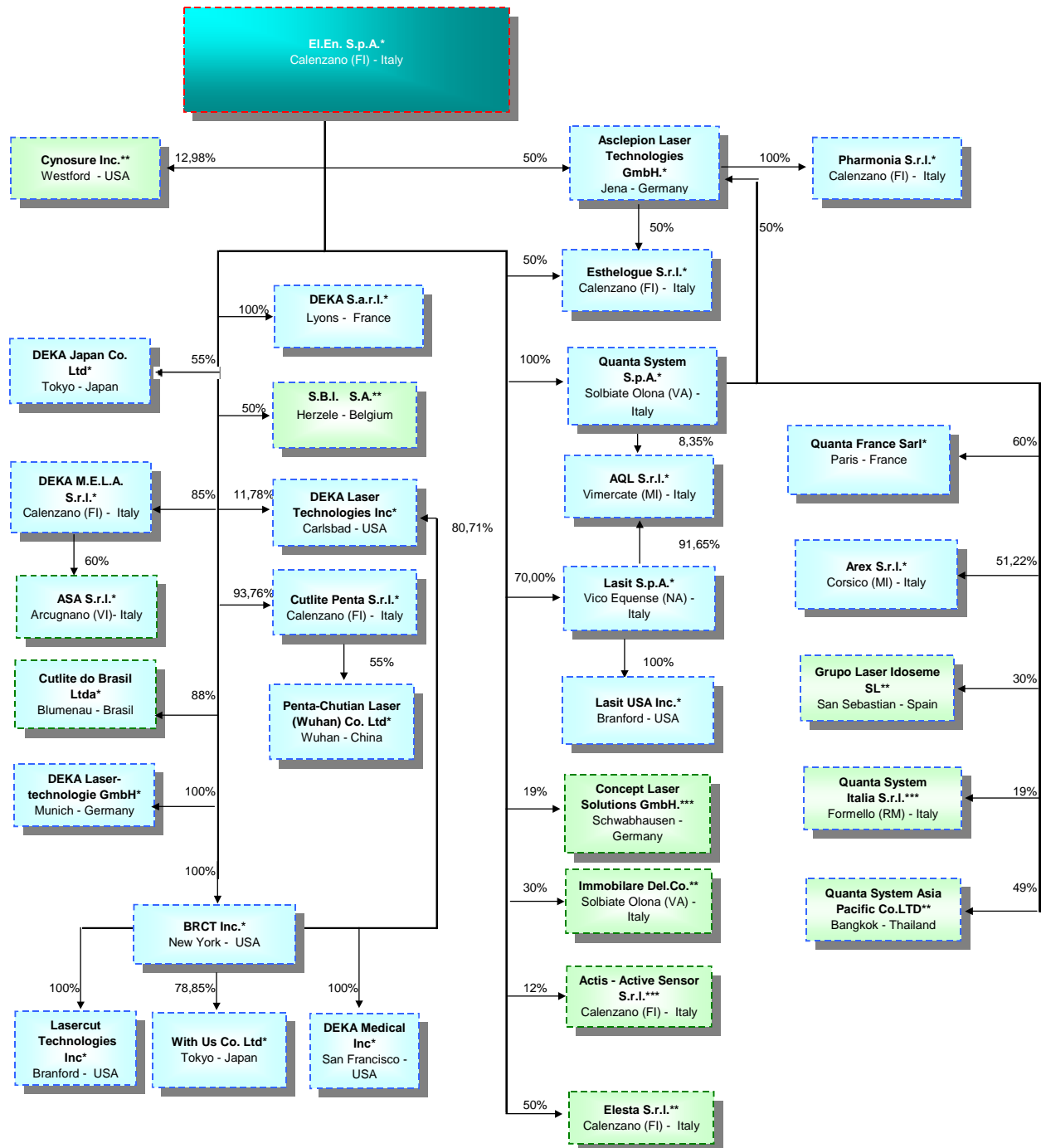
Along with their main activity of selling systems, the Group offers after-sales service which is not only the indispensable support for the installation and maintenance of our laser systems but also a source of revenue from the spare parts, consumables, and technical assistance.

The division of the Group into multiple companies also reflects the strategy for the distribution of their products and the coordinating of the various research and development and marketing activities. In fact, particularly in the medical sector, the various companies which through acquisitions have gradually become part of the Group (DEKA, Asclepion, Quanta System, Cynosure, which left the area of consolidation at the end of 2012, 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 centers 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 Structure

As of December 31st 2012 the structure of the Group is as follows:



* Entirely consolidated

** Consolidated using the equity method

*** Kept at cost

PERFORMANCE INDICATORS

The following performance indicators have been shown for the purpose of providing additional information on the economic and financial performance of the Group:

| | 31/12/12 | 31/12/11 |
|--|----------|----------|
| Profitability ratios: | | |
| ROE (Net income / Share Capital and Reserves) | 26,0% | -0,3% |
| ROS (EBIT/ Revenues) | 4,9% | 3,7% |
| Structure ratios: | | |
| Financial flexibility (Current assets / Total assets) | 0,68 | 0,76 |
| Leverage ((Shareholders' Equity + Financial liabilities) / Shareholders' Equity) | 1,18 | 1,11 |
| Current Ratio (Current assets / Current liabilities) | 2,52 | 2,67 |
| Acid ratio ((Current receivables + Cash and cash equivalents)/ Current liabilities) | 1,66 | 1,77 |
| Quick ratio ((Cash and cash equivalents + Investments) / Current liabilities) | 0,77 | 0,94 |

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

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

ALTERNATIVE NON-GAAP MEASURES

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

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

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

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

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

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

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

GROUP FINANCIAL HIGHLIGHTS

In 2012 the Group achieved good results and consolidated its net financial position thanks to the sale of the Cynosure shares which took place in November. Unlike last year, this year got off to a good start and the level of activity remained intense throughout the year and was substantially constant in both the first and second half, in spite of the seasonal variations which in the past have made the second half of the year more profitable.

The sale of the Cynosure shares and the consequent de-consolidation of the company simplifies the reporting of the results which was always complicated by the presence of such an important company in which a controlling interest was held but for a quota of just over 20%. With the de-consolidation of Cynosure the consolidated sales volume decreases, the Cynosure portion of which added to the result of the Group only in the amount of about 20%. Cynosure remains in its role as an important client of the Group and potential collaborator in the future for technical and marketing projects like those initiated in 2006 with Smartlipo for laser-lipolysis which later evolved with Triplex and Cellulaze, which have greatly contributed to the success of Cynosure and the Group in recent years. El.En. and Cynosure, both of which emerged re-enforced after the operations in November 2012, are equipped to face an autonomous development of growth strategies and count on being able to capitalize on their reciprocal capacities for the success of joint projects.

Shortly before the above mentioned Cynosure transaction, El.En. S.p.A. had compacted the structure of the Group by acquiring the residual shares of Quanta System so that the Group now possesses 100%, and also a further 10% of Deka Mela, so that they now hold 85%, thus consolidating their presence in this profitable company.

The excellent performance of Cynosure offers us the occasion to illustrate some of the main features in the evolution of our markets during 2012: the American market started to grow again and to absorb an increasing volume of technological systems for medical and aesthetic treatments, thus facilitating a return to profitability, at least in the fourth quarter, of all the main American companies operating in this sector, many of which had been in the red since 2008. Besides the positive trend of the domestic market, the American manufacturers were able to benefit from the weakness of the US dollar during the year, which allowed them to implement, without being penalized, expansion policies with aggressive prices on the international markets. The El.En. Group which, without Cynosure is an exclusively European producer in the medical sector, had to face a European market that was in an evident phase of stagnation as well as the fierce competition of the American companies which, especially in Europe but also on other markets that remained livelier this year, were able to implement very aggressive pricing policies which were unusual for the competitive approach that they had followed up to now.

In order to move ahead in this discouraging scenario, we made use of the best weapons we have to beat the competition, that is, the innovation of products and applications. Among the innumerable novelties introduced in the medical market by the three main business units, Deka MELA, Quanta System and Asclepion, we can mention the new models of multiple wave length Q-switched lasers for the removal of tattoos and pigmented lesions which were introduced by Quanta System; the coloring system VASQ introduced by Deka MELA at the beginning of 2013, the new Alexandrite Repla:y hair removal system launched by Deka at the end of the year; Mediostar Next, a diode system for hair removal of great therapeutic effectiveness, and very popular on both the Italian and international markets, which was launched by Asclepion; a range of lasers for the treatment of benign prostate hyperplasia with Holmium and Tullium technology developed by Asclepion and Quanta System which places the Group at the forefront in this important application niche; the “Mona Lisa Touch” system for the treatment of vaginal atrophy, launched in September by Deka for the gynecological sector. Also in the industrial sector 2012 was a year filled with innovations including a new series of mid- to low- powered CO₂ sources excited by radio frequency (RF), which are very compact and effective for various types of applications in the manufacturing field and a series of improvements on the power laser sources with fast axial flow which represent the main pillar for the growth of the Group in the field of metal cutting applications in China.

The chart below shows the breakdown of the sales volume among sectors of activity of the Group during 2012 compared with the same break-down for 2011.

Note: unlike the data shown in the preceding annual, half-yearly and quarterly reports, the sales volume of Cynosure Inc. is not included in the consolidated sales volume both in the column related to 2012 and, for consistency, that related to 2011. The results for Cynosure Inc., even for the period when the company was wholly consolidated, i.e., up until November 2012, is shown on the lines in the income statement that are below the EBIT, as will be described in detail below. Consequently, the consolidated sales volume coincides with the sales volume which used to be shown as the sales volume of the consolidated statement drawn up excluding Cynosure.

| | 31/12/2012 | Inc% | 31/12/2011 | Inc% | Var% |
|-------------------------------|----------------|----------------|----------------|----------------|---------------|
| Industrial systems and lasers | 35.590 | 23,53% | 35.890 | 26,12% | -0,84% |
| Medical and aesthetic lasers | 87.889 | 58,11% | 76.208 | 55,47% | 15,33% |
| Service | 27.756 | 18,35% | 25.294 | 18,41% | 9,73% |
| Total | 151.234 | 100,00% | 137.392 | 100,00% | 10,07% |

The overall growth is over 10% and meets the expectations for the year. The industrial sector maintains its positions while the medical sector represents the main source of growth together with the good performance of customer service.

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

| | 31/12/2012 | Inc% | 31/12/2011 | Inc% | Var% |
|-------------------|----------------|----------------|----------------|----------------|---------------|
| Italy | 27.055 | 17,89% | 25.929 | 18,87% | 4,34% |
| Europe | 32.164 | 21,27% | 32.860 | 23,92% | -2,12% |
| Rest of the world | 92.016 | 60,84% | 78.603 | 57,21% | 17,06% |
| Total | 151.234 | 100,00% | 137.392 | 100,00% | 10,07% |

The chart is highly representative of the present situation of the markets with the international crisis which continues to prevail, especially in Europe. Consequently, the sales volume in Europe fell by 2%; in Italy it shows a small increase, thanks also to the substantial investments made for the maintenance of the marketing structures and the extension of the average payment time which is a condition imposed by the lack of cash which characterizes our market.

The growth all occurred in the rest of the world where the best results were those achieved in North America and in the Far East.

Within the medical/aesthetic sector, which represents almost 60% of the sales of the Group, the trend in sales in the various segments is shown on the chart below:

| | 31/12/2012 | Inc% | 31/12/2011 | Inc% | Var% |
|----------------------|---------------|----------------|---------------|----------------|---------------|
| Surgical CO2 | 8.973 | 10,21% | 8.209 | 10,77% | 9,30% |
| Physiotherapy | 6.125 | 6,97% | 5.744 | 7,54% | 6,63% |
| Aesthetic | 54.442 | 61,94% | 44.340 | 58,18% | 22,78% |
| Dental | 3.057 | 3,48% | 3.199 | 4,20% | -4,46% |
| Other medical lasers | 11.710 | 13,32% | 10.854 | 14,24% | 7,89% |
| Accessories | 3.582 | 4,08% | 3.862 | 5,07% | -7,24% |
| Total | 87.889 | 100,00% | 76.208 | 100,00% | 15,33% |

As we have seen for the overall sales volume, the result is quite satisfactory especially since it was obtained exclusively through the internal growth of structures which were already part of the Group.

The main segment, aesthetics, has grown more than the others and its prevalence is significant both in the medical sales volume and that of the Group.

It should be recalled that the organization of the Group for sales in this sector consists in a multi-brand approach which is divided among three structures headed by Deka MELA, Quanta System and Asclepion. Each of these three companies has its own line of products which are different from those of the other two thanks to the presence of three different research and development teams operating in the company headquarters in Florence, Milan and Jena which are coordinated along the same basic lines but work with the independence necessary so that each brand has its own distinct position on the market for technology, the product type and image.

In the aesthetics sector there are several main applicative technologies for our laser technologies: hair removal continues to be one of the main segment; other important segments are those of “skin rejuvenation”/“skin tightening”, vascular treatments, laser lipolysis, removal of tattoos and pigmented lesions, and “body shaping” with non-invasive techniques.

For each application segment each brand is able to offer its own particular solution, many of which have characteristics that are unique and innovative. For example, in laser-lipolysis, Smartlipo, with its Nd:YAG technology, is a product and

a trademark of Deka MELA (granted to Cynosure as part of the Cellulaze technology for the treatment of cellulitis); for hair removal, the Mediostar Next system with semi-conductor technology characterizes the product line offered by Asclepion on the international markets and through the distribution network of Esthelogue on the Italian market of professional aestheticians; on the same aesthetic market, Quanta proposes a combination of Alexandrite and Nd:YAG in their range of Light systems, while Deka has adopted a different configuration of the same technologies for its Repla:y system; Q plus by Quanta System is a point of reference for tattoo removal and has been particularly successful in the United States where it has competed with well known systems manufactured by American competitors. For the body shaping applications, Deka's multifunctional system Triactive+ offers a selection of laser, ultrasound and radio frequency technologies that is able to supply total support for the application; in the same field, Asclepion offers acoustic waves, while Quanta System, along with Esthelogue, has obtained a license for the Icoone technology for mechanical lymphatic draining. For vascular applications Deka and Quanta offer different typologies of Nd:YAG systems, while Asclepion has launched Yellow Star Pro which is able to emit a yellow-colored radiation, and Deka has relaunched the segment of dye lasers with a new VASQ system.

The CO₂ surgical segment grew thanks to the increasing success of Deka's Smartxide Quadro systems, which represent a point of reference for the market of otolaryngological applications, thanks also to high precision accessories (sales of which are shown in the sales volume segment under the heading of "Accessories") like the scanners and micromanipulators which are used together with the lasers for this kind of application. In the Fall of 2012, Deka launched the "Mona Lisa Touch" method which is based on a CO₂ laser system and a galvanometric scanning system for the treatment of vaginal atrophy which makes it possible to improve the quality of life for women in menopause.

The residual segment "Others" includes in particular solid state laser systems for the surgical applications in which Quanta System excels: its Holmium lasers for lithotripsy represent a point of reference on the market also in the OEM versions, while the Tullium lasers for treating BPH (benign prostate hyperplasia) constitute the most innovative technology for this application. Asclepion has also recently entered this segment with a Holmium laser system. The Excilite equipment for the treatment of psoriasis has also been successful, particularly in the Far East.

In 2012 the therapy segment also showed an increase in sales volume: the activity is entirely managed by ASA of Vicenza which, besides having developed a line of low-powered diode laser systems for physical therapy, also distributes the range of Nd:YAG lasers manufactured by El.En. The competency acquired in this sector with the clinical support and highly effective marketing activity have been responsible for the continued growth in profits and sales volume over the years.

The dental sector showed a decrease in sales which is mainly due to the phase of reorganization of the activities in the United States which has not met the expectations for development that were advanced after the activity was relaunched at the beginning of 2009.

For the industrial applications sector, the chart below shows the breakdown of the sales volume by the market segments in which the Group operates

| | 31/12/2012 | Inc% | 31/12/2011 | Inc% | Var% |
|-----------------------------------|---------------|----------------|---------------|----------------|---------------|
| Cutting | 24.551 | 68,98% | 24.889 | 69,35% | -1,36% |
| Marking | 9.601 | 26,98% | 9.694 | 27,01% | -0,95% |
| Laser sources | 1.140 | 3,20% | 945 | 2,63% | 20,54% |
| Welding, other industrial systems | 298 | 0,84% | 362 | 1,01% | -17,80% |
| Total | 35.590 | 100,00% | 35.890 | 100,00% | -0,84% |

The brilliant growth that was shown in sales in 2011 was not repeated in 2012 and sales for the year remained substantially unchanged.

During this year the driving force of the Chinese market where Penta Chutian Laser (Wuhan) Co Ltd operates began to wane. This company is active in the sector of laser power systems for cutting metal. The slowdown in the growth of the Chinese market is also due to an interval in the local economy which is awaiting the change in state administration which occurred in the Fall. This phase, as far as the acquisition of orders was concerned was overcome by the end of the year. Although it showed a slight growth, the company did not contribute to the further development of the sector as had been expected. Penta Chutian Laser (Wuhan) is an important client for the other companies of the Group and purchases the most critical laser components from Cutlite Penta S.r.l. and from El.En. S.p.A..

Without the traction of the Chinese market the companies that have their main market in Europe suffered considerably from the difficult economic situation; this comported a decrease in sales volume in Europe and in Italy in the cutting sector and in the sector of marking on large surfaces. The two companies that are active in this sector, Cutlite Penta and Ot-las, merged at the end of the year with an aim to streamlining the manufacturing and marketing activities which were simplified by having a unified management in a single company. The manufacturing and sales activities in Brazil also slowed down during the Summer and recovered only partially towards the end of the year.

Lasit, on the other hand, operating in the sector for marking on small surfaces had a good year and was able to capitalize on its excellent capacity for customizing systems on the basis of the requirements of the clientele and its effectiveness in the management of its clients.

The growth in the laser source sector was interesting in terms of percentage but not very significant in overall terms since, with the expansion of the companies in the Group that are manufacturing these systems, particularly in Brazil and in China, most of the laser source production is absorbed by the internal manufacturing of systems.

The little sector of restoration is significant for us mainly for reasons of image of the Group, which is committed to the policy of making available the most advanced technology for the restoration of some of the greatest works of art. Although we recognize that there has been a decrease in sales volume, it should be noted that our installations contributed to the conservation of some of the most prestigious works of art in the world: in 2012, among others, these included the warriors of Xian in China, the Cathedral of Chartres in France, the Cathedral of St Stephen in Vienna and the cathedral in Pisa.

CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 31st 2012

The chart below shows the consolidated Income statement for the year ending on December 31st 2012 compared with that for 2011.

It should be noted that, on account of the sale of a part of the Cynosure shares held by El.En. (as described in the paragraph titled “Significant events which occurred in 2012”) and the consequent loss of control of the American company starting at the end of November 2012 this company is no longer wholly consolidated but is consolidated with the shareholders’ equity method and for this reason the statement has been drawn up in compliance with IFRS 5.

Since the contribution of Cynosure, up until the time that the shares were sold, for the result of the Group was defined as a *major line of business* the operation of sale has been defined as a *Discontinued Operation*. Consequently, in the income statement for 2012 and for reasons of comparison with 2011, the entries of revenue and income and the cost and charges as well as the capital gains from sales and re-evaluations have been reclassified under the heading of “Net income (loss) from *Discontinued Operations*”.

| Income Statement | 31/12/12 | Inc.% | 31/12/11 | Inc.% | Var.% |
|--|----------------|---------------|----------------|---------------|--------------|
| Revenues | 151.234 | 100,0% | 137.392 | 100,0% | 10,1% |
| Change in inventory of finished goods and WIP | (2.148) | -1,4% | 4.248 | 3,1% | |
| Other revenues and income | 2.739 | 1,8% | 2.060 | 1,5% | 33,0% |
| Value of production | 151.825 | 100,4% | 143.701 | 104,6% | 5,7% |
| Purchase of raw materials | 68.820 | 45,5% | 66.271 | 48,2% | 3,8% |
| Change in inventory of raw material | 61 | 0,0% | (1.495) | -1,1% | |
| Other direct services | 10.894 | 7,2% | 11.787 | 8,6% | -7,6% |
| Gross margin | 72.050 | 47,6% | 67.137 | 48,9% | 7,3% |
| Other operating services and charges | 25.846 | 17,1% | 25.325 | 18,4% | 2,1% |
| Added value | 46.204 | 30,6% | 41.812 | 30,4% | 10,5% |
| For staff costs | 33.685 | 22,3% | 30.990 | 22,6% | 8,7% |
| EBITDA | 12.519 | 8,3% | 10.823 | 7,9% | 15,7% |
| Depreciation, amortization and other accruals | 5.045 | 3,3% | 5.728 | 4,2% | -11,9% |
| EBIT | 7.474 | 4,9% | 5.094 | 3,7% | 46,7% |
| Net financial income (charges) | (1.362) | -0,9% | 342 | 0,2% | |
| Share of profit of associated companies | 48 | 0,0% | (689) | -0,5% | |
| Other net income (expense) | (68) | 0,0% | 19 | 0,0% | |
| Income (loss) before taxes | 6.092 | 4,0% | 4.765 | 3,5% | 27,8% |
| Income taxes | 2.953 | 2,0% | 2.658 | 1,9% | 11,1% |
| Net income (loss) for the financial period from continuing operations | 3.140 | 2,1% | 2.107 | 1,5% | 49,0% |
| Net income (loss) for the financial period from discontinued operations | 26.672 | 17,6% | (2.396) | -1,7% | |
| Net income (loss) before minority interest | 29.812 | 19,7% | (289) | -0,2% | |
| Minority interest from continuing operations | 1.010 | 0,7% | 1.386 | 1,0% | -27,1% |
| Minority interest from discontinued operations | 5.603 | 3,7% | (1.404) | -1,0% | |
| Net income (loss) | 23.199 | 15,3% | (270) | -0,2% | |

Continuing Operations

The gross margin was 72.050 thousand Euros, an increase of 7,3% with respect to the 67.137 thousand Euros for the same period last year thanks to the increase in the sales volume. The incidence on the sales volume in fact shows a drop of just over one percent from 48,9% on December 31st 2011 to 47,6% on December 31st 2012, derived from the mix of sales which, on account of the competitive pressure, favored a lower margin.

It should be noted that, also in 2012, although the Group cashed in the sale price during this year, some of the sales financed by the clientele by means of operative leasing have been considered, in compliance with IAS/IFRS principles,

as revenue from multi-year rentals; in any case the phenomenon had a limited effect on the income statement for the year.

Costs for operating services and charges were 25.846 thousand Euros, showing an increase of 2% with respect to December 31st 2011 but registering a lower incidence on the sales volume which was 17,1% as opposed to 18,4% for the same period last year.

The costs for personnel, which amounted to 33.685 thousand Euros also showed an increase of 8,7% with respect to the 30.990 thousand Euros for the same period last year and shows a slight increase in productivity: the incidence on the sales volume, in fact, decreased from 22,6% on December 31st 2011 to 22,3% on December 31st 2012. Part of the staff expenses is represented by the figurative costs for the stock options assigned to staff members.: on December 31st 2012 these costs were 135 thousand Euros as opposed to the 178 thousand Euros on December 31st 2011. On December 31st 2012 the number of employees in the Group was 812 with respect to the 793 on December 31st 2011.

A large portion of the personnel expenses is directed towards research and development, for which the Group receives grants and reimbursements in relation to specific contracts underwritten by the institutions created for this purpose. As of December 31st 2012 the grants received amounted to 1.523 thousand Euros, while the amount received for the same period in 2011 was 1.053 thousand Euros

On account of the trends described above the EBITDA showed an improvement and amounted to 12.519 thousand Euros, as opposed to 10.823 thousand Euros for last year.

Costs for amortizations, depreciations and accruals amounted to 5.045 thousand Euros, decrease of 11,9% with respect to December 31st 2011, as well as the incidence on the sales volume which decreased from 4,2% last year to 3,3% on December 31st 2012. The decrease is mainly due to the smaller amounts of the accruals set aside for credit risks.

The EBIT therefore amounted to 7.474 thousand Euros, as opposed to the 5.094 thousand Euros registered on December 31st 2011, and is equal to 4,9% of the sales volume.

Net financial charges amounted to 1.362 thousand Euros as opposed to the net financial income for 342 thousand Euros registered on December 31st 2011, and was influenced by the weakness of the currencies in which part of the credits of the Group are expressed, the US dollar and the Brazilian Real which decreased in value substantially in the second half of the year. The result of the associated companies amounted to 48 thousand Euros and included also the pro-quota result of Cynosure for the period in which it was not wholly consolidated, i.e., the month of December 2012.

Pre-tax profit was 6.092 thousand Euros, a substantial improvement over the 4.765 thousand Euros on December 31st 2011 for the reasons that are described above.

The costs for current and deferred taxes this year was 2.953 thousand Euros. The adoption of the fiscal consolidated for some Italian companies did, however, allow a fiscal savings in terms of current taxes.

Discontinued Operations

The charts below show the details of the results of the discontinued operations for 2012 and for the preceding year.

| | Discontinued Operations | Continuing Operation Elisions | 2012 Balance |
|--|----------------------------|----------------------------------|-----------------|
| Revenues | 106.905 | (4.783) | 102.122 |
| Change in inventory of finished goods and WIP | 5.051 | 0 | 5.051 |
| Other revenues and income | 424 | (2) | 422 |
| Value of production | 112.380 | (4.785) | 107.595 |
| Purchase of raw materials | 42.293 | (4.746) | 37.548 |
| Change in inventory of raw material | (1.200) | 0 | (1.200) |
| Other direct services | 10.919 | 0 | 10.919 |
| Gross margin | 60.368 | (40) | 60.328 |
| Other operating services and charges | 21.274 | 0 | 21.274 |
| Added value | 39.094 | (40) | 39.054 |
| For staff costs | 24.170 | 0 | 24.170 |
| EBITDA | 14.924 | (40) | 14.885 |
| Depreciation, amortization and other accruals | 5.114 | 0 | 5.114 |
| EBIT | 9.811 | (40) | 9.771 |
| Net financial income (charges) | (201) | 40 | (161) |
| Capital gain on stocks sold | 5.416 | 0 | 5.416 |
| Revaluations | 13.530 | 0 | 13.530 |
| Other net income (expense) | 0 | 0 | 0 |
| Income (loss) before taxes | 28.555 | 0 | 28.555 |
| Income taxes | 1.559 | 0 | 1.559 |
| Income taxes on capital gain and revaluation | 324 | 0 | 324 |
| Income (loss) for the financial period from discontinued operations | 26.672 | 0 | 26.672 |
| Minority interest from discontinued operations | 5.603 | 0 | 5.603 |
| Net income (loss) | 21.069 | 0 | 21.069 |

| | Discontinued Operations | Continuing Operation Elisions | 2011 Balance |
|--|-------------------------|-------------------------------|----------------|
| Revenues | 79.202 | (5.457) | 73.744 |
| Change in inventory of finished goods and WIP | 2.006 | 0 | 2.006 |
| Other revenues and income | 393 | (7) | 386 |
| Value of production | 81.601 | (5.465) | 76.137 |
| Purchase of raw materials | 33.595 | (5.502) | 28.093 |
| Change in inventory of raw material | (2.644) | 0 | (2.644) |
| Other direct services | 8.766 | (0) | 8.766 |
| Gross margin | 41.884 | 37 | 41.922 |
| Other operating services and charges | 19.431 | (15) | 19.416 |
| Added value | 22.453 | 52 | 22.505 |
| For staff costs | 19.375 | 0 | 19.375 |
| EBITDA | 3.078 | 52 | 3.131 |
| Depreciation, amortization and other accruals | 5.245 | 0 | 5.245 |
| EBIT | (2.167) | 52 | (2.115) |
| Net financial income (charges) | (136) | (52) | (188) |
| Capital gain on stocks sold | 0 | 0 | 0 |
| Revaluations | 0 | 0 | 0 |
| Other net income (expense) | 0 | 0 | 0 |
| Income (loss) before taxes | (2.303) | 0 | (2.303) |
| Income taxes | 94 | 0 | 94 |
| Income taxes on capital gain and revaluation | 0 | 0 | 0 |
| Income (loss) for the financial period from discontinued operations | (2.396) | 0 | (2.396) |
| Minority interest from discontinued operations | (1.404) | 0 | (1.404) |
| Net income (loss) | (992) | 0 | (992) |

As mentioned earlier and as shown in the special section of the consolidated notes, after losing control of Cynosure, starting in the end of November 2012 this company is no longer entirely consolidated and the financials are drawn up in compliance with IFRS 5. Since, up until the date of the sale, the contribution of Cynosure to the result of the Group is defined as a *major line of business* the operation of deconsolidation is represented as a *Discontinued Operation*.

The net income from the “*Discontinued Operations*” for 2012, was 26,7 million Euros, and includes among other things the contribution of Cynosure for the 11 months in which it remained part of the Group, the capital gains derived from the sale of 840.000 shares in the company at the unit price of Euros 15,33 (net of the commissions for the underwriting) for a total of 5,4 million Euros, besides the re-evaluation at fair value (represented by the price at the closing of the offering for sale to the public) of the residual quota of the equity in Cynosure for a total amount of 13,5 million Euros. The net result from the “*Discontinued Operations*” for 2012 moreover also includes the reclassification of the overall result of the conversion reserve related to Cynosure Inc. for 438 thousand Euros, after the loss of control of the American company.

The net result from “*Discontinued Operations*” for 2011 includes the contribution of Cynosure Inc. in the net result of the Group.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL POSITION AS OF DECEMBER 31st 2012

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

| | 31/12/2012 | 31/12/2011 | Var. |
|---|----------------|----------------|----------------|
| Statement of financial position | | | |
| Intangible assets | 3.428 | 23.958 | -20.531 |
| Tangible assets | 21.415 | 27.807 | -6.392 |
| Equity investments | 32.550 | 442 | 32.108 |
| Deferred tax assets | 5.682 | 6.354 | -673 |
| Other non current assets | 4 | 5.217 | -5.213 |
| Total non current assets | 63.079 | 63.779 | -700 |
| Inventories | 45.465 | 69.344 | -23.879 |
| Accounts receivables | 38.918 | 50.530 | -11.612 |
| Tax receivables | 3.522 | 5.989 | -2.467 |
| Other receivables | 4.763 | 7.056 | -2.294 |
| Financial instruments | 1 | 24.332 | -24.331 |
| Cash and cash equivalents | 40.475 | 48.365 | -7.889 |
| Total current assets | 133.144 | 205.617 | -72.473 |
| TOTAL ASSETS | 196.223 | 269.396 | -73.173 |
| Share capital | 2.509 | 2.509 | |
| Additional paid in capital | 38.594 | 38.594 | |
| Other reserves | 37.753 | 36.171 | 1.582 |
| Treasury stock | -528 | -2.576 | 2.048 |
| Retained earnings / (deficit) | 11.058 | 20.278 | -9.220 |
| Net income / (loss) | 23.199 | -270 | 23.469 |
| Share Capital and Reserves attributable to the Shareholders' of the Parent Company | 112.584 | 94.705 | 17.879 |
| Share Capital and Reserves attributable to non-controlling interests | 11.715 | 80.405 | -68.690 |
| Total equity | 124.299 | 175.110 | -50.812 |
| Severance indemnity | 2.865 | 2.761 | 104 |
| Deferred tax liabilities | 1.315 | 1.172 | 143 |
| Other accruals | 4.385 | 6.683 | -2.298 |
| Financial liabilities | 10.281 | 6.684 | 3.597 |
| Non current liabilities | 18.846 | 17.301 | 1.545 |
| Financial liabilities | 12.421 | 12.997 | -576 |
| Accounts payables | 22.992 | 34.576 | -11.585 |
| Income tax payables | 1.101 | 762 | 339 |
| Other payables | 16.337 | 28.649 | -12.312 |
| Current liabilities | 52.850 | 76.984 | -24.134 |
| Non current liabilities held for sale | 228 | | 228 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 196.223 | 269.396 | -73.173 |

In compliance with the Consob communication of July 28th 2006 and in conformity with the CESR recommendations of February 10th 2005 "Recommendations for the uniform implementation of the regulations of the European Commission on information charts", the net financial position of the El.En. Group on December 31st 2012 is the following:

| Net financial position | | |
|--|-------------------|-------------------|
| | 31/12/2012 | 31/12/2011 |
| Cash and bank | 40.475 | 48.365 |
| Financial instruments | 1 | 24.332 |
| Cash and cash equivalents | 40.476 | 72.697 |
| Short term financial receivables | 20 | 20 |
| Bank short term loan | (9.321) | (11.265) |
| Part of financial long term liabilities due within 12 months | (3.100) | (1.732) |
| Financial short term liabilities | (12.421) | (12.997) |
| Net current financial position | 28.075 | 59.720 |
| Bank long term loan | (7.187) | (4.548) |
| Bonds | 0 | (425) |
| Other long term financial liabilities | (3.093) | (1.711) |
| Financial long term liabilities | (10.281) | (6.684) |
| Net financial position | 17.794 | 53.035 |

With reference to the consolidated statement of financial position and the consolidated net financial position, it should be mentioned that the data registered on December 31st 2011 reflected the complete consolidation of Cynosure while the data shown for December 31st 2012, after losing the control of the company at the end of November, show an evaluation of Cynosure using the shareholders' equity method.

The balance of the net financial position, which amounts to 17.794 thousand Euros, is in appearance a decrease with respect to December 31st 2011, but it should be considered that the deconsolidation of Cynosure removed a substantial amount of cash from this amount; net of Cynosure, the net financial position in fact registered an increase of about 16 million Euros, thanks mainly to the payment received for the sale of the Cynosure shares in November 2012 but also thanks to the cash generated by the operating activities.

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

| | 31/12/12 Income statement | 31/12/12 Capital and reserves | 31/12/11 Income statement | 31/12/11 Capital and reserves |
|--|--|--|--|--|
| Balance per parent company statement | 9.804.911 | 87.270.574 | 1.264.103 | 75.300.855 |
| Elimination of investments in subsidiary companies: | 0 | 0 | 0 | 0 |
| - share of profit (loss) of subsidiary companies | 1.432.486 | 0 | (2.210.506) | 0 |
| - share of profit (loss) of associated companies | 48.214 | 0 | (689.056) | 0 |
| - elimination of rectification of value of equities | 1.789.168 | 0 | 1.980.784 | 0 |
| - elimination of dividends | (418.512) | 0 | (386.625) | 0 |
| - value adjustment of the Cynosure equity and rectification of the capital gains | 8.721.320 | 0 | 0 | 0 |
| - other (charges) income | 820.032 | 0 | 489.814 | 0 |
| Total contribution of subsidiary companies | 12.392.708 | 28.379.152 | (815.589) | 23.616.575 |
| Elimination of intercompany profits on inventory | 967.255 | (2.909.355) | (681.385) | (4.021.975) |
| Elimination of intercompany profits from sales of fixed assets | 33.710 | (156.426) | (37.465) | (190.136) |
| Balance as per consolidated statement – Group quota | 23.198.584 | 112.583.945 | (270.336) | 94.705.319 |
| Balance as per consolidated statement – Third party quota | 6.613.117 | 11.714.705 | (18.469) | 80.405.058 |
| Balance as per consolidated statement | 29.811.701 | 124.298.650 | (288.805) | 175.110.377 |

RESULTS OF THE PARENT COMPANY EL.EN. S.p.A.

Financial highlights

The parent company, El.En. SpA, is active in the development, planning, manufacture and sale of laser systems for use on two main markets, the medical-aesthetic market and the industrial market; it also includes a series of after-sales services, like supplying of spare parts and consulting and technical assistance.

In following a policy of continued expansion over the years, El.En. SpA has founded or acquired numerous companies which operate in specific sectors or geographic areas, the activities of which are coordinated through the definition of the supply channels, the selection and control of the management, the partnerships in research and development activities and financing both on capital account and financing with interest or through the granting of credit on sales.

The importance of this coordinating activity continues to be very evident, since most of the sales volume of the company is absorbed by the subsidiaries and determines the allocation of important managerial resources; also from a financial point of view, a large part of the resources of the company are allocated to sustain the activities of the Group.

As in earlier years, the activities of El.En. SpA, take place at the headquarters in Calenzano (Florence) and in the local branch in Castellammare di Stabia (Naples).

The chart below shows the results of the sales in the sectors mentioned above shown in comparative form with those of last year.

| | 31/12/2012 | Inc% | 31/12/2011 | Inc% | Var% |
|-------------------------------|---------------|----------------|---------------|----------------|---------------|
| Industrial systems and lasers | 5.919 | 14,04% | 8.136 | 18,17% | -27,25% |
| Medical and aesthetic lasers | 29.158 | 69,15% | 29.253 | 65,34% | -0,33% |
| Service | 7.092 | 16,82% | 7.383 | 16,49% | -3,95% |
| Total | 42.169 | 100,00% | 44.773 | 100,00% | -5,82% |

During 2012 El.En. S.p.A. registered a decrease in sales volume which was caused by the difficulties that our clients are encountering on the market, in particular the companies in the Group that operate in the sector of industrial applications. In fact, while for the medical sector the sales volume remained constant, it fell in sector of systems and sources for industrial applications. The sales volume for customer service also decreased as a result of the crisis on the markets where the company supplies direct assistance (Italy) and those that buy consumables and spare parts.

Income statement as of December 31st 2012

| Income Statement | 31/12/12 | Inc. % | 31/12/11 | Inc. % | Var. % |
|---|---------------|---------------|---------------|---------------|---------------|
| Revenues | 42.169 | 100,0% | 44.773 | 100,0% | -5,8% |
| Change in inventory of finished goods and WIP | (494) | -1,2% | 1.598 | 3,6% | |
| Other revenues and income | 1.836 | 4,4% | 1.018 | 2,3% | 80,2% |
| Value of production | 43.511 | 103,2% | 47.389 | 105,8% | -8,2% |
| Purchase of raw materials | 18.658 | 44,2% | 22.740 | 50,8% | -18,0% |
| Change in inventory of raw material | 1.108 | 2,6% | 320 | 0,7% | 246,5% |
| Other direct services | 3.092 | 7,3% | 3.931 | 8,8% | -21,3% |
| Gross margin | 20.653 | 49,0% | 20.399 | 45,6% | 1,2% |
| Other operating services and charges | 4.832 | 11,5% | 5.243 | 11,7% | -7,8% |
| Added value | 15.821 | 37,5% | 15.156 | 33,9% | 4,4% |
| For staff costs | 9.950 | 23,6% | 9.790 | 21,9% | 1,6% |
| EBITDA | 5.871 | 13,9% | 5.366 | 12,0% | 9,4% |
| Depreciation, amortization and other accruals | 3.197 | 7,6% | 2.191 | 4,9% | 45,9% |
| EBIT | 2.674 | 6,3% | 3.175 | 7,1% | -15,8% |
| Net financial income (charges) | (375) | -0,9% | 612 | 1,4% | |
| Other net income (expense) | 8.311 | 19,7% | (1.387) | -3,1% | |
| Income (loss) before taxes | 10.610 | 25,2% | 2.401 | 5,4% | 342,0% |
| Income taxes | 806 | 1,9% | 1.137 | 2,5% | -29,1% |
| Net income (loss) | 9.805 | 23,3% | 1.264 | 2,8% | 675,6% |

The gross margin was 20.653 thousand Euros, an increase of 1,2% with respect to the 20.399 thousand Euros for the same period last year and with an incidence on the sales volume which rose from 45,6% on December 31st 2011 to 49% on December 31st 2012 showing a slight increase in the sales margins.

Costs for operating services and charges were 4.832 thousand Euros, showing a decrease of 7,8% with respect to December 31st 2011 and an incidence on the sales volume which decreased from 11,7% on December 31st 2011 to 11,5% for this year. Since the sales volume was not expanding greater attention was directed to the control of overhead costs and in this way we achieved a reduction in the incidence on the sales volume.

Personnel costs were 9.950 thousand Euros, showing an increase of 1,6% with respect to the 9.790 for the same period last year and with an incidence on the sales volume which rose from 21,9% in 2011 to 23,6% for this year. As of December 31st 2012 there were 182 people employed by the company as opposed to the 180 on December 31st 2011.

A large portion of the personnel expenses is directed towards research and development, for which El.En. S.p.A. receives grants and reimbursements in relation to specific contracts underwritten by the institutions created for this purpose. The grants entered into accounts as of December 31st 2012 amounted to 1.391 thousand Euros while for the same period last year they amounted to 473 thousand Euros.

For the reasons explained above the EBITDA is 5.871 thousand Euros, an improvement with respect to the 5.366 thousand Euros for last year, with an incidence on the sales volume which rose from 12% for last year to 13,9% for 2012.

Costs for amortizations, depreciations and accruals amounted to 3.197 thousand Euros, an increase of 45,9% with respect to the 2.191 thousand Euros for 2011 and with an incidence on the sales volume of 7,6%. This increase is mainly due to accruals made during the year for credit risks made necessary by the presence of some receivables that may be difficult to collect.

The EBIT, therefore, rose from 3.175 thousand Euros on December 31st 2011 to 2.674 thousand Euros for this year showing a decrease of 15,8% and with an incidence of 6,3% on the sales volume.

Net financial charges was 375 thousand Euros as opposed to the net financial income for 612 thousand Euros on December 31st 2011; the main reasons for this decrease were the negative differences in the exchange rates and interests.

The other net income and charges consisted of 10.038 thousand Euros from the capital gains obtained from the sale of 840.000 shares of the subsidiary Cynosure, as has been described earlier in this report. This amount is partially mitigated for the amount of 797 thousand Euros by devaluations operated on the value of the equities held in Cutlite do Brasil, Cutlite Penta S.r.l., SBI SA and RTM S.p.A. and, for the amount of 930 thousand Euros by further accruals for losses by the associated companies Dekas Lasertechnologie GmbH, Dekas Laser Technologies Inc, Dekas Sarl and Cutlite do Brasil.

Pre-tax profit was 10.610 thousand Euros, as opposed to the 2.401 thousand Euros for last year.

The fiscal costs for this year were 806 thousand Euros as opposed to the 1.137 thousand Euros for last year. The tax rate for this year dropped from 47,35% for last year to 7,59% for this year; this reduction is mainly due to the “PEX” exemption from which most of the capital gains derived from the above mentioned sale of the Cynosure shares benefitted as well as to the entry of a tax credit for the reimbursement of the excess IRES taxes paid on account of the lack of reduction of the IRAP related to the expenses for personnel and assimilated in conformity with art. 2, sub-section 1-quater, D.L. 201/2011.

STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL POSITION AS OF DECEMBER 31st 2012

| | 31/12/2012 | 31/12/2011 | Var. |
|---|----------------|---------------|---------------|
| Statement of financial position | | | |
| Intangible assets | 40 | 23 | 18 |
| Tangible assets | 12.807 | 13.380 | -573 |
| Equity investments | 21.777 | 18.714 | 3.063 |
| Deferred tax assets | 2.319 | 1.716 | 603 |
| Other non current assets | 3 | 3 | |
| Total non current assets | 36.947 | 33.836 | 3.111 |
| Inventories | 17.350 | 19.230 | -1.880 |
| Accounts receivables | 31.403 | 31.595 | -192 |
| Tax receivables | 1.181 | 1.725 | -544 |
| Other receivables | 4.337 | 4.337 | |
| Cash and cash equivalents | 22.929 | 6.123 | 16.806 |
| Total current assets | 77.200 | 63.011 | 14.190 |
| TOTAL ASSETS | 114.147 | 96.847 | 17.300 |
| Share capital | 2.509 | 2.509 | |
| Additional paid in capital | 38.594 | 38.594 | |
| Other reserves | 37.810 | 36.431 | 1.379 |
| Treasury stock | -528 | -2.576 | 2.048 |
| Retained earnings / (deficit) | -918 | -921 | 2 |
| Net income / (loss) | 9.805 | 1.264 | 8.541 |
| Total equity | 87.271 | 75.301 | 11.970 |
| Severance indemnity | 934 | 926 | 8 |
| Deferred tax liabilities | 769 | 611 | 158 |
| Other accruals | 3.028 | 2.240 | 788 |
| Financial liabilities | 7.358 | 2.380 | 4.978 |
| Non current liabilities | 12.090 | 6.157 | 5.933 |
| Financial liabilities | 4.049 | 4.252 | -203 |
| Accounts payables | 7.218 | 7.821 | -603 |
| Income tax payables | 33 | 0 | 33 |
| Other payables | 3.487 | 3.315 | 171 |
| Current liabilities | 14.787 | 15.389 | -602 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 114.147 | 96.847 | 17.300 |

In conformity with Consob notice of July 28th 2006 and in compliance with the CESR Recommendations of February 10th 2005 *"Raccomandazioni per l'attuazione uniforme del regolamento della Commissione Europea sui prospetti informativi"*, the net financial position of El.En. S.p.A. on December 31st 2012 is shown as follows:

| | | |
|--|-------------------|-------------------|
| Net financial position | | |
| | 31/12/2012 | 31/12/2011 |
| Cash and bank | 22.929 | 6.123 |
| Cash and cash equivalents | 22.929 | 6.123 |
| Short term financial receivables | 20 | 20 |
| Bank short term loan | (2.349) | (4.185) |
| Part of financial long term liabilities due within 12 months | (1.300) | (66) |
| Other short term financial liabilities | (400) | 0 |
| Financial short term liabilities | (4.049) | (4.252) |
| Net current financial position | 18.900 | 1.892 |
| Bank long term loan | (5.533) | (2.380) |
| Other long term financial liabilities | (1.825) | 0 |
| Financial long term liabilities | (7.358) | (2.380) |
| Net financial position | 11.542 | (489) |

For the analysis of the net financial position please see the comments in the specific paragraph included in the notes on the separate statement of El.En. S.p.A..

Subsidiary results

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

The chart below contains a summary of the results of the companies belonging to the Group that are included in the area of consolidation. Following the chart there is a series of brief explanatory notes describing the activities of each company and commenting on the results for the financial year 2012.

| | Revenues 31-dic-12 | Revenues 31-dic-11 | Var. % | EBIT 31-dic-12 | EBIT 31-dic-11 | Net income 31-dic-12 | Net income 31-dic-11 |
|------------------------------------|-----------------------|-----------------------|-----------|-------------------|-------------------|-------------------------|-------------------------|
| Deka Mela S.r.l. | 24.937 | 23.679 | 5,31% | 682 | 1.355 | 724 | 1.217 |
| Cutlite Penta S.r.l. | 10.068 | 9.734 | 3,43% | -1.023 | -295 | -649 | -273 |
| Esthologue S.r.l. | 3.845 | 2.685 | 43,22% | -349 | -1.838 | -259 | -1.339 |
| Deka Sarl | 2.315 | 2.965 | -21,92% | -707 | -472 | -704 | -470 |
| Deka Lasertechnologie GmbH | 147 | 295 | -50,29% | -34 | -2 | -34 | -2 |
| Deka Laser Technologies Inc. | 1.525 | 2.283 | -33,22% | -335 | -180 | -350 | -193 |
| Deka Medical Inc. | 3.120 | 2.083 | 49,76% | -260 | -715 | -256 | -717 |
| Quanta System S.p.A. | 24.095 | 21.222 | 13,54% | 1.595 | 781 | 757 | 15 |
| Asclepion Laser Technologies GmbH | 21.796 | 16.977 | 28,39% | 1.033 | -325 | 412 | -570 |
| Asa S.r.l. | 6.451 | 6.216 | 3,78% | 1.053 | 865 | 725 | 570 |
| Arex S.r.l. | 665 | 785 | -15,34% | 4 | -4 | -15 | -17 |
| AQL S.r.l. | 181 | 176 | 2,87% | 4 | -29 | 0 | -33 |
| Ot-Las S.r.l. | 0 | 2.995 | | | -197 | | -166 |
| Lasit S.p.A. | 7.444 | 6.378 | 16,70% | 523 | 483 | 389 | 216 |
| Lasercut Technologies Inc. | 195 | 305 | -35,99% | -16 | 0 | -21 | -5 |
| BRCT Inc. | 0 | 0 | | -1 | 1 | 2 | 3 |
| With Us Co LTD | 24.508 | 18.502 | 32,46% | 513 | 714 | 224 | 530 |
| Deka Japan Co LTD | 3.543 | 2.808 | 26,19% | 529 | 79 | 304 | 76 |
| Penta Chutian Laser (Wuhan) Co Ltd | 16.926 | 16.109 | 5,08% | -2 | 1.360 | 109 | 1.332 |
| Lasit Usa INC | 591 | 592 | -0,18% | 131 | 9 | 131 | 8 |
| Cutlite do Brasil Ltda | 3.991 | 4.115 | -3,02% | -265 | -287 | -471 | -408 |
| Pharmonia S.r.l. | 1.905 | 1.473 | 29,33% | 157 | -106 | 110 | -96 |
| Quanta France Sarl | 354 | 546 | -35,20% | -194 | 26 | -197 | 26 |
| Ratok S.r.l. | 0 | 0 | | 0 | -5 | 0 | -5 |

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

Deka represents the main marketing channel for the range of medical laser systems developed in the El.En. factory in Calenzano; it was one of the first companies to become part of the Group and has gradually consolidated its position on the market, first in Italy and then abroad. Deka operates in the field of dermatology, aesthetics, and surgery and makes use of a network of agents for direct distribution in Italy and highly qualified representatives for export.

To the subsidiary ASA, DEKA has assigned the management of the physical therapy segment with excellent results in terms of both sales volume and earnings.

In 2012 Deka registered further growth in their sales volume but showed a drop in profits on account of the difficulty of the general market conditions, both for the crisis and the competition. Margins on sales, in part due to a variation in the geographical product mix, which penalized the direct Italian market, fell by 2,4 percentage points while the general costs and marketing expenses increased. The Italian market showed the signs of a prolonged period of crisis like the one we are still experiencing: little inclination to purchase, difficulty for clients to find financing for their investments, preference for cheaper products. The international market is experiencing an increasingly fierce competition from the American companies which is sustained by the good results on the domestic market and by an exchange rate that is facilitating their business since the drop in the value of the dollar at the end of the year. On the other hand, the Japanese market remained brilliant for almost the entire year, thanks in part to the exchange rate with the Yen which suddenly weakened towards the end of the year.

The organization of Deka, both in Italy and on the international network, is now a recognized presence and is known for innovative products, professional quality of its range and excellent performance of the laser systems it distributes; this is an achievement for the development of the company in the past few years and it is also a condition which will allow for further growth in the future thanks to the capacity of the company to move new products through a consolidated and highly organized distribution network.

Cutlite Penta S.r.l.

This company, located in Calenzano, is active in the manufacture of laser systems for industrial cutting applications and installs the laser power sources produced by El. En. SpA on “X-Y” movements controlled by CNC.

At the end of year Cutlite Penta merged with Ot-las S.r.l., the company in the Group that is located in the same industrial area and also operates in the sector of laser systems for industrial applications, specializing in marking systems on large surfaces with galvanometric movement of the laser beam. In 2012 both companies felt the effects of the prolonged crisis, and their merger will make it possible to save on operating costs and above all will benefit from the unified technical and commercial activities which will facilitate the manufacturing cooperation.

In the mean time, 2012 ended with a drop in sales volume and significant losses which are a consequence of the continuation of the crisis.

In the cutting segment, which is one of Cutlite Pent’s electives, for this traditional market there was a reduction in sales volume of about 26%, and they were also not able to benefit from the expected increase in sales volume of the Group companies, the Chinese subsidiary Penta Chutian Laser (Wuhan) and the Brazilian subsidiary company Cutlite do Brasil, which registered a decrease that was even greater than the direct market. With a phenomenon that we had already observed in 2009, the crisis of production volume which hit the manufacturing areas that had been served traditionally, there was also the extreme difficulty of obtaining credit which further weakened the already feeble demand. If one considers that a laser system for flat cutting represents for our clients an investment of between 150.000 and 350.000 Euros depending on the model and the power of the system, it is clear that a financing with leasing or bank financing is a necessary condition for closing most of the negotiations.

During this year, in any case, the company started to intensify their activity of sales promotion by participating in industrial fairs and reorganizing their sales network and this comported an increase in general and marketing expenses, in particular expenses for transfers and for the trade shows. These should be considered as investments aimed at returning the sales volume to a profitable level, although these efforts in 2012 did not meet with a response.

The company that was absorbed in the merger, Ot-las S.r.l. also had a very difficult year and registered a drop in sales and such low margins that the savings that they had achieved by reducing costs were still not enough to allow them to break even in the income statement. The problems that they are facing are the same as those described above for Cutlite Penta because, although they manufacture products that are technologically different and directed to market sectors that do not coincide, they both deal in general with the manufacturing sector and require the same financial services for the clientele in order to conclude the sales. Ot-las has been able on several occasions to identify applicative niches for its sophisticated laser marking systems which had allowed it to overcome the market difficulties thanks to the specific nature of the product; the merger, which also coincided with a change in the corporate structure and the management, is aimed at simplifying the development and manufacturing operations and combining them into a single unit which works closely with the Parent Company, in order to identify products which will again help it overcome the difficulties of the market.

It is worthwhile adding a few remarks about the financial situation of this company: Cutlite Penta holds the important controlling equity in Penta Chutian Laser (Wuhan), the Chinese manufacturing company which has gone through five years of great expansion and constitutes a valuable asset for Cutlite Penta which is far greater than the book value, and is also an important client. During this year on the other hand, the equity in Lasit S.p.A. which was held by Ot-las was liquidated because it was no longer strategic; in this way a capital gains was registered and the debts towards the controlling company El.En. S.p.A. were reduced. El.En., in fact is not only the majority partner but also the main financier of Cutlite Penta’s activities by means of extension of credit; at the end of the year, moreover, El.En. S.p.A. acquired from Cutlite Penta (and from Ot-las) part of the receivables which they held from Cutlite do Brasil, thus reducing their exposure.

Quanta System S.p.A.

Quanta System started as a research laboratory and became part of the area of consolidation of the Group in 2004; it represents a company of excellence at a global level for its innovation and technological research in the laser sector.

The company has concentrated mainly on the medical-aesthetic sector and had planned its growth in particular in the aesthetic sector on the acquisition of the Spanish company GLI; when this company ran into difficulty, Quanta System differentiated its products and became a supplier of advanced technological solutions in the surgical sector.

At this time Quanta System’s line of products appears to be particularly suited to the market as demonstrated by the results achieved by the company in 2012: growth in sales volume of 13,5%, an EBITDA of over 11% on the sales volume and very satisfactory cash generating which has improved their net financial position by almost two million. After a vote taken at the end of 2012, during the first days of 2013, Quanta liquidated its equity in GLI and in this way

put an end to an investment that was made useless by the financial crisis in Spain, accruing as a loss the investment and the receivables from the company.

In the month of October 2012 the President and minority shareholder of the company, Dr. Angelo Ferrario, after selling his block of shares in El.En. S.p.A., turned in his resignation.

On the basis of the range of products both in the surgical and the aesthetic sector, the outlook for 2013 is good.

Asclepion Laser Technologies GmbH

This company was acquired in 2003 from Carl Zeiss Meditec and represents one of the main activities of the Group; thanks to its geographical location in Jena, the global cradle of the electro-optical industry and its capacity to associate its image with the highly prestigious consideration which the German high-tech products enjoy throughout the world, in the last few years, Asclepion has continually acquired portions of the market for laser equipment for medical applications.

2012 was a good year for the company in particular because of the success of the Mediostar Next hair removal system which brought the company record results: the sales volume was close to 22 million, with an EBIT that was close to 5% of the sales volume. The good earnings of Esthelogue S.r.l., equally controlled with El.En. S.p.A., also contributed to the positive results which, although they showed a loss, moved an interesting business volume on the Italian market.

2012 was also a significant year for the development of new products with the launching of an innovative couple of surgical laser systems for the treatment of Bph (benign prostate hyperplasia), one with Holmium technology and the other with Tullium technology, the renewal of the Erbium dermatological system, Asclepion's traditional pièce de résistance, and the introduction of a new and innovative vascular laser system which, thanks to its yellow colored radiation, has unique and effective features.

The outlook for 2013, consequently, is good.

With Us Co Ltd

This company distributes Deka products on the Japanese market for which, on account of its importance, several specific models are produced specifically for its requirements. Although some of these systems were directed to a single market they have often turned out to be best sellers for Deka. There are already several thousand units installed and they increase every year. The "all inclusive" customer assistance contracts which are supplied to the numerous clientele represent an important part of the sales volume of the company.

The trend in sales is often discontinuous during the year and corresponds to the purchases of large lots of systems by the clientele which is organized in chain stores. In 2012 the sales peak was registered in the second quarter which determined brilliant results for the half notwithstanding the decrease in margins; on an annual basis, although the sales volume increased by 32%, these results were not repeated in the second half because of the reduction in sales and a fall in the margins at the end of the year. However, the result for the year is an income.

The outlook for 2013 remains good, thanks mainly to the solid position of the company on the market, because the sudden drop in the value of the Yen at the end of 2012 proportionally reduced the sales margins for With Us which purchases their technology from the El.En. Group and consequently in Euros.

In the month of March 2012 the company repurchased treasury stock and liquidated one of the minority partners increasing the equity of the Group from 51,25% to 78,85%, a transaction for which even the short term results will confirm its advantageousness.

ASA S.r.l.

This company, located in Vicenza, is a subsidiary of Deka M.E.L.A. S.r.l., and operates in the sector of physical therapy, for which it develops and manufactures a range of laser equipment, and it also is active in the distribution and marketing of some of the equipment produced by the Parent Company El.En. S.p.A.. The perfect balance between the innovation of products and the clinical and commercial activities directed towards the support of the therapeutic methods of the systems developed has consolidated the quality of their offer and along with it their position on the market so that the company has been able to register a constant growth rate, even in these years of crisis.

In 2012, the sales volume increased 3,8%, which is satisfactory considering the context in which it was obtained, and gratifying because it was associated with an increase in the net results of the company. The increase in the sales margins was the determining factor for the increase in earnings, since it generated an increase in margin which was greater than the increase registered for the overhead costs. About three-fourths of the sales volume was obtained on the international markets, in which the United States prevailed. The outlook for 2013 envisions a further growth.

Other companies in the medical sector

Deka Sarl distributes the range of Deka laser systems in France. The year 2012 again registered a decrease in sales volume which was a consequence of the effects of the crisis and the intensifying of the competition in some applicative niches in which the company had performed well in the past. The drop in sales volume and the slight reduction in the margins nullified the effects of the reduction in overhead and personnel expenses, which among other things had also been burdened by the negative outcome of a legal dispute. A situation of difficulty therefore continues on this market which is, in any case, interesting on account of the volume of business that is generated overall. In 2013 we are

counting on reversing the trend or at least reducing the losses through the innovation of some recently introduced products. **Deka Lasertechnologie GmbH**, has the same purpose as the French company but operates on the German market; early in 2012 the company attempted to revive its stagnant business with a series of initiatives that increased its performance costs without, however producing the hoped for results. At the end of the year the distribution structure was changed so that the role of the company in the selling activities will be further reduced.

Deka Japan is now in its fourth year of activity and has been dedicated with increasing success to the distribution of medical systems in Japan. The sales volume increased significantly this year thanks to the gradual affirmation of some of the systems for medical applications, and the net earnings benefitted substantially so that an excellent result was registered for this distribution company that has been operating in the sector only for a short time. It should also be mentioned that, in the month of July, the Ministry of Health (MOH) issued the authorization for the sale of the Smartxide Dot system, which can now be sold and promoted in Japan thus increasing sales. The outlook for 2013 is positive and results should be similar to those of that 2012.

The distribution of DEKA systems in the United States is conducted by **Deka Laser Technologies Inc.** for the dental sector and by **Deka Medical Inc.** for the medical/aesthetic and surgical sector. For the first time Deka Medical registered an annual sales volume of over four million dollars; this amount is not, however, enough for the company to break even but it will allow them to reduce their losses and reach a significant dimension as a reference for the American market. In the dental sector, as the results were again disappointing, the company was re-organized and the operating costs were reduced while the essential functions were maintained with an aim to launching the company again with a different form of organization for the distribution structure.

The Group entered the field of professional aesthetics at the end of 2009, by launching **Esthelogue S.r.l.**, their own direct distributor, following the crisis of their original distributor in this sector. After the rapid growth shown in 2010 the company became aware of some of the problems related to the sector: financing and solvency of clients, and painful cutbacks in the structure which were made necessary due to the losses incurred. The company was re-launched on a new basis with lower overhead and more suited to the present market situation, besides the financial and operative support of the partners of El.En and Asclepion, and in 2012 experienced a positive phase in part thanks to the new legislation which clarified and defined the kinds of operations that aestheticians can perform making use of laser technologies. The popularity of the systems being offered is reflected in the increase in the sales volume which was close to 4 million Euros, and the current operating revenue. The net result is still negative mainly due to the effects of the economic crisis which, besides limiting the possibilities for sales during the year, makes debt collection increasingly difficult and uncertain which comports a gradual deterioration in the financial quality of the clientele which in turn makes the opportune but painful accrual necessary. It should be pointed out that the instability of the past few months has caused a further restriction in the financial resources of the clients and the willingness of the banks to sustain the sector, making it even more difficult to maintain the positions achieved on the market, notwithstanding the growing success of the products and services offered.

Raylife Srl, a subsidiary of the German company Asclepion, last year abandoned the aesthetics distribution sector and changed its name to **Pharmonia Srl**; under this name it will distribute aesthetic systems specifically designed and manufactured for use in pharmacies, where it has already made the first installations; in 2013 the activity will be further expanded with the distribution in Italy of systems for medical applications produced by the controlling company Asclepion.

During 2011 Quanta System S.p.A. acquired control of its own French distributor **Quanta France Sarl**, which acts as a small branch office in France and which, in 2012 had not yet developed a sales volume that was sufficient to break even.

The medical center **Arex S.r.l.**, specialized in the treatment of psoriasis and vitiligo continues its activity with satisfactory results.

Other companies in the industrial sector

Lasit Spa is specialized in the manufacture of marking systems for small surfaces and besides having a valid research and development team in the headquarters in Torre Annunziata (Naples), controls an Italian company, **AQL Srl** and an American company, **Lasit USA, Inc.** which are involved in the distribution of the Lasit systems. Lasit is also equipped with a complete modern mechanical workshop where they carry out work for other companies of the Group and are able to offer their own clientele customized services which make the company unique on the market. The capacity to offer personalized products and services and the attention given to the specific requirements of the clientele have been the basis for the success that Lasit has achieved in the last two years. In 2012 the sales volume increased by 16,7%, the earnings reached an interesting level and the cash generated was positive notwithstanding the general unfavorable market conditions.

The branch office, **Lasit Usa Inc.** has restricted the area in which it operates and, by supplying support for the selling activities of Lasit in North America which were organized in 2012 using a different distribution structure, registered a EBIT which contributed to the excellent results of the controlling company.

BRCT Inc. holds the real estate property located in Branford, Connecticut and operates as a financial sub-holding company with a series of foreign equities including **Lasercut Technologies Inc.** which operates supplying after sales service for industrial systems throughout the USA.

Cutlite do Brasil Ltda is occupied with the distribution and production in Brazil of laser systems for industrial applications. Its headquarters are located in Blumenau in the state of Santa Catalina, one of the areas of this country most suited for manufacturing activity. After showing a significant recovery in the first quarter, sales activities slowed down again in the central months of the year and, notwithstanding another recovery at the end of the year, the company booked a loss.

RESEARCH AND DEVELOPMENT ACTIVITIES

During 2012 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 continually placing on the market completely new products and innovative versions of old products 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.

The innovative results consist essentially in the creation of new laser applications and the development of suitable equipment for the new applications. In other words, 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-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, above all for products developed for new laser applications, 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 derive from research contracts stipulated with the managing institutions set up for this purpose by the Ministry of University and Research (MUR) and the European Union, as well as directly with the Research Institutions or Regional structures in Italy and other countries.

The El.En.Group is the only one 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. 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 of the SMARTXIDE² family of CO₂ laser 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, otorhinolaryngology, dermatology, gynecology, odontostomatology, neurology, laparoscopic surgery, aesthetic surgery, and, in the same field, research for new clinical applications in 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.

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.

We concluded the development of the new platform (Alex+Nd:YAG+IPL). This is a matrix device capable of sustaining various terminals emitting luminous radiations, integrated for: management and interface with the doctor, supply of electrical current and conditioning fluids, ergonomic mechanical support, management of the various integrated systems. We also concluded the activity involving the collection of data from the experimentation in clinics in Italy and other countries.

We have continued the development of instruments and clinical experiments for innovative laser equipment belonging to the HILT family of equipment (High Intensity Laser Therapy) and RLT (Regenerative Laser Treatment) for uses in physical therapy, dermatology (cutaneous ulcers), with experiments also conducted in the USA in collaboration with various research centers using animal models, like horses. We are now in the selection phase for the cases and treatments to apply as well as the clinical verification and that with diagnostic instruments of the patients treated at the start of the experimental phase.

We have finished drafting and writing of the complex protocol for the clinical validation trials as part of the collaboration for new experimental research on treatments of patients with cartilage diseases of the knee joint with the Istituti Rizzoli of Bologna which have been our partners now for several years, and with the SME (Sport Medicine Excellence) specialized orthopedic clinics in Germany. We are now completing the paper work required to obtain the authorization of the ethical committees of the health services that are involved.

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 as part of the activity conducted by the associated company Elesta created by El.En. and Esaote. We have continued research and experimentation in collaboration with the university clinics of Pisa and Florence and with the Department of Engineering and Telecommunications of the University of Florence; we have concluded research for the creation of interaction laser tissue models for programming ablation operations. Moreover, we are continuing research aimed at identifying methods for characterizing tissue treated with radio-frequency ultrasonic signals in order to improve the verification phase of the effects of the treatment received. We have completed the activities aimed at identifying the procedures for making cooled point applicators with forced circulation of the liquid. We have started experimental trials on these devices in the laboratory, *in vitro*, and the programming of experiments on animals. These activities are in the engineering phase following the research conducted as part of the TRAP project with grants from the European Union issued through the Department of Economic Development of the Region of Tuscany.

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, like the above mentioned TRAP, is conducted with grants from the European Union issued through the Department of Economic Development of the Region of Tuscany. At the same time, active clinical experimentations have continued in Italy and in qualified European and American 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 we have been taking the necessary measures for the protection in the most important countries of our brand names and applications.

At El.En. we have conducted research for new medical applications in the recently created PHOTOBIO LAB for the study of the interaction between light and biological tissue in the sector of odontostomatology. We also continued activities for autonomous research using the methods of molecular biology. As part of this project we have a workroom for *in vitro* trials of pre-prototype equipment and for the education of the medical operators.

We have completed the development of laser devices for surgical operations in the venous vascular sector.

Quanta System continued their activity for the development of two new laser types, a Holmium and a Tullium infrared, for the treatment of benign hypertrophy of the prostate and for a fiber laser with increased performance with respect to the state of the art; which was in part financed by funds from a European Union project. They are also actively conducting research on new laser equipment with multiple wave lengths with Q-switch technology.

DEKA M.E.L.A. carried on an intense research activity with the objective of identifying new applications and the experimentation of new methods to be used by laser equipment in various medical sectors: aesthetic, surgical, gynecological and otorhinolaryngological. 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.

Asclepion received an important grant from the region in which it operates, Turgina, for the development and experimentation of lasers for surgery; in particular, they have conducted activity for the development of equipment based on new technology for laser sources made of fiber for applications in urology for the reduction of benign prostate hypertrophy and the related clinical trials.

Laser systems and applications for industry

At El.En. we worked on the development of firmware/software on a Linux/Voyager platform, for the implementation of a printing program in real-time for high-speed marking and variable datum coming from optical acquisition systems.

Paper sector - Digital Converting – Incising with CO₂ laser scanning systems. We have completed the development of a CO₂ radio frequency fed laser mod. RF333 with a wave length appropriate for incising and cutting flexible PolyPropylene film which is transparent at the standard wave length of 10.6um.

We have conducted studies and trials on laser creasing of plain and corrugated cardboard for the purpose of making an incision and/or precutting of cardboard along a crease that has been made in it; this adds flexibility to the complete process of creating cardboard boxes as the market increasingly requires.

We have conducted studies on the use of turbines with bearings with magnetic levitation for CO₂ power lasers with fast axial flow, with 4kW and with 5kW, for the purpose of minimizing the pollution of the gaseous mix of the active ingredient and guarantee a reliable operation for high speed rotation; we also conducted verification trials on the performance of cutting systems with protocol and process. Verification and experimentation activities were conducted on scanning and focusing heads for fiber lasers, remote welding systems for metal materials used in the automotive field and for the manufacture of furniture.

As part of this research program we have started to develop a new dynamic focusing system with high speed response. We concluded the experiments on cutting applications for metal materials after the development of a capacitive sensor for the control of the position of the focus zone of the laser beam with respect to the surface of the material. We concluded the project that was aimed at the development of methods and equipment for restoration with the research activity that was part of the regional project (TEMART) for which El.En. was assigned the task of developing special laser equipment for clearing various types of works of art. Important results were obtained in this project, one of which was the programmable generation of laser impulses of brief duration.

We planned the work phases and conducted feasibility studies on a new diagnostic system on the paper of antique books and this system was recently patented. We have developed new testing methods for mirrors for marking devices of different dimensions on the basis of the high speed scanning in machines performing laser decoration on large surfaces.

At Cutlite Penta for sheet metal cutting applications they developed the parameters for cutting with a 2000W fiber laser; with El.En. staff, they tried out CO₂ lasers on large sized systems.

For marking, they perfected the optical configurations for CO₂ sources fed by radio frequency, with significant benefits for the incising and excavating operations in the shoemaking sector.

For the cutting of moulds they perfected the configuration of lasers with fast axial flow and they were used in conjunction with machinery that was designed for the manufacture of a higher quality product. For cutting Plexiglas they are continuing the work in progress mainly related to the diffusion of light through superficial cuts in the sheets.

They completed verification trials on structural and functional innovations developed on sealed CO₂ sources manufactured by El.En. and they started new developments in this family of sources with higher degree of compacting. They continued work on the development of an electronic system for remote diagnosis and remote assistance of industrial machines.

They have developed new compact cutting systems with higher performance and limited costs.

They are developing a method for eliminating most of the optical paths of the CO₂ laser beam with solutions that include the direct installation of the mobile portal of the new source machine with radio frequency pumping.

They have also completed the development of the software for raster scanning marking of the surfaces of metals and other materials on cutting machines. They have begun feasibility studies for new laser applications to be used in the production cycle of glass objects.

At Quanta System they have completed with field trials a research program for the use of laser based manufacturing technologies based on components for use in the exploitation of solar energy; financing for the project has been approved by the special committees of the European Union.

At Ot-las (which merged with Cutlite Penta at the end of 2012), the activities of development and engineering were concentrated on the integration of technological components in laser marking systems supplied by the Parent Company El.En. S.p.A. into laser marking system which identify and satisfy the new production requirements, in particular those with added value and high creative content.

They continued their work for the development of systems destined for the OEM market and the integration into production lines or cells for work on high speed 2D marking line for 3D cutting of plastic components and heat-formed plastics.

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

| <i>thousands of euros</i> | 31/12/2012 | 31/12/2011 |
|--------------------------------------|-------------------|-------------------|
| Costs for staff and general expenses | 5.855 | 5.963 |
| Equipment | 39 | 65 |
| Costs for testing and prototypes | 1.186 | 1.373 |
| Consultancy fees | 372 | 569 |
| Other services | 79 | 104 |
| Total | 7.532 | 8.074 |

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 the expenses sustained for R & D corresponds to 5% of the consolidated sales volume of the Group. Most of the expenses were sustained by El.En. S.p.A., and amount to 9% of its sales volume.

RISK FACTORS AND PROCEDURES FOR THE MANAGEMENT OF FINANCIAL RISKS

Operating risks

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

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

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

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

Currency risks

Again in 2012, approx. 61% of the consolidated sales were made in markets outside of the European Union; most of the transactions were conducted in US dollars. During this year, the Parent Company El.En. has effected operations in derivatives in order to avoid currency risks. These operations were conducted for the purpose of avoiding currency risks on part of the payment received for the sale of the Cynosure Inc. shares that has been described above, and they are entered into accounts at fair value on the basis of the EUR/USD exchange rate on December 31st 2012.

| <i>Operation</i> | Exchange rates | | | |
|------------------|-----------------------|-------------|-------------------|-----------------|
| | <i>Notional value</i> | | <i>Fair value</i> | |
| | | | <i>Positive</i> | <i>Negative</i> |
| PUT option | \$5.000.000 | € 3.846.154 | 72.144 | - |
| Total | \$5.000.000 | € 3.846.154 | 72.144 | - |

When the financial instrument expired (January 30th 2013), the operation was closed at the Exchange rate of 1,30 when the current rate was 1,3541 and there was no potential loss in fair value. For this reason it was decided not to conduct a sensitivity analysis on December 31st 2012.

Since the company draws up its consolidated financial statements in Euros, the fluctuations in the exchange rates used to convert the data in the statements of the subsidiaries originally expressed in foreign currency could negatively influence the results of the Group, the consolidated financial position and the consolidated shareholders' equity as expressed in Euros in the consolidated statements of the Group.

Credit risks

As far as the commercial transactions are concerned, the company operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance. There are no significant concentrations of credit risks within the Group. The devaluation fund which is accrued at the end of the year represent about 17% of the total trade receivables from third parties. For an analysis of receivables overdue from third parties, see the description in the relative note of the consolidated financial statement.

In relation to guarantees granted to others, it should be noted that the Parent Company El.En., along with a minority partner, in 2009 underwrote a bank guarantee for a maximum of 1 million Euros to guarantee the debt of the subsidiary Quanta System to the Banca Popolare di Milano for facilitated financing of 900 thousand Euros, the installments for which expire up to 84 months after the date of issuance, which took place in the second half of 2009. Moreover, after the acquisition of the entire equity from the minority shareholder on October 8th 2012, El.En. was committed to relieve this partner of any type of economic demand made by the Banca Popolare di Milano.

During 2010 the Parent Company El.En. S.p.A. underwrote the following guarantees:

- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 763 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the “TROPHOS” research project which has been included in the grant issued by the *Bando Unico* R&S in the year 2008 and approved by the Region of Tuscany with Directive Decree 6744 on December 31st 2008 which originally expired in April 2012 and has been extended to April 30th 2013;
 - a bank guarantee, jointly with the companies which participate in the ATS constituted for this purpose for a maximum of 1.434 thousand Euros as a guarantee for the payback of the amount granted as down payment on the “TEMART” research project which has been included in the grant issued by the *Bando Regionale* in the year 2008 and approved by the Region of Tuscany with Directive Decree 5673 on November 21st 2008 which expires in July 2013;
 - a bank guarantee for a maximum of 751 thousand Euros as a guarantee for the payment of the sum required as a reimbursement for the VAT related to the tax period 2008 which expires in November 2013;
- and in 2011:
- a bank guarantee jointly with the companies which are participating in the ATS constituted for this purpose, for a maximum of 3.074 thousand Euros as a guarantee for the pay back of the amount guarantee as down payment on the research project “MILORD”, which has been included in the grant issued by *Bando Regionale* 2010 approved by the Region of Tuscany with Directive Decree n. 670 of February 25th 2011, which expires in September 2014.

The subsidiary Deka MELA underwrote a bank guarantee for a maximum of 1.178 thousand Euros as a guarantee for the payment of the sum required as a reimbursement for the tax on the value added related to the fiscal period 2010, which expires in March 2015.

Moreover, the subsidiary Quanta System issued bank guarantees in favor of some credit institutions of the associated company Grupo Laser Idoseme for a residual total of 127 thousand Euros which came due on February 27th 2013; of this amount, a bank guarantee of 125 thousand Euros was renewed and expires on February 28th 2014.

Cash and interest rate risks

As far as exposure of the Group to cash and interest rate risks is concerned, it should be recalled that the amount of cash held by the Group remained substantial during this year and was sufficient to pay off all debts and with a very positive net financial position at the end of the year. For this reason we believe that this type of risks is adequately covered. In any case, during the year, the Parent Company El.En. and Quanta System underwrote IRS contracts with major credit institutions for the coverage of the interest rates on current financing.

The coverage was made with the neutralization of the potential losses on the instrument (the financing) with the profits registered on another element (the derivative).

IAS 39 describes various types of *Hedge Accounting* including the *Cash Flow Hedge* which corresponds to this case.

The *Cash Flow Hedge* has as its objective that of covering exposure to variations in future cash flow which can be attributed risks associated with certain items in the financial statement.

In this case, the variations in *fair value* of the derivative are referred to the shareholders' equity for the effective amount of the coverage and they are reported in the income statement only when, with reference to the item covered, the variation in cash flow to be compensated appears. If the coverage turns out not to be effective the variation in fair value of the coverage contract must be entered in the income statement.

| <i>Operation</i> | <i>Notional value</i> | <i>Fair value</i> | |
|------------------|-----------------------|-------------------|-----------------|
| | | <i>Positive</i> | <i>Negative</i> |
| IRS | € 1.500.000 | | (20.180) |
| IRS | € 157.895 | | (3.312) |
| Total | € 1.657.895 | | (23.492) |

In order to evaluate the potential impact derived from the variation in the interest rates being used, it should be pointed out that, since the financing involved is not for exceptionally large amounts, any variations in the rate would not have a significant impact on the shareholders' equity.

Management of capital

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

STOCK OPTIONS OFFERED TO DIRECTORS AND EMPLOYEES

The special assembly of El.En. SpA held on May 15th 2008 voted to authorize the Board of Directors, in accordance with and by effect of art. 2443 of the Civil Code, for a period of up to five years from the date of the deliberation, to increase the share capital of the Company once or several times upon payment, by a nominal maximum amount of 83.200,00 Euros through the issue of a maximum of 160,000 ordinary shares with a nominal value of euro 0,52 each, with entitlement equal to those of the ordinary company shares at the date of subscription, to be liberated by payment of a price to be determined by the Board of Directors in the respect of the dictates of art. 2441, sub-paragraph VI, civil code – that is considering the shareholders' equity, also bearing in mind the official prices registered by the shares on the stock market over the last six months – and as a unitary value inclusive of the premium, not less than the greatest of the following: a) the value of each share determined on the basis of the consolidated stockholders' equity of the El.En. Group as of December 31st of the year previous to the issue of the options; b) the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organized and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options; c) the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organized and managed by the Borsa Italiana SpA in the 30 days prior to the assigning of the options.

On July 15th 2008 the Board of Directors of the parent company voted to implement in full the decision of the Shareholders' meeting of May 15th 2008 to increase the share capital by 83.200,00 Euros for use in the 2008/2013 stock-option plan and approved the relative regulations.

The option rights are assigned exclusively to the employees of El.En. SpA and of the other companies of the Group who, at the moment of assignment were working in a subordinate position. This plan is divided into two equal phases, each of which can be implemented in accordance with the following rules:

a) up to a maximum amount of 41.600,00 Euros starting on July 15th 2011 until the date of approval of the annual report for 2011 by the Board of Directors.

Subsequently, the rights on the options can be exercised as follows:

- if the shareholders' meeting, during the approval of the report for 2011, votes to distribute the profits, from the day that the relative dividends for 2011 become payable up until the date of approval of the company report for 2012 by the Board of Directors;

- otherwise, if the profits are not distributed for the year 2011, from the 15th of May 2012 up until the date of the approval of the company report for 2012 by the Board of Directors;

- if, during the approval of the report for 2012, the shareholders' meeting votes in favor of the distribution of the profits, from the date, if earlier than the 15th of May 2013, of the maturity of the payments of the dividends for 2012 up until May 15th 2013.

- otherwise, if it is decided to not distribute the profits for the year 2012, the period in which the rights can be exercised will terminate on the date, if earlier than May 15th 2013, of the approval of the company report for the year 2012 by the Board of Directors, and otherwise on the 15th of May 2013.

Therefore – exclusively for the above mentioned nominal sum of 41.600,00 Euros – the underwriting of the increase in capital approved by the Board of Directors can take place exclusively during the time intervals mentioned above for the exercising of the rights.

b) in relation to the residual amount of the increase of nominal 41.600,00 Euros starting on July 15th 2012 and up until the date of approval of the budget of the company for the year 2012 by the Board of Directors.

Subsequently, the rights to the options may be exercised as follows:

- if the shareholders' meeting, during the approval of the report for 2012, approves the distribution of profits for the year 2012, from the date in which payment of dividends matures for the dividends for the year 2012 up until the 15th of May 2013;

- otherwise, if it is decided not to distribute the profits for the year 2012, the period for exercising the rights will terminate on the date, if before May 15th 2013, of the approval of the company report for 2013, and otherwise, on May 15th 2013.

Therefore, the underwriting of the increase in capital approved by the Board of Directors for the residual amount of 41.600,00 nominal Euros can take place only during the time intervals indicated above for the exercising of the rights to pick up the options.

It should be noted that at the time this report was drawn up no stock option rights had been exercised.

TREASURY STOCK

For information on the treasury stock, please refer to the specific section in the consolidated explanatory notes.

PERSONNEL

As mentioned earlier, staff members of the Group increased from 793 on December 31st 2011 to 812 people on December 31st 2012.

Staff members divided by Group company are shown on the chart below:

| Company | 2012 Average | 31-dec-12 | 31-dec-11 | Var. | Var. % |
|------------------------------------|---------------|------------|------------|-----------|--------------|
| El.En. S.p.A. | 181,00 | 182 | 180 | 2 | 1,11% |
| Cutlite Penta S.r.l. | 30,00 | 36 | 24 | 12 | 50,00% |
| Esthelogue S.r.l. | 9,00 | 9 | 9 | 0 | 0,00% |
| Deka M.E.L.A. S.r.l. | 16,00 | 15 | 17 | -2 | -11,76% |
| Ot-las S.r.l. | 8,00 | 0 | 16 | -16 | -100,00% |
| Pharmonia S.r.l. | 0,50 | 0 | 1 | -1 | -100,00% |
| Quanta System S.p.A. | 81,50 | 84 | 79 | 5 | 6,33% |
| AQL S.r.l. | 1,00 | 1 | 1 | 0 | 0,00% |
| Arex S.r.l. | 4,50 | 4 | 5 | -1 | -20,00% |
| Lasit S.p.A. | 34,50 | 36 | 33 | 3 | 9,09% |
| Asa S.r.l. | 31,00 | 33 | 29 | 4 | 13,79% |
| Deka Sarl | 8,50 | 8 | 9 | -1 | -11,11% |
| Deka Lasertechnologie GmbH | 0,00 | 0 | 0 | 0 | 0,00% |
| Deka Medical Inc | 4,50 | 4 | 5 | -1 | -20,00% |
| Asclepion Laser T. GmbH | 80,50 | 85 | 76 | 9 | 11,84% |
| Lasercut Technologies Inc | 2,00 | 2 | 2 | 0 | 0,00% |
| Deka Laser Technologies Inc | 6,00 | 4 | 8 | -4 | -50,00% |
| With Us Co Ltd | 31,00 | 32 | 30 | 2 | 6,67% |
| Penta Chutian Laser (Wuhan) Co Ltd | 240,50 | 242 | 239 | 3 | 1,26% |
| Lasit Usa Inc | 0,00 | 0 | 0 | 0 | 0,00% |
| BRCT | 0,00 | 0 | 0 | 0 | 0,00% |
| Cutlite do Brasil Ltda | 27,00 | 28 | 26 | 2 | 7,69% |
| Quanta France Sarl | 1,50 | 2 | 1 | 1 | 100,00% |
| Deka Japan Ltd | 4,00 | 5 | 3 | 2 | 66,67% |
| Total | 802,50 | 812 | 793 | 19 | 2,40% |

CORPORATE GOVERNANCE AND OWNERSHIP, IN APPLICATION OF D.LGS. 231/01

In compliance with legislation and regulations, El.En. SpA has drawn up a “Report on corporate governance and ownership” which is deposited and published in a specific section of this Management Report. This document can also be consulted on the internet site www.elengroup.com at the section titled Investor Relations – assembly and statute.

Starting on March 31st 2008 El.En. Spa adopted an organization, management and control model in compliance with Legislative Decree n. 231/2001.

INTERGROUP RELATIONS AND RELATED PARTIES

In compliance with Regolamento Consob dated March 12th 2010, n. 17221 and subsequent modifications, the Parent Company, El.En. SpA approved the rules disciplining relations with related parties (*“Regolamento per la disciplina delle operazioni con parti correlate”*) which can be consulted on the internet site of the company www.elengroup.com section. “Investor Relations”. These regulations represent an up-date of those approved in 2007 by the company as implementation of art. 2391-bis of the civil code, of the recommendations contained in art. 9 (and in particular the applicative criteria 9.C.1) of the Self Disciplining Code for Companies Listed on the Stock market (*Codice di Autodisciplina delle Società Quotate*), edition of March 2006, in consideration of the above mentioned Regulations for Operations with Related Parties (*“Regolamento Operazioni con Parti Correlate”*) n. 17221 and later modifications as well as the Consob Communication DEM/110078683 of September 24th 2010. The procedures contained in the *“Regolamento per la disciplina delle operazioni delle parti correlate”* went into force on January 1st 2011.

The operations conducted with related parties, including the inter-Group relations can not be qualified as atypical or unusual; these operations are regulated by ordinary market conditions.

In regard to the relations with related parties, please refer to the notes that accompany the consolidated statement of the El.En. Group and the separate statement of El.En. SpA.

OTHER INFORMATION

Atypical and unusual operations

In compliance with Consob Communication DEM/6064296 of July 28th 2006, we wish to state that during 2012 the El.En. Group did not make any unusual or atypical operations, as defined in the aforementioned communication.

Managing and coordinating activities

El.En. S.p.A. is the Parent Company and therefore is not subject to any activity of management or coordination in conformity with art. 2497 and following of the Civil Code.

Adoption of measures intended to guarantee the protection of privacy

Considering the logic for the treatment of personal data that is applied by the Company, they have decided to up-date the *Documento Programmatico sulla Sicurezza* (Safety Program Document) in order to maintain an orderly management of privacy, and a document suited for the reconstruction of the basic criteria on which decisions have been based related to the application of the regulations. The contents of the document essentially are a summary of the compliance required by the Guaranteeing Authority.

Information in conformity with art. 36 and following of the *Regolamento Emittenti Consob* for the regulation of markets

In relation to the recent regulations concerning the conditions for the quotation of companies controlling companies constituted or regulated according to the laws of countries not belonging to the European Union and of significant importance in relation to the consolidated financial statement, we declare that:

- As of December 31st 2012 among the companies controlled by El.En. S.p.A. the ones to which these rules are applicable are the following: With Us Co. Ltd, Penta Chutian Laser (Wuhan) Co. Ltd e Cynosure Inc. (NASDAQ:CYNO), this latter up until the end of November 2012;
- Adequate procedures have been adopted to assure complete compliance to the regulations.

Fiscal consolidation

It should be noted that for the three year period, 2011-2013, for the subsidiary Esthelogue S.r.l. and, for the three year period, 2012-2014, for the subsidiary Cutlite Penta S.r.l., the Parent Company El.En. S.p.A. adheres to a national consolidated IRES tax rate in compliance with art.117 and following of the TUIR and the Ministerial Decree activated on June 9th 2004. The relations between the parties, in conformity with the laws, are regulated by the specific “consolidation agreement”.

SUBSEQUENT EVENTS

In January of 2013 the Penta Laser Equipment (Wenzhou) Company was formally constituted; the company, in which Cutlite Penta S.r.l has a 55% equity, will conduct the manufacturing operations that are now carried out in the site of Wuhan.

Also in the month of January 2013, following a vote taken at the end of 2012, Quanta System liquidated its equity in GLI, thus putting an end to an investment that was made futile by the economic crisis in Spain, and accruing the investment and the receivables from the company as a loss.

CURRENT OUTLOOK

During this year for which the good results obtained with the normal operating activity have been overshadowed by the extraordinary operations, it should be recalled that the earnings from the operating activities have achieved the objectives (10% growth and EBIT of 5% on the sales volume) which, at the beginning of the year, we had stated that we could achieve if the market conditions improved and if there was more cash available in the system. In reality, these conditions occurred only in the central months of the year while, at the end of the year, the Italian market was penalized by the political and financial uncertainty and the fluctuations in the exchange rates (for the Japanese Yen and the US dollar in particular) weakened our competitive position on the international markets. For this reason, although we hope that they can be improved upon in the future when there are different conditions on the market, we consider the results satisfactory.

For the current year, due to the Italian and European macro-economic uncertainties, a year later, we find ourselves in a situation similar to the one for which we were supposed to attempt a forecast for 2012. Meanwhile the Group, from a financial point of view has become much stronger and has completed some operations which will streamline its structure and its activities and has initiated others, it has worked on the up-dating of the range of products in order to improve its competitive position on the markets, and it has kept Cynosure as an important client.

Since the situation is basically the same, our forecast will be basically the same: for 2013 we expect a growth of about 5% and an improvement in the EBIT. If there is an improvement in the conditions, like a recovery from the phase of uncertainty and recession and an increase in the availability of cash for investments, we will be able to achieve the goal which we have set which is a growth of 10% in the sales volume and an EBIT of over 5% on the sales volume.

DESTINATION OF THE NET INCOME

To our shareholders,

we submit for your approval the separate statement of El.En. S.p.A. as of December 31st 2012, and propose to allocate the net income for this year, 9.804.911,00 Euros as follows:

- the amount of 7.403.301,00 Euros as extraordinary reserve;
- upon the maturity of coupon no. 11 on May 20th 2013 in compliance with art. 2357-ter, second paragraph Civil Code
- a dividend of gross 0,50 Euros for each share in circulation for an overall amount, as of this date, of 2.401.610,00 Euros, and establishing the accrual of the residual dividend destined to be further treasury stock held by the company when the coupon became due, in a special fund of the residual retained earnings.

For the Board of Directors

Managing Director – Ing. Andrea Cangioli

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP

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

Approved by the Board of Directors during the meeting held on March 13th 2013

Financial year 2012

Interne site: www.elengroup.com

GLOSSARY

Codice: the self-disciplining code of the companies quoted on the stock market which was approved in December 2011 by the Committee for Corporate Governance and promoted by the Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime e Confindustria.

“c.c.”: the Civil Code;

“Board”: the Board of Directors of El.En. s.p.a.

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

“Financial year”: the financial period closed on December 31st 2012 which is referred to in the report

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

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

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

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

“TUF”: Legislative Decree of February 24th 1998, n. 58 (*Testo Unico della Finanza*).

* * *

1. PROFILE OF THE EL.EN. COMPANY

Since December 11th 2000, with the admission of its ordinary stock to the MTA (formerly MTAX, and before that, *Nuovo Mercato*) organized and managed by Borsa Italiana SpA – it has always been the intention of El.En. (“the Company”), apart from any legal obligations and/or regulations, to follow, maintain and perfect the adaptation of its own system of corporate governance in conformity with the suggestions and recommendations of the Code - both in the original version of 1999, revised in 2002 and in 2006, and the latest version in 2011, and identified as the best practice, since it represents a unique opportunity to increase their reliability and reputation in relation to the market.

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

The corporate governance of El.En. consists of a Board of Directors, a controlling body and an assembly.

During the phase of adaptation to the regulations set forth by Legislative Decree n. 6 of January 17th 2003, and the later amendments and modifications, the shareholders of El.En. voted to keep the traditional system of administration and management.

Consequently, the company is currently administered by a Board of Directors which is regulated, in all of its aspects (composition, functions, salaries, powers, representation of the company), by Articles 19 to 23 of the company by-laws and is subject to the control and supervision of a Board of Statutory Auditors which is governed in every aspect by Art. 25 of the by-laws.

The auditing of accounts is conducted by a company that is enrolled in the special CONSOB professional register.

During the assembly held on October 28th 2010 El.En. adopted some modifications in the by-laws that were deemed necessary for compliance with D. Lgs. of January 27th 2010, n. 27 related to the exercising of the rights of shareholders owning stock in companies listed on the stock market, and issued on the basis of the relative European Union directive 2007/39/CE of July 11th 2007 (the so-called “*Shareholders’ rights*”) and the D. Lgs. of January 27th 2010, n. 39 related to legal audits of the annual accounts and consolidated accounts issued in implementation of the relative EU 2006/43/CE.

The Board of Directors

The Board of Directors holds full powers for the ordinary and extraordinary administration of the activities related to the pursuit of the aims of the company.

The Board Members were elected by the shareholders’ meeting held on May 15th 2012 and, after the vote of approval of the Board of Directors on May 15th 2009, is made up of executive and non-executive members organized in three committees so as to carry out consulting and executive functions in support of the Board: the committees for internal control, for remuneration, and for nominations.

Two of the Board members were elected since they possessed the independence requirements as per art. 148-ter TUF.

The board members have legal domicile at the headquarters of the Company for the duration of their mandate.

The executive Board Members retain, in accordance with the vote of the Board of Directors held on May 15th 2012, separately from each other and with independent signature, all of the ordinary and extraordinary administrative powers for achieving all of the aims included in the company purpose, excluding only the attributions which are prohibited from being object of proxy in conformity with art. 2381 of the civil code and the company by-laws.

The approval of the financial statement for 2014 represents the end of the mandate.

Since September 5th 2000 the Board has instituted amongst its members the following committees

which are composed for the most part, of non-executive members who have the following tasks described below and which are disciplined by the specific regulations:

- a) *Nominations Committee for the appointment of the director*, (henceforth referred to as the Nominations Committee”) which has the task of assuring the transparency of the procedures for the selection and election of the board members as well as the balanced and efficient composition of the board.
- b) *Remuneration Committee*, which has the task of formulating proposals for the amount of remuneration to be paid to the executive Board Members and to those that have particular responsibilities, and, in response to the indications given by the delegated commissions, to determine the criteria for the remuneration of the top executive officials of the company. Following the modification of article 7 of the Code, the Board, on May 13th 2011, formally adapted the regulations of the Remuneration Committee to the new rules with reference to the performance of some of the tasks of the Committee regarding the general policy for the remuneration of the administrators and other strategic figures. Most recently, on May 15th 2012, the newly elected Board proceeded with the addition to the regulations of the modifications in the Code in relation to the reference to art. 6 rather than 7;
- c) *Committee for controls and risks* (formerly *the Internal Control Committee*), which has consulting, executive and sustaining functions for the Board of Directors in the realization and the supervision of the internal controls systems and of the evaluations of the proposals of the independent auditors. With the vote held on November 12th 2010 the Board integrated the functions of the Internal Control Committee on the light of the role attributed to the independent administrators in accordance with article 4, subsection 3 of the *Regolamento Parti Correlate Consob* and the new company regulations related to operations with related parties approved on the same day. Subsequently, following the changes in the controls pursuant to D. Lgs. 39/2010 and the functions attributed to the Board of Auditors in relation to the evaluation of the proposals made by the auditing companies concerning the performance of these same, as well as the preliminary clarifications provided by Borsa Italiana (notice 18916 of December 21st 2010) concerning the coordinating of the changes in the rules with the contents of article 8 of the Code, with a vote cast on May 13th 2011 the Board adapted the regulations of the committee and conferred to the latter, as far as the legal reviewing of the accounts was concerned, a role that was merely that of a sustaining body. Most recently, on May 15th 2012, the newly appointed Board of Directors decided to change the name of the committee to Committee for controls and risks and to add the further modifications introduced by art. 7 of the Code to the regulations.

The regulations of the committees also determine their composition and role.

The first version of these rules was approved on September 5th 2000, and they were revised in order to adapt them to the new regulations or new structural reorganization in the company. They were revised in December of 2003 and in 2007. To the regulations for the Internal Controls Committee, as previously mentioned, further additions were made in 2010 and they were modified in 2011. The regulations for the Remuneration Committee also received further additions in 2011. All of the regulations were revised by a vote on May 15th 2012 on the basis of the new Code.

On September 5th 2000 the Board also appointed a provost for internal control.

The Board of Directors convenes at least once every quarter also in order to guarantee adequate information for the Board of Statutory Auditors related to the most important transactions conducted by the Company and its subsidiaries as well as, when required, the conducting of operations with related parties.

The directors of the Company participate as members of the administrative bodies of the subsidiary companies or else have the position of sole director, otherwise the administrative body of the subsidiary companies supply complete detailed information required for the organization of the activities of the Group and the accounting statements necessary for conformity with the relative legislation; normally, the usual policy in the past has been for the subsidiary companies to supply all of the information necessary for the preparation of the consolidated financial and economic reports before the end of the month following the closing of the quarter.

The company by-laws concerning the appointment of directors, the composition of the Board and their related areas of competency – specifically articles 19, 21 and 22 – were modified by the assembly which was held on May 15th 2007 for the purpose of adapting them, to the extent required and not already included, to the new TUF and to the Code and, most recently, further adapted by the assembly held on October 28th 2010 to the directives contained in the a.m. D. Lgs. 27/2010. At that time, the Board was also attributed the prerogatives described in articles 11 and 13 of the Consob Regulations on urgent dealings with related parties. Most recently, during the meeting held on May 15th 2012, article 19 of the by-laws was adapted to L. July 12th 2011, n. 120 in terms of the balance between genders.

For a detailed description, please refer to the specific paragraphs contained in the part of this report related to information on the adhesion to the Code.

In relation to the required presence of the so-called independent board members which, since 2005 has been obligatory by law, the company by-laws specifically state this practice in relation to the rules regarding the appointment and composition of the Board; it should be noted that, in conformity with the Code, this practice has been regular policy since 2000, the year in which the company was first quoted on the stock market.

The Board of Statutory Auditors

The Board of Statutory Auditors is the body which, in conformity with the laws and company by-laws, is entrusted with the supervision of the conformity to the laws and to the company by-laws, the respect of the principles of correct administration, of the adequacy of the company organizational set-up related to the specific tasks, systems of internal controls and accounting administration system used by the company and its concrete functioning. The Board of Statutory Auditors moreover supervises the implementation of art. 19 of D. Lgs. January 27th 2010 n. 39 as well as the means for the correct application of the rules for corporate governance contained in the self-disciplining code and on the conformity with the Consob regulations and the implementation of the company procedures related to dealing with related parties.

This Board is also entrusted with the supervision of the adequacy of the instructions given to the subsidiary companies so that they supply all the information necessary in order to be in compliance with the communication obligations required by law.

The present Board of Statutory Auditors, elected by the assembly on April 30th 2010 will remain in office until the approval of the financials for 2012. Consequently, the shareholders' meeting which meets on April 30th/May 15th will have to elect the new controlling body.

The Board of Statutory Auditors is composed of three active auditors and two supplementary auditors.

Company by-laws establish a limit in the accumulation of assignments, in conformity with 148-bis TUF, so that the appointment of a candidate or auditor who already functions as acting auditor in more than five listed companies is considered ineligible or invalid, as well those who are in a situation of incompatibility or that exceed the maximum limit as per the *Regolamento Emittenti* (art. 144-*duodecies* and following).

After the modifications in the by-laws approved by the assembly on May 15th 2007, they specified in art. 25 of the statute, which already contemplated the election using a voting list, that the acting auditor drawn from the minority list which came in first would be elected president of the Board of Statutory Auditors. Most recently, with the assembly of May 15th 2012 the company adapted art.25

of the by-laws to L. July 12th 2011, n. 120 in terms of the balance between genders.

Auditing of Accounts

The auditing of accounts (in compliance with D. Lgs. 39/2010) is conferred to companies that are enrolled in the CONSOB professional register. Starting from the date of the quotation of the company on the stock market until the December 31st 2011 the task of auditing the separate and consolidated financial statement of the company, in conformity with art. 159 TUF in force at the time the appointment, was conferred to RECONTA ERNST & YOUNG SpA.

The shareholders' meeting which meets in order to approve the financials for 2011 for the years 2012 – 2020 conferred the appointment on Deloitte & Touche SpA in conformity with articles 13,14 and 17 of D. Lgs 39/2010.

Other information

On February 24th 2006, the original shareholders who had adhered to the pact stipulated in 2000 and later renewed in 2003, decided unanimously to terminate the Pact in advance with effect to take place immediately.

Internal dealing

Up until March 30th 2006, for the relevant definable subjects in accordance with and in conformity with articles 2.6.3 and 2.6.4. of the "*Regolamento dei Mercati organizzati e gestiti da Borsa Italiana SpA*" starting on January 1st 2003 there had been in force an "Ethics Code" which, with reference to operations made by those subjects, regulated the obligations of information and the types of behaviour to be observed with an aim to guaranteeing the maximum transparency and homogeneity of information in relation to the market.

On account of the modifications determined by the TUF of the EU law 2004 (L. April 18th 2005, n. 62), in consideration of the EU directives concerning market abuse, and of the later regulating activity in conformity with the CONSOB, since April 1st 2006 the company has been required to conform to the regulations on the subject of internal dealing in particular to articles 114, sub-section 7, *Testo Unico sulla Finanza* and from 152-sexies to 152-octies of the *Regolamento Emittenti*.

Since April 1st 2006, therefore, it has become obligatory to communicate to the public all the operations made on the financial instruments of the company by relevant persons or persons closely connected to them and, consequently, the laws regarding internal dealing contained in the Market Regulations (*Regolamento dei Mercati*) organized and managed by Borsa Italiana SpA, have been abrogated.

As a consequence of this, the Ethics Code adopted in 2003 by the Company was replaced by another document, adopted on March 31st 2006 and later modified on November 13th 2006, which, besides describing in detail the legal obligations, also specifies the time limits or prohibitions for the operations made by the above mentioned subjects.

2. INFORMATION ON OWNERSHIP (ex art. 123-bis, sub-section 1, TUF) on December 31st 2012

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

The capital stock underwritten and paid out is 2.508.671,36 Euros divided into 4.824.368 ordinary shares for a nominal value of 0,52 Euros each. The voted capital stock amounts to 2.591.871,36 Euros on account of the decision made by the Board of Directors on July 15th 2008 to authorize the increase in capital as per *ex art. 2443 c.c.* of the shareholders' meeting on May 15th 2008 for use in the employee incentive plan 2008-2013 as described in the Director's report on operations which accompanied the Financial Statement for 2012, in the section titled "Stock Options offered to directors and employees" in compliance with 84-bis *Regolamento Emittenti Consob* on the internet

site of the El.En. Group, www.elengroup.com in the Italian version, investor relations sector, assembly and by-laws – Ordinary and Extraordinary assembly April 29th/May 15th 2008 – descriptive report on the assembly.

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

There are no particular restrictions on the transfer of stock.

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

From the information and data available on December 31st 2012 the shareholders listed on the attached Table 1 have significant ownership (over 2%) of the capital stock of El.En.

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

None.

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

None.

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

None.

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

None.

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

None.

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

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

The extraordinary assembly held on May 15th 2008, in conformity with and due to the effects of art. 2443 of the Civil Code, granted to the Board the prerogative for a period of five years to increase the capital stock one or more times, by a maximum of nominal 83.200 Euros (eighty three thousand two hundred) by issuing a maximum of 160.000 (one hundred-sixty thousand) ordinary shares for a nominal value of 0,52 Euros (point 52 Euros) each, with payment the same as that for ordinary stock of El.En. Group on the date of underwriting, to be issued through the payment of a price determined by the Board in due time, in compliance with art. 2441 of the Civil Code – that is to say, on the basis of the value of the shareholders' equity, bearing in mind also the trend of the quotation of the stock on the stock market during the last half year, and in a unit value comprehensive of the share premium, which cannot be less than the greatest of the following.

- the value of each share determined on the basis of the consolidated shareholders' equity of the El.En. Group as of December 31st of the year previous to the issue of the options;
- the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organised and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options;

- the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organised and managed by the Borsa Italiana SpA in the 30 days prior to the assigning of the options;

This authorization was conferred with the exclusion of the option rights in favour of partners ex-art.2441, VIII sub-section of the Civil Code, since it was directed to the creation of the incentive plan for the period from 2008 to 2013 in favour of the employees of the Company and their subsidiaries, to be effected with the assignment free of charge of stock option rights, the exercising of which is regulated by the set of rules which was approved definitively by the Board on July 15th 2008 during the meeting for the authorization and activation of the incentive plan.

For further information, see the Director's report on operations for 2012, the section titled "*Stock options offered to directors and employees*".

In relation to treasury stock, on March 3rd 2008, the shareholders meeting, voted to authorize the Board of Directors to acquire treasury stock in conformity with art. 2357 ss. of the Civil Code, within eighteen months of that date for an amount which represents not more than 10% (ten percent) of the capital stock in conformity with the law, at a price which is not more than 20% (twenty percent) less nor more than 10% (ten percent) greater than the official trading price registered for the day preceding the purchase. The authorization of the shareholders also allows them to authorize the Board of Directors to return the shares to circulation within three years of the purchase date, as long as the price is not less than 95% (ninety-five percent) of the average of the trading official prices registered in the five days preceding the sale, and is in compliance with the regulations governing this type of transaction.

Upon request of the Board of Directors, the shareholders' meeting convened on October 28th 2010 renewed their authorization for the Board to purchase, in one or more portions, on the regular stock market and, therefore, in conformity with art. 144 *bis*, sub.section 1, letter b) of the *Regolamento Emittenti Consob* and according to the operative means established by the organizational and management regulations of the market issued by Borsa Italiana S.p.A., within 18 months from that date, treasury stock representing a number of ordinary shares which, in any case, considering the shares held in the portfolio, cannot amount to more than a fifth of the capital stock, in compliance to the laws and regulations, at a price that is not less than 20% (twenty percent) more nor more than 10% (ten percent) more of the official price quoted for regular negotiations registered on the day before the purchase. The shareholders also voted to authorize the Board of Directors to put back into circulation the shares within 10 (ten) years from the date of purchase including those already held in the portfolio on October 28th 2010, at a price which is not less than 95% (ninety five percent) of the average official price for the negotiations registered during the 5 days preceding the sale, all of which must be conducted in compliance with the laws in force at the time.

Finally, since the earlier authorizations had expired, upon the request of Board the shareholders' meeting which met on November 14th 2012 renewed the authorization to purchase in one or more sections, on the regular stock markets and consequently in compliance with art. 144 *bis*, sub-section 1, letter b) of the Consob regulations (*Regolamento Emittenti Consob*) and according to the operative methods established by the organization and management regulations of the market that were issued by Borsa Italiana S.p.A., within eighteen months of that date, treasury stock representing a number of ordinary shares which, in any case, considering the number of shares held in the portfolio, must not exceed one fifth of the capital stock, in compliance with the laws and regulations, at a price that is not over 20% (twenty percent) less nor 10% (ten percent) more than the official price of the transactions registered on the day preceding the purchase. The shareholders' vote also established that the Board should put the shares back in circulation within 10 (ten) years from the date of purchase, at a price that was not less than 95% (ninety-five percent) of the average of the official transaction price registered in the five days before the sale, all of which was to occur with full compliance to the laws. As of December 31st 2012 the company held a portfolio of 21.148 shares of treasury stock.

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

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

* * *

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

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

* * *

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

Until the ordinary stock of El.En. was quoted on the stock market organized and managed by the Borsa Italiana s.p.a. on December 11th 2000, apart from any legal obligations and/or regulations, the Company acted in accordance with the suggestions and recommendations of the Code, both in the original version of 1999, the revised version of 2002, and the versions of March 2006 and 2011.

The present version of the Code is accessible to the public at the web site of the Borsa Italiana (www.borsaitaliana.it).

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

* * *

The American company CYNOSURE INC., a subsidiary of the Company for almost all of 2012, is a company the stock of which was admitted for negotiation on the NASDAQ and is therefore subject to the relative US regulations also in terms of their corporate governance.

The corporate governance of El.En. Spa is not influenced by this.

In any case, after the negotiations which were concluded in November of 2012 for the sale of newly issued Cynosure stock and, in this context, the sale by El.En. of its Cynosure shares, the equity held by El.En. Spa in Cynosure Inc. was reduced to about 13% and consequently, according to the by-laws, El.En. no longer has control of Cynosure Inc..

4. BOARD OF DIRECTORS

4.1. APPOINTMENTS AND REPLACEMENTS (ex art. 123-bis, sub-section 1, letter l), TUF) – ART. 6 Code

The appointment of the members of the Board is conducted by means of a vote from lists and is governed by art. 19 of the company statutes. This article has been modified several times in order to adapt it to the repeated changes in the laws which govern the subject. It was first modified by the extraordinary shareholders' meeting held on May 15th 2007 in compliance with art. 147-ter comma 1 TUF and the *Regolamento Emittenti* 11971/1999, and then by the assembly held on October 28th 2010 in compliance with art. 147-ter sub-section 1-bis introduced most recently by art. 3 D. Lgs. January 27th 2010, n. 27, and most recently by the one which met on May 15th 2012 to adapt it to art. 147-ter, sub-section 1-ter, as well as the regulations for the activation as per art. 144-undecies of the *Regolamento Emittenti Consob* 11971/1999, regarding the respect of the balance among types in the compiling of the lists of candidates as well as in the composition of the body elected and in the replacement of members who have ceased.

“Art. 19 – Administrative organ – (... omissis ...) For the appointment of the members of the Board of Directors the procedure described below must be followed: At least 25 (twenty-five) days before the date set for the first convocation of the ordinary assembly the partners who intend to propose candidates for the appointment as members of the board must deposit the following documents at the company headquarters:

a) a list containing the names of the candidates for the position of board member numbered progressively and an indication of which ones have the requisites for independence in compliance with art. 147-ter, sub-section 4, D. Lgs. February 24th 1998, n. 58 and the Codice di Autodisciplina prepared by the Committee for Corporate Governance of the companies quoted on the stock market promoted by Borsa Italiana s.p.a.;

b) together with this list the partners must deposit: a complete and detailed description of the professional curriculum of the candidates being presented, with adequate reasons for the proposal of their candidacy; a complete curriculum vitae of each candidate from which it will be possible to see the positions held in administrative boards or controlling commissions in other companies; a declaration in which each candidate accepts their candidacy and declares under their own responsibility that no causes exist for ineligibility or incompatibility, and that all the prerequisites established by the applicable regulations and by the company by-laws for their respective positions exist.

The creation of the lists containing not fewer than three candidates must take place observing the regulations related to the respect of the balance among types.

The lists must show the identifying list of the partners, or the name of the partner, who is presenting the list with complete indications of personal data and the percentage of capital held singularly and overall.

Each partner may present and participate in the presentation of a single list and each candidate can be presented in only one list, otherwise he/she will be considered ineligible. The partners who belong to the same union pact may present only one list.

The partners who have the right to present lists either by themselves or together with other partners are those who possess the percentage of equity in the capital stock specified by art. 147-ter D. Lgs. February 24th 1998, n. 58, or the greater amount established by Consob regulations considering the capitalization, floating funds and ownership of the companies quoted.

The ownership of the minimum number of shares necessary for the presentation of the lists is determined by the amount of shares registered in the possession of the partners on the day in which the lists are deposited with the company. The relative certification must, in any case, be produced at least twenty-two days before the day set for the first convocation of the ordinary shareholders' meeting. These certifications cannot be withdrawn before the actual assembly has taken place.

The board members are appointed by the ordinary assembly on the basis of the lists presented by the partners in which the candidates are listed in numerical order.

Each partner having the right to vote may vote for only one list.

The board members are drawn from the list or lists which have received the most votes and, in any case, a percentage of votes which is at least half of that necessary for the presentation of the list itself.

At least one member of the board must always be drawn from the minority list which received the largest number of votes. In the case that there are lists which receive the same number of votes, the entire ordinary assembly must vote again and the list which obtains a simple majority of votes will be elected.

If, within the established term, no list has been presented, the assembly will vote according to the relative majority of shareholders present at the assembly.

In the case of a sole list being presented, all of the board members will be elected as part of that list in the order in which they appear on the list.

In the case that no minority list receives votes, the board will be completed by the vote by the relative majority of the shareholders present at the assembly.

Among the candidates the assembly must elect an appropriate number of board members who possess the requisites for independence established for the controllers by art. 148, sub-section 3, D. Lgs. February 24th 1998, n. 58 and by the Codice di Autodisciplina prepared by the Committee for Corporate Governance of the companies quoted on the stock market promoted by Borsa Italiana s.p.a". A Board Member who, after his/her appointment loses the prerequisites for independence must immediately communicate the circumstances to the Board of Directors and, in any case, the appointment is nullified.

The composition of the body that is elected must, in any case, guarantee the balance between genders in compliance with art. 147-ter, sub-section 1-ter, D. Lgs. of February 24th 1998, n. 58.

The mandate for the members of the Board lasts for 3 (three) years, that is, for the shortest period that is established each time by the Assembly in conformity with art. 2383, sub-section 2 c.c. and they may be re-elected; if, during the year one or more members are missing the other members may have them replaced in conformity with art. 2386 c.c.. In every case in which one or more board member ceases, the appointment of the new board members must take place in compliance with the current regulations concerning the balance between genders represented (... omissis...)"

For the purpose of guaranteeing the greatest transparency, the Company has adopted and has expressly mentioned in the notice convening the assembly, the recommendations of the CONSOB in their communication n. DEM/9017893 of February 26th 2009, related to the necessity for all of those who intend to present a list of candidates, to be elected to the position of so-called minority board members, to deposit together with the list, a declaration which demonstrates the absence of connections, even indirect ones, as per art. 147-ter, sub-section 3, D. Lgs. 58/1998 and art. 144-quinquies of the Reg. Emittenti 11971, with shareholders who detain, even jointly, a controlling equity or relative majority which can be identified on the basis of the "communication of significant equities" as per art. 120 of D. Lgs. 58/1998 or of the publication of company pacts as per art. 122 of the same D. Lgs. 58/1998.

Moreover, already before the introduction of art.147-ter, sub-section1-bis. TUF, in order to satisfy the interest of most shareholders to know in advance the personal and professional characteristics of the candidates so as to cast a more informed vote, it was decided to anticipate the statutory term for depositing the lists. (6.C.1.).

El.En. Spa is not subject to any other special regulations related to the composition of the Board of directors, in particular those related to the representation of minority shareholders and/or the number and characteristics of the independent directors.

Succession plans (Criteria 5.C.2 of the Code 2011)

The Company does not belong to the FTSE-Mib index.

Following the recommendations of the Nominations Committee, the current Board has decided to defer the formulation of an actual succession plan for the executive board members since it is clear that any new board members that are chosen to replace one or more of the members who have ceased must be persons who have a profound knowledge of the functional and organizational characteristics of the company and, equally important, that the member appointed to represent on the board of the driving sector of the company, i.e., the research and development office, must have adequate technical knowledge.

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

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

Current members of the Board of Directors

The current Board which will be in office until the approval of the annual report for the year which ends on December 31st 2014, is composed of the following members:

- 1) Gabriele Clementi – president and executive member;
- 2) Barbara Bazzocchi – executive member;
- 3) Andrea Cangioli – executive member;
- 4) Stefano Modi – special member, without powers of attorney but executive in compliance with art. 2, application criteria 2.C.1 of the Code since he is the director of the R&D department of El.En. Spa.
- 5) Paolo Blasi – independent board member in compliance with art. 147-ter TUF and art. 3 of the Code;
- 6) Alberto Pecci – board member;
- 7) Michele Legnaioli – independent board member in compliance with art. 147-ter TUF and art. 3 of the Code;.

The number of board Members which was established as eight by the assembly which met on May 15th 2012 and which elected the current Board, was later reduced to seven after the resignation tendered for strictly personal reasons, by the Board Member Angelo Ercole Ferrario on August 27th 2012.

The Board was elected with 55,460% of the voting capital by the shareholders meeting held on May 15th 2012 and, after the vote of the Board of Directors on May 15th 2012, is made up of executive and non-executive members who, in order to carry out the consulting and proposing functions of the Board, are organized in three committees: one for internal controls, one for remuneration and one for nominations and appointments.

For the elections only one list was presented and deposited at least twenty-five days before the assembly and this list contained the names of all the candidates who were subsequently elected.

The list was presented jointly by the following partners: Andrea Cangioli, Gabriele Clementi, Barbara Bazzocchi, Alberto Pecci on his own and as representative of S.M.I.L. di Alberto Pecci & C. s.a.s., Elena Pecci who detains 100% of the usufruct of the quotas of IMMOBILIARE IL CILIEGIO s.r.l., Carlo Raffini.

The personal data of the board members is listed below:

GABRIELE CLEMENTI – Born in Incisa Valdarno (Florence) on July 8th 1951. He received his degree in electrical engineering from the University of Florence in 1976 and collaborated with the university until 1981, while at the same time founding a centre for experimenting applications of biomedical equipment together with Barbara Bazzocchi. In 1981, together with Mrs. Bazzocchi he founded El.En. as a collective company. Since that time he has been dedicated full time to the direction and management of El.En. Spa and of the Group in which he has several different positions. Since 1989, year of the transformation of the company into Srl (company with limited responsibility) he has been President of the Board of Directors. Since 2000 he has also been executive director.

BARBARA BAZZOCCHI – born in Forlì on June 17th 1940. She received her diploma in accounting in 1958 and as an executive secretary in 1961. From 1976 until 1981 she managed and administered a centre for the experimentation and application of biomedical equipment and then, with G. Clementi, founded El.En. Spa. As director, she has been involved full time in the management of the company since its founding. Since 1989 she has been executive board member.

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

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

ALBERTO PECCI – born in Pistoia on September 18th 1943. He received his degree in Political Science and after a brief experience working at the BNL bank USA, he founded the Lanificio Pecci, of which he is president, as well the other companies of the textile group of which the Lanificio is parent company. He was nominated Cavaliere del Lavoro in 1992, and was first Vice President (1988-1993) and then President (1993-2002) of the La Fondiaria Assicurazioni; he has been a member of the Board of Directors of Mediobanca, of Assicurazioni Generali, of Banca Intesa and of Alleanza Assicurazioni. He is currently a member of the board of Directors of Mediobanca s.p.a, a company listed on the Italian stock market (Borsa Italiana).

PAOLO BLASI – born in Florence on February 11th 1940. He received his degree in Physics from the University of Florence in 1963, in 1971 received a teachers certificate for teaching General Physics. From 1979 o 1982 he was director of the National Laboratories of Legnaro of the I.N.F.N. (*Istituto Nazionale di Fisica Nucleare*); from 1985 to 1989 he was a member of the Directing Committee of the I.N.F.N. and from 1989 to 1991 at the executive joint commission of the same institute; from 1987 to 1996 he was Vice President of the I.N.O. (*Istituto Nazionale di Ottica*). Since 1980 he has been Professor of the “Physics Laboratory” for the university course in physics. From November 1st 1991 until October 31st 2000 he was president (Magnifico Rettore) of the University of Florence. From 1994 to 1998 he was president of the *Conferenza dei Rettori delle Università Italiane* (C.R.U.I.), for two consecutive terms. He is a member of the *International*

Association of Universities (I.A.U.) and during the "10th I.A.U. General Conference in New Delhi", in February 1995, he was elected member of the Administrative Board for the five year term from 1995-2000, and in 2000 re-appointed until 2004. In August of 1998 he was elected board member of CRE (Association of European Universities) and later was appointed vice president of the same association, up until March 2001. By decree of the Ministry of the University and Scientific Research on February 25th 1999 he was appointed member of the Board of Directors of the C.N.R. (*Consiglio Nazionale delle Ricerche*), and served on the board until 2003. He was elected executive board member of the Banca d'Italia representing the headquarters of Florence and Leghorn, during the Assembly of July 15th 1999 and reappointed in 2003. He has been a member of the Board of Directors of the *Ente Cassa di Risparmio* of Florence since and was re-elected in November of 2000 and in November of 2003. With a decree of the Ministry of Health on October 31st 2001 he was appointed member of the ministerial commission on University Hospitals and served in this position until 2002. From 2000 to 2004 he was a member of EURAB (*European Research Advisory Board*). Since 2003 he has been a member of the *Comité national d'Evaluation des établissements publics à caractère scientifique culturel et professionnel* upon appointment by the President of France. Since 1970 he has collaborated in the elaboration and discussion of the Proposals for Laws on the University and on Research.

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

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

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

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

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

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

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

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

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

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

He has received several awards like the title of *Commendatore della Repubblica Italiana* (N° 8073 dell'elenco Nazionale sez. V), on December 27th 1992; the honorary degree of *Doctor of Humanae Litterae* conferred on May of 1997 by the University of New York; in May of 2000 he received the Sir Harold Acton Award from New York University; the title of *Chevalier de l'Ordre National de*

la Légion d'Honneur was awarded to him in June of 2000 by the President of France; the honorary degree of *Doctor of Humanae Litterae* was awarded to him in December 2003 by the University of Arizona.

MICHELE LEGNAIOLI – born in Florence on December 19th 1964. He has had a vast professional experience, including, among other offices, president of Fiorentinagas s.p.a. and Fiorentinagas Clienti s.p.a., of the *Gruppo Giovani Industriali di Firenze* (Young Industrialist of Florence), national vice president of the young entrepreneurs of Confindustria, from May 2003 member of the joint commission of Confindustria, and from April 28th 2004 until 2010, president of the Aeroporto di Firenze s.p.a.

ANGELO FERRARIO – born at Busto Arsizio on June 20th 1941. He received his degree in physics in 1965 and until 1988 worked at CISE (Centre for study and experimentation information) in Segrate as a researcher. In 1984 he was the director of the electro-optics department. In 1985 he founded Quanta System the company which he has managed and directed since then. He is the author of numerous scientific publications. Since 2004 he has been a Board Member of El.En. – he resigned for purely personal reasons on August 27th 2012.

Since the date of approval of this report no variations have been made in the composition of the Board except for the above mention resignation of the board member Ferrario on August 27th 2012.

Number and composition of the Board of Directors

Art. 19 of the company by-laws states that the Board of Members must be composed of a minimum of three and a maximum of fifteen members appointed, even among non-partners, by the assembly which will, on each occasion, determine the number of members

The members of the administrative board will serve for three years, or else for the a shorter period determined on each separate occasion by the assembly, in compliance with art. 2383, sub-section 2, c.c. and can be re-elected; if during the year, one or more of the board members dies or resigns, the other board members will have them replaced in conformity with art. 2386 c.c.

In compliance with art. 2 of the Code (principle 2.P.1.), the present Board of Directors of El.En., is composed of executive directors (including the president) in compliance with application criteria 2.C.1. and non-executive members: of the seven persons that are now board members, three directors including the president are formally executive members (Clementi, Cangioli and Bazzocchi) since they have authorized signature and four (Blasi, Legnaioli, Pecci, Modi) are formally non-executive.

In relation to the board member Modi, please refer to the preceding paragraph.

During a self-evaluation conducted by the Board after the election, they were considered to have the required expertise and professionalism. The self-evaluation was repeated with a positive outcome on November 14th 2012 after the change in the numerical composition of the Board as a result of the resignation of Ferrario.

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

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

| Name | Position and name of company | Number of large sized companies or those quoted on the stock market (also foreign) |
|-------------------------|---|--|
| Michele Legnaioli | <ul style="list-style-type: none"> • Sole director of Valmarina s.r.l. • Managing Director of Next Light s.r.l. | 0 |
| Paolo Blasi | | 0 |
| Angelo Ercole Ferrario* | | 0 |
| Alberto Pecci | <ul style="list-style-type: none"> • President of the Pecci textile group • Board member of Mediobanca s.p.a | 1 |

*board member who resigned on August 27th 2012

Maximum number of positions which can be held in other companies

During the board meeting held on May 15th 2012, the board members confirmed what they had already stated in the past in relation to the maximum number of positions as director or auditor which El.En. directors could hold in other companies that are quoted on the regular Italian and foreign stock markets, in financial institutions, banks, insurance companies or others of significant dimensions. During this meeting, the board elaborated their evaluations on the basis of the involvement related to each role (executive, non-executive, independent board member) also in relation to the type and size of the company in which the positions were held as well as the eventuality of their belonging to the El.En. Group and established that their executive board members could not hold positions as directors and/or auditors in more than five companies quoted on the stock market.

As far as the Board of Statutory Auditors is concerned, after the approval of the shareholders' meeting, the board of directors, using the regulatory recall method, inserted into art. 25 of the statutes, the further limits which were introduced by art. 144-*duodecies* ss. of the *Regolamento Emittenti* issued by the Consob in compliance with 148-*bis* TUF, in addition to the previously established maximum limit of five positions as acting auditor in quoted companies.

As far as the Company is concerned, as of December 31st 2012 none of the current board members or auditors has exceeded the maximum number of positions.

Induction Program

As already mentioned, the current executive members of the Board of Directors conduct their activity every day at the Company, and two of them, the President and the Board Member Bazzocchi, who were the partners who founded the Company in 1981 and since then have been directly involved in the operating management of the Company and the Group, each in his/her own area of expertise. Since 1992 Andrea Cangiolli has been a Board Member and since 1996 managing director of El.En. and numerous other companies of the Group. Board member Modi is head of Research and Development. The independent Board Members, Prof. Blasi and Mr. Legnaioli, besides their technical competence which for the former is mainly of a scientific nature and for the latter, company and corporate, have by now accrued over a decade of experience within the Company through their constant presence on the committees that were created in September of 2000. Alberto Pecci has also been a Board Member of the Company since 2002.

As far as the members of the Board of Statutory Auditors are concerned, all of them have an exceptional technical and legal background and experience, and they also, like the President were present at the founding of the Company and since then have sustained it, or as in the case of the two acting auditors, they have been involved for over a decade in the internal controls of the Company where they have worked with dedication and commitment.

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

4.3. ROLE OF THE BOARD OF DIRECTORS (ex art. 123-bis, sub-section 2, letter d), TUF) – ART. 1, CODE

In compliance with art. 21 of the statutes, the Board of Directors is the body to which the most ample powers of ordinary and extraordinary administration are conferred and which is responsible for the management of the company.

In conformity with principles 1.P.1. and 1.P.2, and with art. 20B of the company by-laws, the Board of Directors, meets at least once every quarter in order to receive information from the delegated bodies and, also, to inform the Board of Statutory Auditors on the activity conducted in relation to the operations of major economic and financial importance made by the company and by the subsidiaries, as well as the transactions involving potential conflict of interest, those with related parties, and those which are atypical or unusual with respect to the normal operations of the company.

The fixed schedule for the meetings is planned so as to assure that the Board of Directors is able to carry out their functions in an informed and responsible manner. It also has the purpose of guaranteeing the conduction on the part of the Board of Directors of all the necessary and essential activities of a strategic nature and the verification in relation to the exercising of the powers delegated to them also in reference to the main subsidiaries which are subject to activities of management and coordination which include among the components of their respective controlling bodies one of the executive board members if not the president of El.En. or, in some cases, the president of the scientific-technical commission.

The scheduled meetings, moreover, have the purpose of allowing the non-executive board members to acquire all the elements necessary for the evaluation of the organizational, administrative and accounting arrangements both of El.En. and the main subsidiaries, with their actual operations set up by the executive board members (1.C.1. lett. c).

On the other hand, the provision that the incumbent head of the executive board members report to the Board of Directors and to the Board of Statutory Auditors, at least on a quarterly basis, on the activities conducted during the year (1.C.1. lett. d), on the general trend of the operations and on their foreseeable evolution, as well as on all the main operations of major economic and financial significance performed by the Company or by its main subsidiaries, usually in advance but, in any case, before the next meeting of the Board, not only is required by law in compliance with 150 TUF, but is part of the policy of creating all the conditions necessary so that the Board can evaluate the overall results of the management and periodically compare the results actually obtained with those programmed (1.C.1 lett. e) as well as evaluating the reaction of the management towards situations in potential conflict of interest. In particular, in view of the future approval by the Board and, as a preventive measure, the executive board members, in compliance with art. 20 E mentioned above, must promptly report the operations in potential conflict of interest, those with related parties, as well as those which are atypical or unusual with respect to the normal operations of the company. Moreover, in compliance with Art. 6 of the *Internal Regulations for operations with related parties* of the Company, the board member who, directly or indirectly, has an interest is

required to absent himself/herself from a board meeting during which discussions on this subject are taking place.

During the financial year 2012 the Board of Directors met six (6) times on the following dates:

1. March 15th
2. May 15th
3. August 29th
4. October 3rd (Pecci absent)
5. October 8th
6. November 14th (Modi absent)

During the financial year 2013, the Board of Directors of El.En. has met on the following dates:

1. March 15th

and, on November 14th 2012 established the following calendar of meetings in compliance with the company regulations:

2. May 15th Quarterly report as of March 31st 2013;
3. August 29th – Half-yearly report
4. November 14th – Quarterly report as of September 30th 2013.

This schedule, of course, may have additional dates added to it should there be a need for other meetings of the Board of Directors.

In relation to the documentation and information supplied to the Board so that they can express informed and knowledgeable opinions on the subjects to be discussed, art. 20 A of the company by-laws states that the president must take measures to make sure that all of the members of the Board are supplied, at a reasonable time well in advance of the date of the meeting (except in urgent cases) all of the documentation and information necessary related to the subjects to be discussed and submitted for their approval. In practice, in order to assure that the pre-meeting information sheet is delivered rapidly and completely, we send the documentation needed for the discussion of the subjects as part of the order of the day of the meeting, either dispatched *brevi manu* or by e-mail to all of the board members and members of the Board of Statutory Auditors.

It should be noted that, as far as the presence of the single board members at the Board meetings is concerned, three executive directors including the president, must be present unless prevented from attending (because they are at one of the foreign subsidiaries, for health reasons, or in mourning). As far as the independent board members are concerned, unless prevented from attending for the same reasons, they attend the board meetings and participate actively in the discussions.

The exact percentage of attendance for each board member is shown on Chart 2 in the Appendix of this report.

Considering the fundamental importance that research has in the activity of El.En., the president of the technical-scientific commission of El.En., usually invited by the president, participates in the meetings of the Board. In order to illustrate changes in regulations, the legal consultant of the Company is also usually present at the board meetings and, when deemed necessary in order to describe and to illustrate subjects to be discussed that day of a purely technical nature, an executive or professional of the type considered most suitable.

In order to formally acknowledge the recommendations of the Code, during the meeting held on May 15th 2012, even though this occurs normally, the Company voted to recognize in a by-law (art. 20) the faculty that the President of the Board of Directors has to request that managers of the company, the subsidiaries or the associated companies, who are responsible for particular sectors that needs to be dealt with, attend the board meetings in order to supply the opportune information on the subjects on the agenda (art. 1, applicative criteria 1.C.6).

In compliance with art. 20 E of the company statutes, besides the attributions which by law cannot be delegated and are part of the specific duties and functions of the Board, the following activities are reserved as the exclusive right of the Board of Directors:

- establishing the general direction to be taken by the management and overseeing the general trend of the management with particular reference to situations of conflict of interest;
- the study and approval of the strategic, industrial and financial plans of the company and of the structure of the Group of which it is the leader (1.C.1. lett.a) and b);
- the attribution and the revocation of powers to the board members or to the executive committee with the definition of the content, the limits, and the means of exercising them, as well as the adoption of measures specifically intended to avoid the concentration of excessive power and responsibility in the management of the company (2.P.4);
- the determination of the amounts of remuneration of the delegated bodies, of the president and the board members charged with special tasks and, in the case that the assembly has not already taken measures in this direction, the subdivision of the overall salary owed to the single members of the Board of Directors and the executive commission;
- the creation of committees and commissions, and the establishment of their fields of expertise, attributions and means of functioning, also with an aim to the creation of the form of corporate governance in compliance with the self-disciplining codes for the companies quoted on the stock market. (4.P.1);
- the approval, usually given in advance, of operations of major strategic, economic, and financial importance, with particular reference to the operations with related parties, to those in which a board member has personal interest for himself or for a third party or that are atypical or unusual. (1.C.1 lett. f);
- the verification of the adequacy of the type and size of the organizational, administrative and general accounting structures set up by the delegated bodies (1.C.1 lett. c);
- the appointment of the general managers and the determination of their duties and powers;
- the appointment of agents for single acts or categories of acts.
- the appointment or the revocation, in accordance with the opinion expressed by the Board of Statutory Auditors of the executive responsible for drawing up the company financial documents (art. 154-*bis* T.U.F.)

In implementation of the functions attributed to them by the above mentioned regulation, through the activity initiated and coordinated by the controls commission as well as the half-yearly reports presented by the provost for internal controls/internal auditors and by the executive officer responsible for the preparation of the financial statement of the company, during the meetings held on March 15th and August 29th the Board of Directors established by sectors (activities pertaining to L.262/05: management of company goods stored with third parties and activities related to their recovery, customer service activities in the industrial sector, the adequacy of the organizational, administrative and general accounting structures of El.En. set up by the executive board members, with particular reference to the system of internal controls and the management of risks (Applicative criteria 1.C.1., lett. c).

In relation to the organizational, administrative and general accounting structure of the subsidiary companies with strategic importance set up by the executive directors, with particular reference to the internal control system and the management of risks (Applicative criteria 1.C.1., lett. c), El.En. as part of the activities *ex* L. 262/2005, confirmed for the year 2012, Cynosure Inc. as a significant company on the basis of the incidence of several indicators, including its incidence of the total of the consolidated assets and on the consolidated sales.

This company, which is quoted on Nasdaq, for this reason is subject to the controls for the evaluation of their compliance with the Sarbanes Oxley Act 404.

Moreover, with reference to the other subsidiaries subject to Italian law which have been identified as relevant for purposes of internal controls, Deka M.e.l.a. s.r.l. and Quanta System s.p.a., and, for certain aspects, Asclepion Laser Technologies GmbH and Esthelogue s.r.l., in compliance with L. 262/2005, they are subjected by El.En. to several types of tests on the procedures used in relation to the asset and liability cycle, management of the warehouse, of the personnel, of the fixed assets, finance, equities, closing of the separate and consolidated financial statements, fiscal obligations and general computer controls.

The results of the tests are shown to the committee for controls and risks and to the Board of statutory auditors acting as a committee for internal controls in periodic meetings.

The Board evaluates the general trend of the management on the basis of the information received from the delegated bodies and at every board meeting and therefore, every three months, compares the results programmed with those actually achieved. (Applicative criteria 1.C.1., lett. e).

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

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

Art. 20 of the company statutes grants the faculty to the Board to examine and approve in advance all the operations with related parties, in conformity with those identified on the basis of IAS 24 and *Regolamento Parti Correlate CONSOB*, of El.En., and of its subsidiaries, when these operations have significant strategic, economic or financial importance for El.En.

Generally speaking, in relation to the identification of the operations that have particular strategic, economic or financial importance, no general criteria have been established because the evaluation for each individual case is turned over to the delegated bodies which conduct the daily management and, in the opinion of the Board, have all the characteristics required for identifying these cases.

This is different from what occurs with operations conducted with related parties in relation to which the company has adhered, in compliance with the internal regulations for such operations, to the definition of operations of major significance as defined by the Consob in the *Regolamento Parti Correlate Consob*, Attachment 3.

At the time the proposal is brought before the assembly, the Board evaluates the size, composition and functioning of the Board itself and of its committees in terms of determining the number of board members, and subsequently for the division and delegating of functions and the election of the committees (Applicative criteria 1.C.1., lett. g).

During the year this evaluation was conducted on March 15th with the old Board, then confirmed on May 15th after the election of the new Board, and then on November 14th after the reduction of the number of members due to the resignation of one of the members as has been mentioned above.

Before each self-evaluation the Board received the favourable opinion of the Nominations Committee.

Once a year, after the approval of the financial statement, the Board proceeds with the evaluation of the presence of the requirements of independence for the independent Board Members considered sufficient also in quantitative terms in relation to the Code and to the law.

As far as the current activities of the board members and their evaluation by the Board is concerned (criteria 1.C.4), in case of general preventive authorization by the assembly of the derogation of the prohibition of concurrency, on May 15th 2007 the shareholders' meeting, authorized the inclusion in the statutes at art. 19 last sub-section, of a regulation according to which no act of authorization is necessary as long as the concurrent activity is conducted because of having the role of member in one of the administrative bodies in one of the subsidiaries. This authorization therefore is limited to the area of consolidation.

The Board therefore evaluated *a priori* that the assumption of office as part of the area of consolidation must take place in the interest of the parent company for the purpose of coordinating the subsidiaries.

4.4. MANAGING DIRECTORS

Executive directors

The Board of Directors now serving, elected by the shareholders' meeting held on May 15th 2012, appointed from among its members, three executive members, one of which is also the president. These members have, separately from each other and with individual signature, all the ordinary and extraordinary powers of administration for the conduction of all activities that are part of the company purpose, excluding only those powers the attribution of which is prohibited in conformity with law and the company statutes.

(2.P.4) The circumstance in which quite ample powers are conferred is related mainly, according to an inveterate usage, to the exercising, in practice, of the powers delegated according to a model that requires, on the one hand, daily involvement on the part of the three executive board members in pursuing the company objective, with each one acting individually and autonomously carrying out only those tasks related to everyday management, each one in the sector to which he has been designated and, on the other hand, confronting and cooperating with each other in every operation which has even the most minor significance or importance.

In effect, therefore, there is never a concentration of company powers in a single individual as described in principle 2.P.4, although each one could potentially achieve this. In practice, although they have held a mandate as executive director for many years, none of the three executive board members, including the president, has ever become the sole and principal person responsible for the management of the company.

For this reason the Board reserves the right to further evaluate the expediency of appointing a *lead independent director* as described in Applicative criteria 2.C.3. or whether to adopt other criteria.

In fact, to acquire greater manoeuvring space in order to be able to align the company in practice with the recommendations contained in Applicative Criteria 2.C.3., during the definition of the areas of competence pertaining to the Board as per Art. 20 E, the company added explicit reference to the company statutes, the possibility/duty to proceed, upon the attribution of powers to the board members, to the adoption of measures aimed at avoiding in effect the concentration of excessive power and responsibility in the management of the company.

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

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

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

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

During the board meetings he also makes it a habit to inform and involve the non-executive members in the company activities, the strategies of the Group and the prospects for their long-term realization.

As already described and explained above in relation to the conferring of powers, the Board of Directors at this time does not feel that it is opportune to appoint one of the two independent members as *lead independent director* to collaborate with the president in order to further re-enforce the connection between the executive and non-executive directors.

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

Information given to the Board of Directors

The delegated bodies refer to the Board concerning the activities conducted while exercising the powers conferred to them:

- normally, on a quarterly basis;
- when a significant transaction takes place with related parties or in conflict of interests, by calling a special board meeting.

4.5. OTHER EXECUTIVE BOARD MEMBERS

One of the non-executive board members, Stefano Modi, is also the director of the research and development sector of El.En. and therefore is not qualified as an executive board member as per art. 2381, sub-section 2, c.c., however he is considered “executive for the purposes of the Applicative criteria 2.C.1. and 6.C.1.

4.6. INDEPENDENT DIRECTORS

In its Board of Directors, currently composed of seven members, El.En. includes two non-executive administrators qualified as independent in conformity with art. 148, sub-section 3, TUF, recalled in art. 147-ter, comma 4, TUF, and in conformity with art. 3 of the Code.

During the meeting held on March 15th 2012, the previous Board, after obtaining the favourable opinion of the Board of Auditors, in relation to its non-executive members deemed independent in conformity with art. 147-ter, sub-section 4 TUF, evaluated the presence of the requisites for independence bearing in mind compliance with art. 148 sub-section 3 TUF and criteria 3.C.1 and 3.C.2. of the Code.

During the election of the current Board, in relation to the two candidates presented as independent, the shareholders' meeting evaluated the existence of the requisites for independence in conformity with art. 148 sub-section 3 TUF and the criteria 3.C.1 and 3.C.2. of the Code. In fact, as was immediately communicated in the press release sent out during the election, the assembly decided that the circumstance in which the two above mentioned candidates had held the position of independent directors of the company for twelve years did not in itself constitute a relation of a nature that would exclude their fitness to be qualified as independent directors, notwithstanding the absence of any other kind of relationship among those listed in art. 148 sub-section 3 D. Lgs. 58/98 cit. and in criteria 3.C.1 of the Code and considering the recognized ethical character and professional capacity of the persons involved as well as the continuation of their independence of judgment and evaluation.

On May 15th 2012, at the first meeting after the election, while forming the internal commissions, the Board decided that the requisites for independence existed in relation to the two non- executive board members elected as such (Applicative criteria 3.C.4.).

The independence of the directors is subsequently evaluated annually during the meeting for the approval of the financial statement on the basis of information obtained from the directors themselves (3.C.4): according to policy, in fact, the company sends a questionnaire to the two directors qualified as independent which contains the declaration concerning the controlling, economic or personal relations with the company, the subsidiaries or executives of the company.

In this regard it should be noted that during the approval of the financials for 2012 and of this Report, the Board, during the meeting of March 13th 2013, after gaining the approval of the Board of Statutory Auditors, on the basis of the information supplied by the independent directors did not find any variation in the conditions and the requisites for independence in conformity with the law and with the Code.

The Board of Statutory Auditors checked the correct application of the verification criteria and procedures used by the Board to evaluate the independence of its members and issued a positive result. (Applicative criteria 3.C.5.).

As far as Applicative criteria 3.C.6. is concerned, the independent board members who, as mentioned above, participate in all three of the commissions created within the Board, during 2012 did not believe it necessary to convene formal meetings in the absence of the other directors because during the meetings of the commissions, and above all that for internal controls, they have the opportunity to consult and discuss many topics with each other and to have direct access to the management of the company.

At the moment of the presentation of their candidacy in the lists for appointment to the Board, , the two independent administrators indicated their suitability to qualify as independent both in compliance with art. 148, comma 3 TUF, and with art. 3 of the Code.

4.7. LEAD INDEPENDENT DIRECTOR

El.En. Spa believes that a concentration of company positions in a sole person has not occurred, in conformity with principle 2.P.4, and that none of the three executive board members, including the president, has ever effectively become the sole and principal person responsible for the management of the company. None of them, even if a significant shareholder, is a controlling shareholder.

For this reason the Board of Directors has decided at this time to not proceed with the appointment of a *lead independent director* as per Applicative criteria 2.C.3. and to adopt other delegating criteria.

In fact, to acquire greater manoeuvring space in order to be able to align the company in practice with the recommendations contained in Applicative Criteria 2.C.3., if necessary, during the definition of the areas of competence pertaining to the Board as per Art. 20 E, the company added explicit reference to the company statutes, the possibility/duty to proceed, upon the attribution of powers to the board members, to the adoption of measures aimed at avoiding in effect the concentration of excessive power and responsibility in the conduction of the company.

5. TREATMENT OF COMPANY INFORMATION

The confidential information is managed by the executive board members so as to guarantee its preservation and diffusion in conformity with the laws now in effect. The information which is not publicly known and which, if rendered public, is of a nature that could significantly influence the price of the financial instruments, is divulged following the specific instructions from the executive board members, in compliance with art. 114 D.Lgs. 58/98, in order to guarantee the parity, punctuality and completeness of the information.

In particular, any news related to El.En. is carefully evaluated by the executive directors, along with the employees and collaborators who elaborate the data and are aware of information related to the company, first on the basis of its nature – whether it is confidential or not - and, secondly as to what is the best and most correct means of diffusion.

On March 30th 2007 the Board of Directors, on the basis of a proposal made by the executive board members, approved a special procedure called “Regulations for the treatment of El.En. company information” (“*Regolamento per il trattamento delle informazioni societarie di El.En. s.p.a.*”) with which, besides putting into practice the above mentioned policy for the diffusion of information, they intend to codify, in a form which is simple but safe and confidential, the internal management of the information and knowledge of special importance for the company activities and the conduction of its functions and, where necessary, in order to prevent illegal behaviour and for the fulfilling of the obligations imposed by law for quoted companies, for the purposes of a correct divulgation of information which is of interest to the stock market, i.e., price sensitive.

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

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

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

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

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

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

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

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

Since 2000, and after that at each re-election, the Board has created from among its members three commissions which are supposed to take initiatives and to be consulted.

In conformity with Criteria 4.C.1 the commissions:

- a) are all composed of three non-executive members, two of which are independent;
- b) are governed by regulations defining their composition, duties and functions approved by the Board of Directors and periodically updated by the Board. As mentioned earlier, they were revised during the adaptations to new regulations or to new internal reorganizations of the company, in December 2003 and in 2007. Further additions were made to the regulations governing the internal controls committee in 2010 and it was also modified in 2011. Additions were also made to the regulations governing the remuneration committee in 2011; all of them were revised when the new committees were appointed in May of 2012.
- c) the composition reflects the recommendations expressed in the Code and the last time the members were replaced was on May 15th 2012 after the election of the present board;
- d) the regulations of each committee state that minutes must be made to record the content of each meeting;
- e) the regulations of each committee state that in order to carry out their duties and their functions, the committee has access to the information and company functions necessary for this task, as well as the faculty of consulting outside experts and of disposing of any financial resources placed at their disposal by the Company to the extent required for carrying out the activities with which they have been entrusted;
- f) the regulation of each commission states that persons from outside the company may be sent to participate in the meetings when their presence constitutes a useful auxiliary for the conducting of the activities and functions of the commissions.

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7. NOMINATION COMMITTEE – ART. 5 CODE

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

Composition and function of the nominations committee (ex art. 123-bis, sub-section 2, letter d), TUF)

The composition has always been in conformity with the Code in its various versions.

The first appointment was made during the meeting of the Board of Directors held on September 5th 2000, which, on the same date created the nominations committee with the following persons as its members: President, Gabriele Clementi and two non-executive independent directors Paolo Blasi e Michele Legnaioli.

Likewise, the Board elected on November 6th 2003, created the nominations committee on November 13th 2003 with the following persons as its members: executive board member Barbara Bazzocchi and two non-executive independent directors Paolo Blasi and Michele Legnaioli.

Moreover, the Board elected on May 9th 2006, voted on May 15th 2006 to appoint all non-executive members to the committee, two of which were independent from the nominations committee appointed by the preceding Board, as did the current Board elected on April 30th 2009 by their vote cast on May 15th 2009. Most recently, after the vote of May 15th 2012, the current Board, on the occasion of the appointment of the new committees after the election of the new Board, confirmed the composition so that the current committee is composed of the members Pecci (non executive), Blasi (non executive, independent) and Legnaioli (non executive, independent).

The tasks to be carried out and the functioning of the above mentioned committee were originally described in the relations approved *ad hoc* by the Board of Directors on September 5th 2000, which accepted the contents of the Code then in effect (1999); on November 13th 2003 the regulations were changed in order to put them in conformity with the version of the Code updated in July 2002; on March 30th 2007 a further revision of the regulations was made in compliance to Code 2006 criteria 6.C.2. (in force at the time).

During 2012 the committee met two times. All of the members were present and the meetings lasted on an average 40 minutes. The work conducted during the meetings were coordinated by the president.

In 2013 the committee met on March 8th.

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

During this year the committee has been composed of three members, two of which are independent. (Applicative criteria 5.C.1., lett. a).

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

Functions of the nomination committee

In compliance with art. 9 of the regulations of the committee, they are entrusted with the tasks described in art. 5 of the Code. The committee must guarantee the transparency of the selection and the election of the Board as well as the balance in its composition and therefore has the following functions:

a) they must guarantee the transparency of the procedures for the selection of the directors and the observance of the nominating procedures in compliance with art. 19 of the by-laws.

- b) to the Board of Directors they propose candidates for the position of administrator in cases where it is necessary to replace an independent administrator.
- c) they can give opinions to the Board of Directors concerning the size and composition of the Board and give recommendations concerning the type of professional figures that it would be opportune to have on the Board for a correct and effective functioning, as well as on the subjects mentioned in art. 1.C.3. (maximum number of positions that can be held by an administrator or an auditor) and 1.C.4. (problematic cases in terms of competition);
- d) they can conduct the investigation and formulate proposals related to the evaluation of the use of succession plans for the executive administrators and, when necessary, contribute to the creation of the plan.

When carrying out their functions and duties, the commission has the concrete possibility of gaining access to the company information and operations necessary to conduct their activity, as well as making use of outside advisors and any financial resources put at their disposal by the Company to the extent that is necessary to carry out the tasks which have been assigned to them.

During 2012, the committee in particular presided over the procedures for nomination in conformity with article 19 of the statutes for the election of the new Board, it conducted support activities and gave advice to the old Board related to self-evaluation, the maximum number of positions that can be held, and indications to the shareholders called to elect the new administrative body concerning the number and types of professional figures that were ideally suited to be appointed to the Board.

Once the new Board had been elected with all of the same members as the old Board, the committee confirmed its opinions in relation to self-evaluation and the maximum number of positions that can be held.

In the second half of the year, before the shareholders' meeting which was held on November 14th 2012, the Committee was called by the Board which had decided to reduce its members to seven, to express an opinion on the reduction of the number of Board Members.

They were also appointed to evaluate the possibility of drawing up a succession plan for the executive administrators.

Except for extemporaneous meetings requested during the regular board meetings and which are recorded in the board minutes, normally, the meetings of the nominations committee are recorded in the minutes book. (Applicative criteria 4.C.1., lett. d).

In carrying out its functions, the committee has had access to all of the information and the company functions that it has deemed necessary for fulfilling its tasks.

At this time the committee has not found it necessary to make use of outside consultants or to use the special financial resources provided for carrying out its duties.

8. REMUNERATION COMMITTEE – ART. 6 CODE

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

Composition and function of the remuneration committee (ex art. 123-bis, sub-section 2, letter d), TUF)

On December 31st 2006 the committee was still composed of two non-executive independent directors (Paolo Blasi and Michele Legnaioli) and the president, in conformity with art. 7, principle 7.P.3., on March 30th 2007 the Board of Directors replaced the president with a non-executive board member, Alberto Pecci.

During the Board meeting held on May 15th 2012, the current Board confirmed the members of the preceding committee. Therefore, at this time the committee is composed of three members all of which are non-executive, two of which are independent.

The committee for remuneration functions and has the duties described in the regulations approved *ad hoc* by the Board of Directors during the meeting held on September 5th 2000 which had accepted the contents of the Code which was then in effect (1999); on November 13th 2003, the regulation was modified to conform it to the contents of the Code in the version updated in July of 2002; on March 30th 2007 a further revision of the regulations was made in conformity with Code 2006, applicative criteria 7.C.3; most recently, on May 13th 2011, the Board made a further revision of the rules in order to comply with art. 7 of the Code as modified in March 2010.

Most recently, on May 15th 2012 the Board added the finishing touches to the regulations by changing the number of the article from 7 to 6.

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

The president of the committee, on the basis of art. 3 of the relative regulations, has the task of coordinating and planning the activities of the committee and conducting the meetings. During this year the committee met only once since on the other two occasions in which the Board discussed remuneration they had met informally during the board meeting, as is recorded in the minutes.

The duration of the separate committee meetings held during the year was 45 minutes.

All of the committee members were present.

Number of meetings held by the committee in 2013: 1 (one) held on March 8th.

During this year the committee was composed of non-executive members, most of which were independent. (Principle 6.P.3.).

During this year the remuneration committee was composed of at least three members (Applicative criteria 4.C.1., lett. a).

All of the members of the committee, as previously mentioned, are outstanding personalities who have developed a long experience in important companies (KME, Florence Airport, etc.) and the president has even been on the Board of the Bank of Italy.

The Board therefore did deem it necessary to proceed with a further evaluation of the expertise of one of the members on the subject of accounting and finances, and/or in relation to remunerative policy, since for all the components these characteristics emerged from the curriculum they

presented when their names were added to the list of candidates for the appointment of the current Board.

The regulations of the committee state in art. 4 that no board member may be present at the meetings of the committee during which his/her own salary is discussed.

The salaries of non-executive and independent directors were voted by the assembly and since the committee is composed only of non-executive directors, the executive directors to which the remuneration proposals refer do not participate in the meetings of the commission in which the proposals of the committee are made concerning their own salaries. (Applicative criteria 6.C.6.).

The secretary and the provost for internal controls participated in the meetings of the remuneration committee upon invitation from the committee and in relation to the specific subjects being dealt with. (Applicative criteria 4.C.1., lett. f).

Functions of the remuneration committee

The remuneration committee has the functions that were assigned to it by the regulations approved by the Board of Directors and revised the most recently, substantially on May 13th 2011, and with reference the main formal aspects on May 15th 2012. They consist chiefly in the tasks described in art. 6 of the Code. Its role, consequently, is to advise and to propose:

- the committee presents proposals for the definition of a remuneration policy of the administrators and managers with strategic responsibilities (6.P.4) to the Board of Directors;
- the commission periodically evaluates the adequacy, the overall consistency and the concrete application of the general policy adopted for the remuneration of the executive directors, the other directors who have special functions, and the executives with strategic responsibilities, supervises their application on the basis of information supplied by the executive directors and transmits general recommendations to the Board of Directors (6.C.5);
- it presents to the Board of Directors proposals for the remuneration of the executive directors and the other directors who have special functions as well as setting the performance objectives related to the variable component of this remuneration; it also monitors the application of the decisions adopted by the board and, in particular, verifies that the performance objectives have actually been achieved (6.C.5);
- on its own initiative or upon request by the Board, it conducts the investigative and preparatory activities that are adequate and necessary for the elaboration of the remuneration policy.
- it reports to the shareholders on the manner in which they have carried out their functions.

In making their recommendations, the committee may stipulate that:

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

During this year the remuneration committee was involved chiefly in evaluating what had occurred with the incentive salary plan for 2011 and in the definition of a proposal for the remuneration policy of incentive salaries and the incentive salary plan for 2012. Moreover, they also formulated a proposal for a remuneration policy that was the subject of the report submitted for approval to the shareholders, as well as establishing the amount of the remuneration to be given to the executive board members and those with special positions. Consistently with the definition of the 2012 plan

and the incentive policy directives, the commission established the amount to be set aside as an incentive remuneration for the executive directors and the directors with strategic responsibilities which is to be submitted to the shareholders' meeting for approval.

At least one of the acting auditors and sometimes the entire Board of Auditors participated in the meetings.

Normally, the meetings of the remunerations committee are recorded in the minutes book. (Applicative criteria 4.C.1., lett. d).

When carrying out their functions and duties, the remuneration commission has access to the company information and operations necessary to conduct their activity, as well as making use of outside advisors according to the terms established by the Board. (Applicative criteria 4.C.1., lett. e).

At this time the committee has not found it necessary to make use of outside consultants or to use the special financial resources provided for carrying out its duties.

9. REMUNERATION OF THE DIRECTORS

The contents of the report on remuneration published in compliance with art. 123 *ter*-TUF and art. 84-quarter of the Consob regulations should be added on to the information which follows. This information is available on the El.En. site: www.elengroup.com/investor_relations/meeting_company_by-laws_and_documents.

* * *

The Board has defined the guide lines for the incentive policy for the executive directors and the directors with strategic responsibilities (6.P.4.) which they have submitted in the first part of the fir Report on Remuneration 2012 for the approval of the shareholders' meeting during the meeting for the approval of the financials for 2011. According to applicative criteria 6.C.1 the main characteristics are the following:

The set component and the variable component attributed to the executive board members and to those holding special positions, in consideration of the structure of El.En. and of the sector in which it operates is adequately balanced in relation to the strategic objectives and the risk management policy of El.En.

Maximum limits have been set for the variable components.

The set component is held to be enough to remunerate the performance of the executive administrators or those who hold special positions even when the variable component has not been issued due to the fact that the performance objectives set by the Board have not been reached. These objectives are set in the first quarter of the year and are measurable and deemed by the Board to be related to the creation of value for the shareholders within a mid-term period.

All of the variable component that is due is paid out during the following year.

No indemnity is paid for the premature cessation of employment or for its failure to be renewed but only a severance pay amounting to 6500,00 Euros each annually which is implemented through the spevial insurance policy and paid at the end of the mandate.

Remuneration plans based on stocks

There are none.

Remuneration of the executive directors

A significant portion of the salaries of the executive directors depends on the earnings of the Company and/or reaching certain goals specified in advance by the Board proposed by the remuneration committee consistently with the incentive policy, for which the guide lines and the maximum amount which can be paid out, were approved by the share holders' meeting on May 15th 2012 (6.P.2).

The incentive remuneration plan proposed by the Board on March 15th was later definitively confirmed by the Board on May 15th, after the approval of the shareholders' of the first part of the Report on Remuneration and the maximum amount set allocated.

Remuneration of directors with strategic responsibilities

In relation to the directors with strategic responsibilities, at this time the Board of Directors of El.En. has identified only one director with strategic responsibilities who is also a board member and therefore also qualified as executive in compliance with art. 2 (applicative criteria 2.C.1). This person, like the other executive directors is the recipient of an incentive remuneration adopted in accordance with the general policy described above (6.P.2), consequently a significant part of his remuneration as a board member is connected to achieving the goals in conformity with the terms that have been described with reference to executive administrators.

This person, moreover, has benefitted from his position as an employee and not as a board member, from the employee incentive plan for 2008-2013 described in the Director's report on operations

which accompanied the financials for 2012, in the section titled “*stock options offered to directors and employees*” in compliance with art. 84-bis of the *Regolamento Emittenti Consob* on the internet site of El.En., www.elengroup.com, Italian version, “*sez. investor relations – assemblea*”. Consequently this is not part of a remuneration incentive plan.

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

Incentive mechanisms for the provost for internal control and the director of the financial reports

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

Remuneration of the non-executive directors

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

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

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

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

Except for the severance pay indemnity established by the assembly in compliance with art. 17 of the TUIR, at the moment of appointment of the president or the executive board members for a maximum amount of 19.500,000 Euros a year, no agreements have been stipulated between El.En. and the directors concerning an indemnity in case of resignation or dismissal/discharge without just cause or if the relationship with the Company ceases on account of an offer of public acquisition.

At this time there are no further rights assigned in relation to the severance pay indemnity described above, there are no agreements that stipulate the assignment or maintenance of non-monetary benefits in favor of subjects who have terminated their employment, nor consulting contracts that have been stipulated for a period following the termination of employment; no agreements exist in relation to payments for non-disclosure agreements.

10. COMMITTEE FOR CONTROLS AND RISKS

In 2000 the Board of Directors created an internal controls committee which, in 2012, was renamed “Committee for controls and risks” (Principle 7.P.3) the independent components of which were confirmed upon renewal of the mandate on November 13th 2003 and May 9th 2006; on May 15th 2006 its third component, again a non-executive member, Alberto Pecci, was appointed.

On May 15th 2012 the Board confirmed as members of the commission three non-executive members, two of which were independent.

Composition and function of the committee for controls and risks (ex art. 123bis, sub-section 2, letter d), TUF)

The commission is currently composed of three non-executive board members (Pecci, Blasi, Legnaioli), two of which are independent (Blasi and Legnaioli).

The president, Michele Legnaioli, in conformity with art. 3 of the committee regulations, has the task of coordinating and scheduling their activities as well as conducting the meetings.

The commission always meets before the approval of the annual financial statement and the half-yearly report by the Board of Directors and whenever requested by one of the commission, Board of Directors or the provost for internal controls.

During this year the commission met twice, on March 15th, and on August 29th.

The meetings lasted for an average of 90 minutes and all of the members were present.

For the current year a meeting has been held on March 8th and another is scheduled for August 29th.

In 2012 the committee for controls and risks was composed of non-executive directors, most of whom were independent (Principle 7.P.4.).

In 2012 the committee for controls and risks was composed of at least three members (Applicative criteria 4.C.1., lett. a).

All of the members of the committee for controls and risks have experience in the fields of accounting and finance which the Board felt was adequate at the time of the appointment (Principle 7.P.4), for the reasons mentioned above in the paragraph related to the remuneration committee.

The Board of Auditors, the director in charge of drawing up the financial statements, the executive director of internal controls, the secretary and the provost for internal controls, participated in the meetings of the internal controls commission upon invitation by the commission and where necessary in relation to single subjects in the order of the day (Applicative criteria 4.C.1., lett. f).

Functions attributed to the committee for controls and risks

According to the regulations last modified on May 15th 2012, the commission is responsible for the tasks described in art. 7 of the Code, as well as those derived from the CONSOB *Regolamento Part Correlate* regarding the regulations for dealings with related parties.

During this year in the light of D. Lgs. 39/2010 which redefined some aspects of internal controls, El.En., on the basis of the contents of Stock Market Notice n. 18916 of December 21st 2010 – regarding the requirements which must be possessed by companies belonging to the STAR segment, had already proceeded with the vote taken on May 13th 2011, to attribute to the committee a role that was merely supportive with reference to the activities assigned by D. Lgs. 39/2010 to the board of auditors concerning the legal auditing of accounts.

Consequently, starting on December 31st 2012 the committee has been assigned those tasks

described in the *Regolamento Consob* 17221/2010 related to operations with related parties and those mentioned in art. 7 of the Code.

Therefore, the committee, as part of the operations conducted with related parties:

(a) examines, analyzes and expresses an opinion in advance on the procedures and on the relative modifications adopted by the Board of Directors in relation to operations conducted with related parties;

(b) carries out the tasks which have been assigned to it in those procedures in relation to the instruction and examination of the operations with related parties governed by these same procedures

Moreover, in relation to art. 7 of the Code, in offering advice and proposals, it must analyze the problems and implement the practices for the control of the company activities and in particular, as far as is compatible with the functions attributed by the law to the Board of Statutory Auditors of companies listed on the stock market, it must:

a) assist the Board of Directors in defining the directives for internal control, in the periodic evaluation of the adequacy of the system, of the efficiency and effectiveness of the system, as well as the verification activity aimed at the identification and management of the main risks involving the company and its subsidiaries, and the determining of compatibility criteria for the risks which have been identified involving the company or its subsidiaries, through a management of the company, that is consistent with the strategic objectives.

(b) evaluate, together with the executive who draws up the company accounting documents and the independent auditors and the Board of Statutory auditors, the adequacy of the accounting principles being used and their consistency in relation to the drawing up of the consolidated statement of the Group;

(c) express their opinions on specific aspects related to the identification of the main risks to which the company is exposed

(d) examine the periodic reports which have as their subject, the evaluation of the system for internal controls and management of risks and, in particular, those concerning internal audit.

(e) monitor the autonomy, the adequacy, the effectiveness and the efficiency of the internal auditing system.

(f) using their own discretion and specifically communicating with the president of the Board of Auditors, to ask for the function of an internal audit to conduct verifications on specific operating areas.

(g) assist the Board of Auditors when specifically requested, in the evaluation of proposals advanced by the auditing company in order to obtain the position of auditors and evaluate the work plan drawn up for the auditing and the results shown in the report and in the letter of suggestions.

(h) assist the Board of Auditors when specifically requested, in their supervision of the effectiveness of the auditing process.

(i) report to the Board, at least twice a year, on the occasion of the approval of the financial and the half-yearly report, on the activity conducted and on the adequacy of the system of internal controls and management of risks;

(l) form an opinion concerning the appointment, revocation and remuneration of the manager of the internal auditing system and they qualities that this person has that are necessary for carrying out his functions and responsibilities;

m) carry out the other tasks which from time to time may be assigned to it by the Board of Directors.

During 2012 the commission evaluated, in particular, the activities conducted by the manager in relation to L. 262/2005, the management of the property belonging to the Company that are held by third parties and the activities related to their recovery; technical assistance activities in the industrial sector.

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

Normally the meetings of the commission for internal controls are recorded in the book of minutes (Applicative criteria 4.C.1., lett. d).

When carrying out its functions, the commission for controls and risks may have access to the company information and operations which are necessary for it to conduct its activities, and it may also, when opportune, consult with outside experts, in accordance with the terms established by the Board. (Applicative criteria 4.C.1., lett. e).

At this time the committee has not found it necessary to make use of outside consultants or to use the special financial resources provided for carrying out its duties.

11. INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEM

As part of its activities for the management of the Company, and while defining their strategic industrial and financial plans, the Board of Directors evaluates the nature and the degree of risk compatibly with the goals that have been set.

While mandating the various bodies involved in the system of internal controls (managing director, internal auditor, committee, supervising body, provost, etc.) the Board has defined the various directives of the internal controls and risk management system in such a way that the principal risks pertaining to El.En. and its subsidiaries are correctly identified, adequately measured, managed and monitored, and, at the same time, determining the degree of compatibility of these risks with a management of the company that is consistent with the strategic objectives that have been set (Applicative criteria 7.C.1, lett. b)

The essential elements of the system of internal controls and risk management (Applicative criteria 7.C.1, lett. d) of El.En. are represented, on one hand by the rules and procedures, and on the other, by the bodies for corporate governance and control.

The rules consist mainly of a series of fundamental principles which El.En. has always adopted for its operations and which, in 2008 were codified in the Ethics Code; secondly, they consist of a series of second level procedures (those in *ex* Legislative Decree 231/01, L.262/05, L.81/09, internal regulations on the treatment of confidential information, operations with related parties, internal dealing, etc.) which make it possible to apply them to the specific situation of the company and to implement the above mentioned general principles.

On the other hand, the commission for controls and risks, the internal auditors, the provosts for internal controls, the executive responsible for the company financial documents, the supervising bodies 231, the Board of Statutory Auditors, the Independent auditors are all charged with the supervision of the compliance, with the rules and procedures on the basis of the competence and functions defined and attributed by the Board, of the rules and different bodies at their respective levels.

The details of the current system for the management of risks and for internal controls now in existence in relation to the policy on financial information, even consolidated (*ex art.* 123-bis, sub-section 2, letter b), TUF), are described in Appendix 1. The following is a summary of the policy followed by El.En. after law 262/2005 came into effect.

On May 5th 2007, in implementation of art. 154-bis TUF, for the purpose of formalizing a set of rules and tests to add to those already in existence which were related to the financial information process (including the consolidated) the Board appointed Enrico Romagnoli, an employee who has worked for the company since its admission to the stock market organized and managed by the Borsa Italiana Spa, as the executive in charge of drawing up the Company accounting documents.

Initially, El.En. instituted a task force with the objective of analysing the system of internal controls with reference to the tasks assigned by law to the executive responsible for the accounting and company documents collaborating with Price Waterhouse Coopers company (a company which is different from that which audits the books of El.En.).

The analysis was conducted using as a model the CoSo Report – Internal Control Integrated Framework and upon conclusion of the project a report was written which summarized the results which had emerged; on the basis of these results they identified the specific instruments to apply in order to guarantee the coordination and functioning of all the elements of the SCI which were related to information and data on the economic and financial situation of the company, in compliance with the law and/or diffused on the market. Since that time, the provost has carried out this activity with an aim to continuous improvement and constant verification of the instruments being used.

Through the activities implemented and coordinated by the internal controls committee, as well as the reports presented periodically by the internal controls provost and the superintending institution 231, during the meetings held on March 15th, May 15th, August 29th, and November 14th, the Board evaluated as adequate the efficiency, effectiveness and correct functioning of the internal controls system (Applicative criteria 7.C.1., lett. b and d).

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

The Board has identified an administrator for the institution and maintenance of an effective system for internal controls and risk management (7.P.3) and has appointed Andrea Cangioli as executive director in charge of supervising the functioning of the system.

In the name of the Board of Directors, he is in charge of the supervision of the functioning of the system of internal controls and risk management and carries out the tasks and the functions as per the Code and in particular: the identification of the main risks for the company (strategic, operative, financial, compliance), bearing in mind the characteristics of the activity conducted by El.En. and by its subsidiaries, and submits them for periodic examination by the Board (Applicative criteria 7.C.4, lett. a); implementing the directives defined by the Board of Directors, including the planning, activation and management of the internal controls system and constant verification of its adequacy, effectiveness and efficiency (Applicative criteria 7.C.4., lett. b); adaptation of the system to the dynamics of the operating conditions and the legislative and regulating situation (Applicative criteria 7.C.4., lett. c); request to the person responsible for the internal audit to conduct the verifications in specific operating sectors and on the respect of the regulations and procedures in carrying out company operations, while keeping the commissions for controls and risks and the Board of Statutory auditors informed (Applicative criteria 7.C.4., lett. d).

During the work sessions of the committee for control and risks and of the Board of Auditors, when necessary, the executive director will refer concerning the problems that have emerged or that he has been informed of as part of the activity that he conducts.

11.2. PROVOST FOR INTERNAL AUDIT

Since 2000 the Board has appointed one or more persons to verify that the internal controls system is always adequate, fully operative and functioning (provost(s) for internal controls, internal auditors) (Applicative criteria 7.P.3., lett. b).

The current provosts for internal auditing are Cristina Morvillo and, exclusively in relation to the drawing up of the financial statements, Lorenzo Paci the appointment of which occurred on the basis of the executive director in charge of supervising the systems for internal controls and the opinions expressed by the commission for controls and risks (Applicative criteria 7.C.1.) with the approval of the Board of Auditors.

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

The provosts for internal auditing are not responsible for any of the operative sectors and in the hierarchy depend on the Board of Directors (Applicative criteria 7.C.5., lett. b).

The provosts responsible for internal auditing conduct verifications continually and also in relation to specific cases and, in conformity with the international standards, the operations and the effectiveness of the system of internal controls and risk management based on a process of analysis

and prioritizing of the main risks of the controls have direct access to all the information that is useful for conducting their activities (7.C.5, lett. a).

The provosts for internal auditing have direct access to all the information that is useful for conducting their activities (Applicative criteria 7.C.5, lett. c); they prepare periodic reports containing adequate information concerning their activities, on the ways that the risk management is conducted in the investigative sectors that have been assigned as well as the compliance with the plans for controlling them, besides an evaluation of the effectiveness of the system used for internal controls and risk management (Applicative criteria 7.C.5., lett. d) and communicate them to the presidents of the board of auditors and the committee for controls and risks as well as the administrator responsible for the system of internal controls and risk management (Applicative criteria 7.C.5., lett. f); they have not had an opportunity to report on events of particular significance; on the basis of the activity conducted by the director in charge of the 262/2005, they have verified the reliability of the computer systems including the systems used for entering the accounts (Applicative criteria 7.C.5, lett. g).

At this time the committee has not found it necessary to make use of outside consultants or to use the special financial resources provided for carrying out its duties.

During 2012 the activities of the provost for internal auditing continued his activities of coordinating the various instruments used for internal controls, with particular reference to D. Lgs. 231/2001, on the implementation of the procedures related to the organizational model being adopted, to the types of management of property belonging to the company that is held by third parties and the activities related to their recovery, on the methods of conducting and the amount of resources used for customer assistance services in the industrial sector.

The function of internal auditing with reference solely to the area of drawing up the financial statement which is a residual activity of the ex-262/05 area of monitoring has been assigned to Dott. Lorenzo Paci, an external subject involved in the activities for the implementation of model 231.

11.3. ORGANIZATIONAL MODEL ex D. Lgs. 231/2001

El.En. has a model for organization, management and control in compliance with Legislative Decree n. 231/2001.

As far as the subsidiaries of strategic importance are concerned, Cynosure Inc. is subject to US law and therefore cannot be evaluated in relation to the adoption of model 231.

The model has already been adopted by the subsidiary ASA srl and is now in the process of being adopted by the subsidiary Deka M.E.L.A. s.r.l. and Quanta System spa.

The present model is the result of a revision of the one originally approved and intended to prevent offences which could in some way be related to the activity of El.En. in consideration of its structure and the area in which it operates; it includes the part concerning health and safety in the workplace which valid in compliance with art. 30 L. 81/09.

The superintending body is a commission composed of three members, one of which is an acting auditor, Dott. Paolo Caselli.

At this time, although the Company, in accordance with the by-laws, has the faculty of attributing to this function to the Board of Auditors, they have deemed it more effective to maintain the current organization of the supervising body: an acting auditor, the director of internal auditing and a criminal lawyer.

11.4. INDEPENDENT AUDITORS

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

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

The executive officer responsible for the preparation for the financial statements is Enrico Romagnoli who is the manager of the financial department of El.En. and also has the position of head of Investor Relations.

The executive officer responsible for the preparation for the financial statements is appointed according to the statutes by the Board of Directors and in compliance with art. 20 G must possess all of the requisites of honesty in accordance with the law for statutory auditors and directors and the professional characteristics and requisites in terms of experience in the work place which are adequate for the tasks assigned to him.

The provost in charge of the accounting documents has access to all the powers and means that are necessary for conducting this activity.

The principles and the means that are implemented by the provost are described in detail in Appendix 1.

11.6. COORDINATING THE SUBJECTS INVOLVED IN THE SYSTEM OF INTERNAL CONTROLS AND RISK MANAGEMENT

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

12. INTERESTS OF THE DIRECTORS AND OPERATIONS WITH RELATED PARTIES

With reference to the operations in which one of the directors has an interest or the operations with related parties, meaning those which involve the parties identified according to IAS 24, in art. 20 the statute states that the approval by the Board in relation to operations having a significant strategic, economic or financial importance, with particular reference to the operations with related parties, to those in which one of the board members detains an interest for himself or for a third party, or those that are unusual or atypical, must be given in advance.

The Board, moreover, in conformity with art. 2391-*bis* of the Civil Code and the recommendations of art. 9.C.1 of the Code, on March 30th 2007 adopted a special procedure called “*Regolamento per la disciplina delle operazioni con parti correlate di El.En. s.p.a.*” (El.En. Regulations for the operations with related parties), in compliance with the CONSOB regulations with related parties, has been revised, and contains the rules which govern the approval and conducting of operations initiated by the company, either directly or through one of the subsidiary companies, with parties with which there is a pre-existing equity investment, a professional or employee relationship, or a close family relationship which could condition the conclusion, regulating or substance of a contractual relationship. This set of rules has rendered, in formal terms, the intent which, in any case, in the past has always been followed by the Company, to act in such a way as to guarantee that the performance of operations with related parties (meaning also the operations in which the correlation exists on account of the interest of an director or an auditor for himself or for a third party) takes place with the greatest transparency and correctness both in substance and in procedure. The Company and its directors in any case must act and conform to the regulations of the Civil Code concerning this subject (articles 2391 e 2391-*bis*).

Moreover, the specific procedure controlling the relations with related parties and the existence of conflicts of interest which involve the administrative and controlling bodies is contained in the manual of administrative and management procedures, in force since 2000.

This procedure specifies that the provost for internal controls/internal auditor must proceed every six months with the verification, by means of interviews with the members of the Board of Directors and the Board of Statutory Auditors, of the existence of other related parties or of situations which might determine a conflict of interest.

In practice, this verification is conducted by means of a written interview consisting of a questionnaire which is filled out and signed by the above mentioned officers and kept in a file by the provost for internal controls/internal auditor.

The procedure approved by the Board contains the criteria for identifying the operations which must be approved by the Board after the opinion of the commission for controls and risks has been expressed.

Besides the regulations on this subject contained in the statutes (art. 20 E) and the internal regulations according to which, in particular, the executive board members are required, in conformity with the above mentioned art. 20 E, in view of the necessity of approval in advance, to immediately call attention to operations potentially in conflict of interest, those with related parties, and those which are atypical or unusual with respect to the normal operations of the company, in a review of the internal Regulations, and in particular of art. 6, the Board decided that a board member having an interest of his own or on behalf of a third party in a specific operation must reveal this information in advance at the meeting which has been called to deliberate this subject and that he/she must absent themselves from the meeting.

13. APPOINTMENT OF STATUTORY AUDITORS

In conformity with art. 144-sexies Regolamento Emittenti Consob and art. 10 of the Code, principle 10.P.1. and applicative criteria 10.C.1, as well as art. 148, sub-section 2 TUF as last modified by D.Lgs. 27/2010 and in the new policies introduced relating to gender balance, by law 120 of July 12,2011, art. 25 of the company statutes the following procedure must be applied for the appointment of the auditors.

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

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

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

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

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

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

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

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

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

The ownership of the minimum quota of equity necessary for the presentation of the lists is determined by the shares which are registered in the name of the partners in the day on which the lists are deposited at the company. The relative certification must, in any case, be presented at least 22 days before the date set for the first convocation of ordinary assembly.

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

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

In the case that there is more than one list, for the election of the members of the Board of Statutory

Auditors the procedure described below must be followed:

- a) the votes obtained by each list must be divided by one, two, three, etc. according to the progressive number assigned to each candidate;*
- b) the quotients that are thus obtained must be assigned progressively to the candidates of each list in the order in which they appear on the list and they will be placed in a single classification in descending order.*
- c) the candidates that receive the highest quotients will be elected.*

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

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

The presidency of the Board of Statutory Auditors is assigned to the acting Auditor elected first on the minority list who has obtained the greatest number of votes, or, if there is no minority list, to the acting auditor elected first from the list which received the greatest number of votes. In the case of the substitution of the acting Auditor, he will be replaced by the substitute Auditor belonging to the same list as the one who is being replaced.

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

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

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

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

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

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

The approval of the financial reports on December 31st 2012 represented the expiration date for the current Board of Auditors. Consequently, the shareholders' meeting which meets next April 30th /May 15th will be asked to elect a new Board of Statutory auditors.

In conformity with art. 144-septies, sub-section 2, Reg. Emittenti CONSOB 11971/1999 ("Reg. Emittenti"), the minimum equity quota in the capital stock that is required for the presentation of the lists of candidates for member of the Board of Auditors is 4,5%, in conformity with art. 25 of the by-laws, art. 144-sexies Reg. Emittenti and CONSOB vote 18452 of January 30th, 2013.

14. COMPOSITION AND FUNCTION OF STATUTORY AUDITORS (ex art. 123-bis, subsection 2, letter d), TUF)

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

They must act with autonomy and independence also in relation to the shareholders who have elected them (9.P.2.): the current Board comes from a single list presented by Andrea Cangioli, and Barbara Bazzocchi since no other lists were presented at the time of the elections held on April 30th 2010.

The company constantly places at their disposal their staff and the resources which the Board deems useful in order to conduct their functions in conformity with the current version of art. 25 of the statutes.

As already mentioned, for the purposes of implementing Applicative Criteria 8.C.5, one of the auditors, Dott. Paolo Caselli has always participated actively in the meetings and activities of the Committee for controls and risks with the director of internal auditing. Moreover, in accordance with the vote made by the Board on March 31st 2008 and confirmed on May 14th 2012, he is also a member of the supervising body as per *ex* D.Lgs. 231/2001.

Since D.Lgs. 39/2010 came into force and the last renewal of the Board of Auditors, both of the acting auditors have participated in the committee for control and risk management.

The activities in relation to the internal auditor and the director take place at the committee for internal control in the broadest sense, including the committee for control and management of risks and for internal control *ex* D.Lgs. 39 cit.

The Board of Statutory Auditors, is the body which legally is supposed to supervise the compliance with the law and with the company statutes, the respect of the principles for correct administration, the adequacy of the organization of the company in relation to the aspects in which they are competent, the internal controls system and the administrative and accounting systems used by the company and their actual functioning. The Board of Statutory auditors, moreover, supervises the application of the dispositions contained in art. 19 of D. Lgs. No. 39 of January 27th 2010, as well as the methods used for the correct implementation of the rules for corporate governance contained in the self-disciplining code and the compliance with the Consob rules and the effective implementation of company procedures regarding dealings with related parties.

This body is also entrusted with the supervision of the adequacy of the instructions given to the subsidiaries so that they can supply all of the information necessary in order to comply with the requirements for communication according to the law.

When requested by the Board of Directors, this body also acts as a supervising body in conformity with art. 6, D. Lgs. 8th June 2001, n. 231

The current Board of Statutory Auditors was elected by the Assembly on April 30th 2010 and their term will end upon the approval of the financials for 2012.

The Board is composed of three acting auditors and two supplementary auditors:

| Name | Position | Residence | Place and date of birth |
|------------------------|-----------------------|-------------------------------|--|
| Vincenzo Pilla | President | Firenze, Via Crispi, 6 | S. Croce di Magliano (CB), May 19th 1961 |
| Paolo Caselli | Acting auditor | Pistoia, Via Galvani, 15 | Firenze, April 14th 1966 |
| Gino Manfriani | Acting auditor | Firenze, Via Lamarmora 29 | Borgo San Lorenzo (FI) April 26th 1963 |
| Lorenzo Galeotti Flori | Supplementary auditor | Firenze, Borgo Pinti, 80 | Firenze, December 9th 1966 |
| Manfredi Bufalini | Supplementary auditor | Firenze, Piazza S. Firenze, 2 | Firenze, August 24th 1966 |

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

As of December 31st 2012 the components of the Board of Statutory Auditors of the company were also members of the controlling bodies of the following subsidiary companies:

| First and last name | Positions |
|---------------------|--|
| Vincenzo Pilla | - President of the Board of Statutory Auditors of Lasit s.p.a. - President of the Board of Statutory Auditors of Deka M.E.L.A. s.r.l. - Acting auditor of Cutlite Penta s.r.l. |
| Paolo Caselli | - President of the Board of Statutory Auditors of Cutlite Penta s.r.l. - Acting auditor of Deka M.E.L.A. s.r.l. - Acting auditor of Lasit s.p.a. |
| Gino Manfriani | - Acting auditor of Cutlite Penta s.r.l. - Acting auditor of Deka M.E.L.A. s.r.l. |

The average duration of the meetings of the Board of Statutory Auditors is 2,5 hours.

The number of meetings of the Board of Statutory Auditors scheduled for 2013 is five, two of which have already been held (on January 14th and January 29th 2013).

The active participation of the members of the Board can be summarized as follows: the president of the Board of Statutory Auditors was present at five meetings and had a justified absence at one meeting, the acting auditors participated at all six meetings held during 2012.

The Board of Statutory Auditors:

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

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

All of the verifications had a positive outcome.

In relation to the initiatives taken by the President of the Board for purposes of an induction program, as stated above, the members of the Board of Auditors all have long experience both in relation to the technical and legislative aspect and/or, as in the case of the president they were present at the founding of the Company and since then have always sustained it, or, as in the case of the two acting auditors, they have been involved for more than a decade in the internal controls activity, in the broadest sense, of the company where they have worked with dedication and commitment.

For this reason, considering the current composition of the Board of Auditors, we do not believe that it is necessary to take particular measures towards the creation of an induction program. The president will take into consideration such measures should there be a change in the composition of the Board.

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

The Board of Auditors, for which the methods have already been described previously in this report, in conducting their activities, are coordinated with the functions of internal audit and with the committee for controls and risks which are present in the Board of Directors. (Applicative criteria 8.C.4. and 8.C.5.).

The Board of Statutory auditors has continued among other things to exert its control on the operations with related parties and to actively participate as one of the components of the supervising body *ex* D. Lgs. 231/2001; it has also carried out the functions attributed to it by D. Lgs. 39/2010 with particular reference to the selection of the auditing company to be proposed as successor appointed by the shareholders' assembly which met on May 15th 2012 .

15. RELATIONS WITH SHAREHOLDERS

El.En. has created a special section in its Internet site which is easy to find and to access and which contains all of the information concerning El.En. which is of importance to its shareholders so that they can gain the knowledge they need to exercise their rights.

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

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

In conformity with art. 9 of the Code, the Board of Directors, compatibly with the organization and structure of El.En. endeavours to encourage the participation of the shareholders in the assemblies and to facilitate the exercising of the rights of its partners also by creating a continuous dialogue with them. The Board of Directors endeavours to set a convenient time, date and place (usually the company headquarters) for the meetings and to comply rapidly with the requirements set by law in relation to the convening of the assembly, the communication that the assembly has been convened, and the participation of the shareholders at the assembly.

In conformity with the Code, all of the directors normally attend the assemblies and, during the assemblies all of the information and news concerning El.En. are communicated to the shareholders, naturally in compliance with the regulations related to price sensitive information.

The president of the Board of Directors and the executive board members have unanimously agreed to appoint one of the employees, Enrico Romagnoli, to be responsible for the relations with institutional investors and the other shareholders. The *investor relations manager* is part of a company department which is composed of employees who elaborate accounting and administrative documents and information.

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

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

The assembly is governed by Title III of the Company Statutes (articles 11-18) which, in conformity with the law and the specific rulings, regulates its areas of competence, functioning, means of convening, constitutional quorums, intervention etc. as described below in the version after the final modifications had been made by El.En. on October 28th 2010 after Legislative Decree 27/2010 entered into force:

“Article 11 Assembly

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

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

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

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

Article 12 Place of assembly

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

Article 13 Convocation of the Assembly

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

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

Article 14 Attendance at the Assembly

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

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

A partner who has the right to attend the Assembly in conformity with D. Lgs February 24th 1998, n. 58 and the other applicable regulations, may be represented by conferring a written power of attorney. The power of attorney which is written and signed digitally must be sent to the company by certified e-mail.

The company does not make use of the institution of “designated representative of the company with listed stock” as described in article 135-undecies D.Lgs. February 24th 1998, n. 58.

Article 15
Presidency of the Assembly

The Assembly is presided over by the President of the Board of Directors or, if he is absent or impeded, by the Vice-President; if neither of them are present, then by the person elected with the greatest majority of votes by the shareholders present.

The Assembly elects, even among the non-shareholders, a Secretary and, if deemed necessary, two scrutinizers.

The presence of a secretary is not necessary if the minutes are kept by a notary.

The President of the Assembly has the duty of verifying that the meeting complies with regulations and of ascertaining the identity and legitimate rights of those present. Once the validity of the constituents of the Assembly has been certified, it cannot be invalidated because some of those present have left the meeting.

The President also has the task of presiding over the regular conduction of the meeting of the Assembly, directing and moderating the discussion and establishing, when necessary the duration of each intervention, determining the methods and order for voting and ascertaining the results, all in conformity with the regulations which, formulated by the Board of Directors and approved by the ordinary Assembly can govern the orderly and functional activity of the meeting both in ordinary and extraordinary assembly.

Article 16
Minutes

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

Article 17
Ordinary Assembly

For the first convocation the ordinary assembly is considered to be duly constituted when the number of shareholders present represents at least half of the capital stock calculated in conformity with art. 2368, sub-section 1, c.c.; the assembly votes by absolute majority. For the second convocation the ordinary assembly, whatever the portion of capital stock represented is, votes according to the absolute majority of those present on the subjects which should have been decided earlier.

For appointment of the Board of Statutory Auditors the regulations as per Art. 25 of the present Statute must be observed.

In conformity with the laws and regulations, write-in votes are allowed.

Article 18
Extraordinary Assembly

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

In particular, since 2000, El.En. has included in its Statute the possibility for its shareholders to use write-in votes (absentee ballots) and this has been mentioned in every notification of convocation of assembly along with the instructions for casting the write-in vote.

The notifications of convocation of assembly and the relative courtesy communications concerning

the actual date of the meeting are published both on the Internet site of the company and in a national daily newspaper.

The president of the Board of Directors, who generally presides over the assembly, must proceed with a detailed description of the proposals and the subjects in the Order of the Day of the shareholders' meeting in such a way as to guarantee that the assembly is conducted in an efficient and orderly fashion. For this purpose, the shareholders meeting held on May 15th 2007 approved the assembly regulations drawn up by the board (9.C.3), which were later modified on May 13th 2011 in the part related to attendance at the assembly. In fact, the modification made on article 14 of the company by-laws which was approved by the shareholders' meeting on October 28th 2010 after the innovations introduced by lawmakers with D. Lgs. No. 27 of January 27th 2010 in relation to article 2370 C.C. regarding the right to attend the assembly and exercising of the right to vote, and the introduction of art. 83-sexies TUF, a rule which established the so-called record date, made it necessary also to revise the current assembly regulations.

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

Art. 1 – Subject and area of application

This set of regulations governs the orderly and efficient conduction of the shareholders' meeting of El.En. s.p.a. ("the Company") both for the ordinary and extraordinary assemblies.

The regulations can be consulted at company headquarters or on the Internet site of the Company (www.elen.it investor relations section) as well as whenever an assembly meets.

Art. 2 – Place and presidency of the assembly meetings

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

Art. 3 – Attendance at the assembly

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

3.2. Upon invitation by the president, the employees of the Company, consultants and representatives of the company in charge of auditing the accounts may attend the assembly meetings when their presence is considered useful or opportune in relation to the subjects to be discussed or the work to be conducted.

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

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

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

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

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

set for the beginning of the meeting, unless otherwise stated in the notice of convocation.

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

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

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

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

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

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

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

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

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

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

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

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

The president of the assembly has faculty to: call a conclusion to the discussions which are lasting longer than the set time limit or that are not pertinent to the subject or proposal on the agenda; to silence those who intervene without having the right to do so or those who have been reprimanded and persist; to prevent words and attitudes that are inappropriate, pretentious, aggressive,

offensive or slanderous as well as evident excesses, revoking the right to speak whenever he deems necessary and, in the most serious cases, ordering the expulsion of the person from the meeting area for the entire duration of the discussions.

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

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

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

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

Art. 7 – Voting and conclusion of the meeting

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

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

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

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

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

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

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

Art. 8 – Final provisions

8.1. In compliance with art. 15 of the company statutes now in effect, this set of Regulations was approved, by the ordinary assembly of the Company which was held on May 15th 2007, and it can be modified or abrogated only by the vote of the same body.

8.2. Besides the various measures described in this set of regulations, the president may adopt any measures that he deems opportune in order to guarantee the orderly and correct conduction of the work of the assembly and the exercising of the rights of those present.”

The Board of Directors, with all members present during the meeting held on May 15th 2012, reported to the assembly in relation to the activities conducted and endeavored to make sure that

adequate information concerning the necessary elements were supplied to the shareholders so that they can make informed decisions on those matters that were of competence of the assembly.

The remuneration committee which was present and at the disposal of the assembly, stated that they believed to have reported to the shareholders in their remuneration report (*Relazione sulla Remunerazione*) and the present report.

During this year no significant variations occurred in the Market capitalization of the El.En. stock or in the structure of the company.

Consequently, no evaluation by the Board was necessary concerning whether or not it was opportune to propose modifications of the by-laws in relation to the percentage set for the exercising of the shares and the prerogatives advanced for the protection of the minorities (Applicative criteria 9.C.4.).

17. OTHER POLICIES OF CORPORATE GOVERNANCE (ex art. 123-bis, sub-section 2, letter a), TUF)

There are no additional policies of corporate governance other than those described in the preceding paragraphs.

18. CHANGES SINCE THE CLOSING OF THE FINANCIAL YEAR

No changes have been made in the structure of the corporate governance.

For the Board of Directors
The President – Gabriele Clementi

TABLE 1 – INFORMATION ON OWNERSHIP

On the basis of information supplied by El.En.

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

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

| SIGNIFICANT OWNERSHIPS IN SHAREHOLDERS' CAPITAL | | | |
|--|---------------------------------------|---------------------------------|-------------------------------|
| Person declaring | Direct shareholder | Quota % of the ordinary capital | Quota % of the voting capital |
| ANDREA CANGIOLI | ANDREA CANGIOLI | 13,425 | 13,425 |
| GABRIELE CLEMENTI | GABRIELE CLEMENTI | 11,083 | 11,083 |
| BARBARA BAZZOCCHI | BARBARA BAZZOCCHI | 10,464 | 10,464 |
| ALBERTO PECCI | ALBERTO PECCI | 0,345 | 0,345 |
| ALBERTO PECCI | S.M.I.L. di Alberto Pecci & C. s.a.s. | 8,218 | 8,218 |
| ELENA PECCI | ELENA PECCI | 0,079 | 0,079 |
| ELENA PECCI | IMMOBILIARE IL CILIEGIO s.r.l. | 7,512 | 7,512 |
| CARLO ALBERTO MARSILETTI | REX CAPITAL s.p.a. | 2,204 | 2,204 |
| LASERFIN srl | LASERFIN s.r.l.. | 2,01 | 2,01 |
| PIO BURLAMACCHI | PIO BURLAMACCHI | 2,001 | 2,001 |

* voting right suspended by law

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

| Board of Directors as of December 31 st 2012 | | | | | | | | | | | Internal controls committee | | Remuneration committee | | Nomination committee | |
|---|------------------------|-----------------------------|---------------------------------------|-----------------------------|------------------|--|-------------------------------|-----------------------|--------------------------------------|-----------------------------------|-----------------------------|--------------------------------------|------------------------|--------------------------------------|----------------------|--------------------------------------|
| <u>Position</u> | <u>Members</u> | <u>From</u> | <u>Until</u> | <u>List (M/m)</u> | <u>Executive</u> | <u>Non Executive</u> | <u>Indep. As per the Code</u> | <u>Indep. for TUF</u> | Percentage of attendance at meetings | <u>Number of other positions</u> | Members | Percentage of attendance at meetings | Members | Percentage of attendance at meetings | Members | Percentage of attendance at meetings |
| <i>President and executive director</i> | Gabriele Clementi | May 15 th 2012 | Appr. of annual report 2014 | M | X | | | | 100% | 0 | | | | | | |
| <i>Executive director</i> | Andrea Cangioli | May 15 th 2012 | Appr. of annual report 2014 | M | X | | | | 100% | 1 | | | | | | |
| <i>Executive director</i> | Barbara Bazzocchi | May 15 th 2012 | Appr. of annual report 2014 | M | X | | | | 100% | 0 | | | | | | |
| <i>Director</i> | Paolo Blasi | 1 May 15 th 2012 | Appr. of annual report 2014 | M | | X | X | X | 100% | 2 | X | 100% | X | 100% | X | - |
| <i>Director</i> | Michele Legnaioli | May 15 th 2012 | Appr. of annual report 2014 | M | | X | X | X | 100% | 0 | X | 100% | X | 100% | X | - |
| <i>Director</i> | Alberto Pecci | May 15 th 2012 | Appr. of annual report 2014 | M | | X | | | 100% | 1 | X | 100% | X | 100% | X | - |
| <i>Director</i> | Stefano Modi | May 15 th 2012 | Appr. of annual report 2014 | M | | X | | | | 0 | | | | | | |
| <i>Director</i> | Angelo Ercole Ferrario | May 15 th 2012 | Resigned August 27 th 2012 | M | | X | | | | 0 | | | | | | |
| Number of meetings held during 2012 | | | | Board of Directors: 6 (six) | | Internal controls committee 2 (two) | | | | Remuneration committee: 1(one) | | | | Nomination committee: 2 (two) | | |

| | |
|---|------|
| Quorum required for the presentation of lists during the last appointment | 4,5% |
|---|------|

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

| Position | Member | since | until | List (M/m) | Indipendence from Code | Percentage of attendance at the board meetings | Number of other positions in companies quoted on the Italian stock market |
|------------------------------|-------------------------------|--------------|-----------------------------|-------------------|-------------------------------|---|--|
| President | Vincenzo Pilla | 30/04/2010 | Approval annual report 2012 | M | X | 83% | 0 |
| Acting auditor | Paolo Caselli | 30/04/2010 | Approval annual report 2012 | M | X | 100% | 0 |
| Acting auditor | Gino Manfriani | 30/04/2010 | Approval annual report 2012 | M | X | 100% | 0 |
| Supplementary auditor | Lorenzo Galeotti Flori | 30/04/2010 | Approval annual report 2012 | M | X | / | 0 |
| Supplementary auditor | Manfredi Bufalini | 30/04/2010 | Approval annual report 2012 | M | X | / | 0 |

Number of meetings held in 2012: 6

Upon the occasion of the last appointment, the CONSOB, with vote 17148/2010 of January 27th 2010 set the amount required for the presentation of the lists at 4,5% of the capital stock.

Appendix 1: Paragraph on the “Main characteristics of the systems for risk management and internal controls in relation to the financial information process” in compliance with art. 123-bis, sub-section 2, lett. b), TUF

This document contains a description of the “Principal characteristics of the risk management and internal controls systems now in existence in relation to the financial information process” in conformity with art. 123-bis, sub-section 2, lt. b), TUF (henceforth called the System).

1) Premise

El.En. has defined their own system for risk management and internal controls in relation to the process of financial information which is consistent with international best practice and is based on the CoSO Report model to which, for the computer aspects, the COBIT model “Control Objectives for Information and Related Technology”) has been added.

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

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

Among the companies that have been considered significant according to the methodology described below, there is Cynosure Inc., the American company which is subject to the regulations contained in the Sarbanes Oxley Act 404. Considering that the company in question has the same model of reference as the Parent Company as the basis of its internal controls systems, and that numerous analogies exist between the American and Italian regulations, the company was judged to be in conformity with law 262/05.

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

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

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

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

- i. *Administrative and accounting procedures:* the set of company procedures that are significant in relation to the drawing up and diffusion of accounting information (like related

- administrative and accounting procedures, in particular, statements and periodic financial reports and matrices of the administrative and accounting controls;
- ii. *Company procedures that are significant for the purpose of preventing and monitoring operative risks like: quality management system ISO 9001:2008.*

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

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

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

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

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

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

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

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

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

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

After the identification of the risks we proceeded with the identification of the specific controls needed to reduce to an acceptable level the risk related to the failure to reach certain objectives of the system both in relation to the company and to the process. For this purpose El.En. has

defined, within the system of administrative and accounting procedures, the so-called “administrative and accounting control matrices” which are documents which describe the control activities existing in every significant administrative and accounting process. The controls described in the matrices should be considered an integral part of the administrative and accounting procedures of El.En.

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

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

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

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

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

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

b) Roles and functions involved

In particular, the main responsibilities which are intended to guarantee the correct functioning of the System are as follows:

- the **Board of Directors** is responsible for the appointment of the Executive responsible for drawing up the company and accounting documents, for ascertaining that the Executive has all the necessary prerequisites (in terms of authority, professional competence and independence), powers and means for carrying out the tasks which have been assigned to him; for the institution of a regular flow of information through which the Executive may report the results of the activities conducted and any critical issues which may emerge, also with an aim to taking the necessary steps to overcome the significant critical issues. In carrying out their functions, the Board makes use of the assistance of the **Internal Controls Committee**, which has the duty to advise and to recommend also in reference to the administrative and accounting internal controls system;
- the **Executive Director in charge of the internal controls system** is responsible for the implementation and monitoring of the Internal Controls System, with particular reference to the Administrative and Accounting procedures; for the evaluation, together with the Executive in charge of Internal Controls, of the results of the periodic risk assessments; for the evaluation, bearing in mind the preliminary activity of the Executive, of the effectiveness of the procedures being used; for the revision of the “other information of a financial nature” released to the market.

- The *Executive officer responsible for the preparation of the company financial statements*, besides the responsibilities he is assigned jointly with the Executive Director in charge of the internal controls system, is also responsible for evaluating and monitoring the level of adequacy and effectiveness of the administrative and financial internal control system by conducting investigative activities.

**EL.EN. GROUP
CONSOLIDATED FINANCIAL STATEMENT
AS OF DECEMBER 31st 2012**

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

Consolidated statement of financial position

| | Note | 31/12/2012 | 31/12/2011 |
|---|------|--------------------|--------------------|
| Statement of financial position | | | |
| Intangible assets | 1 | 3.427.768 | 23.958.312 |
| Tangible assets | 2 | 21.414.733 | 27.807.086 |
| Equity investments: | 3 | | |
| - in associates | | 32.476.985 | 306.283 |
| - other investments | | 73.431 | 135.846 |
| Total equity investments | | 32.550.416 | 442.129 |
| Deferred tax assets | 4 | 5.681.705 | 6.354.281 |
| Other non current assets | 4 | 4.302 | 5.217.436 |
| Total non current assets | | 63.078.924 | 63.779.244 |
| Inventories | 5 | 45.465.369 | 69.344.148 |
| Accounts receivables: | 6 | | |
| - from third parties | | 35.902.198 | 49.151.139 |
| - from associates | | 3.015.331 | 1.378.867 |
| Total accounts receivables: | | 38.917.529 | 50.530.006 |
| Tax receivables | 7 | 3.522.039 | 5.989.431 |
| Other receivables: | 7 | | |
| - from third parties | | 4.698.966 | 6.992.660 |
| - from associates | | 63.565 | 63.565 |
| Total other receivables | | 4.762.531 | 7.056.225 |
| Financial instruments | 8 | 1.013 | 24.332.276 |
| Cash and cash equivalents | 9 | 40.475.322 | 48.364.542 |
| Total current assets | | 133.143.803 | 205.616.628 |
| TOTAL ASSETS | | 196.222.727 | 269.395.872 |
| Share capital | 10 | 2.508.671 | 2.508.671 |
| Additional paid in capital | 11 | 38.593.618 | 38.593.618 |
| Other reserves | 12 | 37.752.710 | 36.170.908 |
| Treasury stock | 13 | -528.063 | -2.575.611 |
| Retained earnings / (deficit) | 14 | 11.058.425 | 20.278.069 |
| Net income / (loss) | | 23.198.584 | -270.336 |
| Share Capital and Reserves attributable to the Shareholders' of the Parent Company | | 112.583.945 | 94.705.319 |
| Share Capital and Reserves attributable to non-controlling interests | | 11.714.705 | 80.405.058 |
| Total equity | | 124.298.650 | 175.110.377 |
| Severance indemnity | 15 | 2.865.242 | 2.761.474 |
| Deferred tax liabilities | 16 | 1.315.099 | 1.172.423 |
| Other accruals | 17 | 4.384.819 | 6.683.048 |
| Financial liabilities: | 18 | | |
| - to third parties | | 10.280.914 | 6.684.237 |
| Total financial liabilities | | 10.280.914 | 6.684.237 |
| Non current liabilities | | 18.846.074 | 17.301.182 |
| Financial liabilities: | 19 | | |
| - to third parties | | 12.421.004 | 12.997.172 |
| Total financial liabilities | | 12.421.004 | 12.997.172 |
| Accounts payables: | 20 | | |
| - to third parties | | 22.923.219 | 34.452.352 |
| - to associates | | 68.563 | 124.139 |
| Total accounts payables | | 22.991.782 | 34.576.491 |
| Income tax payables | 21 | 1.100.845 | 761.740 |

| | | | |
|---|----|--------------------|--------------------|
| Other payables: | 21 | | |
| - to third parties | | 16.335.347 | 28.648.910 |
| - to associates | | 1.381 | |
| Total other payables | | 16.336.728 | 28.648.910 |
| Current liabilities | | 52.850.359 | 76.984.313 |
| Non current liabilities held for sale | 22 | 227.644 | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 196.222.727 | 269.395.872 |

Consolidated Income Statement

| Income statement | Note | 31/12/2012 | 31/12/2011 |
|--|------|--------------------|--------------------|
| Revenues: | 23 | | |
| - from third parties | | 143.805.118 | 130.382.662 |
| - from subsidiaries | | 4.776.152 | 5.433.929 |
| - from associates | | 2.653.049 | 1.575.767 |
| Total revenues | | 151.234.319 | 137.392.358 |
| Other revenues and income: | 24 | | |
| - from third parties | | 2.696.535 | 2.042.124 |
| - from subsidiaries | | 1.848 | 7.456 |
| - from associates | | 40.958 | 10.781 |
| Total other revenues and income | | 2.739.341 | 2.060.361 |
| Total revenues and income | | 153.973.660 | 139.452.719 |
| Purchase of raw materials: | 25 | | |
| - to third parties | | 68.655.089 | 66.158.212 |
| - to subsidiaries | | 7.239 | 8.808 |
| - to associates | | 157.822 | 104.153 |
| Total purchase of raw materials | | 68.820.150 | 66.271.173 |
| Change in inventory of finished goods and WIP | | 2.148.258 | (4.247.875) |
| Change in inventory of raw material | | 60.670 | (1.495.012) |
| Other direct services: | 26 | | |
| - to third parties | | 10.835.795 | 11.755.143 |
| - to subsidiaries | | | 458 |
| - to associates | | 58.605 | 31.410 |
| Total other direct services | | 10.894.400 | 11.787.011 |
| Other operating services and charges: | 26 | | |
| - to third parties | | 25.683.535 | 25.104.056 |
| - to subsidiaries | | | 14.824 |
| - to associates | | 162.503 | 206.391 |
| Total other operating services and charges | | 25.846.038 | 25.325.271 |
| For staff costs | 27 | 33.685.368 | 30.989.581 |
| Depreciation, amortization and other accruals | 28 | 5.044.663 | 5.728.164 |
| EBIT | | 7.474.113 | 5.094.406 |
| Financial charges: | 29 | | |
| - to third parties | | (2.597.235) | (1.775.300) |
| Total financial charges | | (2.597.235) | (1.775.300) |
| Financial income | 29 | | |
| - from third parties | | 1.232.762 | 2.116.909 |
| - from associates | | 2.086 | |
| Total financial income | | 1.234.848 | 2.116.909 |
| Share of profit of associated companies | | 48.214 | (689.056) |
| Other net expenses | 30 | (67.620) | (45.145) |
| Other net income | 30 | | 63.646 |
| Income (loss) before taxes | | 6.092.320 | 4.765.460 |
| Income taxes | 31 | 2.952.618 | 2.658.043 |
| Income (loss) for the financial period from Continuing operations | | 3.139.702 | 2.107.417 |
| Income (loss) for the financial period from Discontinued operations (*) | 34 | 26.671.999 | (2.396.222) |

| | | |
|--|-------------------|------------------|
| Net income (loss) before minority interest | 29.811.701 | (288.805) |
| Minority interest from Continuing operations | 1.010.325 | 1.386.029 |
| Minority interest from Discontinued operations | 5.602.792 | (1.404.498) |
| Net income (loss) | 23.198.584 | (270.336) |
| Basic net (loss) income per share | 4,83 | (0,06) |
| Diluted net (loss) income per share | 4,83 | (0,06) |
| Net (loss) income per share from Continuing operations | 0,44 | 0,15 |
| Net (loss) income per share from Discontinued operations | 4,39 | (0,21) |

(*) In accordance with Delibera Consob 15519 of 27th July 2006, the amounts related to significant non-recurring events, amounted to 18.184 thousand Euros are listed in note (35)

This income statement was drawn up in compliance with IFRS5 and the contribution of Cynosure is summarized in category of "Income (loss) from Discontinued Operations". The amounts towards subsidiary companies therefore refers to the economic relations that occurred among the companies of the Group with Cynosure for the period of time in which the company was a subsidiary.

In compliance with par. 34 of IFRS standard 5, the Group has also shown the income statement for December 31st 2011 published in the relative consolidated report, in order to present in the category of "Income (loss) from Discontinued Operations" in the Income Statement the arithmetical sum of the revenue and the costs (including the fiscal effects) for the year 2011 relative to the subsidiary company Cynosure Inc. which, since November 2012 is no longer a subsidiary company.

Consolidated statement of comprehensive income

| | 31/12/2012 | 31/12/2011 |
|--|------------|------------|
| Reported net (loss) income | 29.811.701 | -288.805 |
| Cumulative conversion adjustments | -154.406 | 3.388.015 |
| Unrealized gain (loss) on marketable securities and on hedging derivatives | -21.040 | -1.348 |
| Total comprehensive (loss) income | 29.636.255 | 3.097.862 |
| Referable to: | | |
| Parent Shareholders | 23.380.438 | 707.513 |
| Minority Shareholders | 6.255.817 | 2.390.349 |

Consolidated cash flows statement

| Cash flow statements | Note | 31/12/2012 | related parties | 31/12/2011 | related parties |
|---|------|-------------|-----------------|-------------|-----------------|
| Cash flow generated by operating activity: | | | | | |
| Profit (loss) for the financial period continuing | | 3.139.702 | | 2.107.417 | |
| Amortizations and depreciations | 28 | 2.983.149 | | 2.946.388 | |
| Devaluations of equity investments | 30 | 49.620 | | 45.145 | |
| Share of profit of associated companies | | -48.214 | -48.214 | 689.056 | 689.056 |
| Stock Options | 27 | 134.984 | | 190.546 | |
| Change of employee severance indemnity | 15 | 103.768 | | 59.778 | |
| Change of provisions for risks and charges | 17 | 152.288 | | 2.004 | |
| Change of provisions for deferred income tax assets | 4 | 253.159 | | -833.178 | |
| Change of provisions for deferred income tax liabilities | 16 | 142.676 | | 763.370 | |
| Stocks | 5 | 922.397 | | -3.067.433 | |
| Receivables | 6 | 1.557.769 | -1.636.464 | -509.741 | 554.675 |
| Tax receivables | 7 | 2.069.083 | | 507.975 | |
| Other receivables | 7 | 41.239 | - | -397.621 | |
| Payables | 20 | -1.547.235 | -55.576 | -5.279.366 | -76.006 |
| Income Tax payables | 21 | 485.972 | | -1.290.545 | |
| Other payables | 21 | -1.023.007 | 1.381 | 2.012.130 | |
| Cash flow by discontinued operations | | 4.143.459 | | 1.947.188 | |
| | | 10.421.107 | | -2.214.304 | |
| Cash flow generated by operating activity | | 13.560.809 | | -106.887 | |
| Cash flow generated by investment activity: | | | | | |
| (Increase) decrease in tangible assets | 2 | -2.095.561 | | -1.353.614 | |
| (Increase) decrease in intangible assets | 1 | 1.929.099 | | 17.577.789 | |
| (Increase) decrease in equity investments and non current assets | 3-4 | -257.065 | -257.565 | -568.102 | -474.833 |
| Increase (decrease) in financial receivables | 7 | | | 3.676 | -26.324 |
| (Increase) decrease investments which are not permanent | 8 | 79.858 | | 139.395 | |
| Cash flow from purchase of subsidiary companies | | | | -20.843.960 | |
| Cash flow from sell of subsidiary companies | | -12.134.670 | | | |
| Cash flow by discontinued operations | | -14.255.170 | | 1.992.031 | |
| Cash flow generated by investment activity | | -26.733.509 | | -3.052.785 | |
| Cash flow from financing activity: | | | | | |
| Increase (decrease) in non current financial liabilities | 18 | 3.978.615 | | 1.717.388 | |
| Increase (decrease) in current financial liabilities | 19 | -391.753 | | 6.185.794 | |
| Change in Capital and Reserves and consolidation scope | | -6.113.011 | | | |
| Change in Treasury Stock | | 2.047.548 | | | |
| Dividends distributed | 32 | -374.986 | | -1.384.548 | |
| Cash flow by discontinued operations | | 6.312.524 | | 264.117 | |
| Cash flow from financing activity | | 5.458.937 | | 6.782.751 | |
| Change in cumulative conversion adjustment reserve and other no monetary changes | | -175.456 | | 3.226.536 | |
| Increase (decrease) in cash and cash equivalents | | -7.889.220 | | 6.849.615 | |
| Cash and cash equivalents at the beginning of the financial period | | 48.364.542 | | 41.514.927 | |
| Cash and cash equivalents at the end of the financial period | | 40.475.322 | | 48.364.542 | |

All of the cash and cash equivalents consist of cash on hand and balance in the checking accounts of the banks.

Interest earned during this financial period amounts to about 438 thousand Euros.

Current income taxes for this financial year amounted to 3,6 million Euros.

Changes in consolidated Shareholders' equity

| <i>SHAREHOLDERS' EQUITY:</i> | Balance 31/12/2010 | Net income allocation | Dividends distributed | Other operations | Comprehensive (loss) income | Balance 31/12/2011 |
|---|-----------------------|--------------------------|--------------------------|---------------------|--------------------------------|-----------------------|
| Share Capital | 2.508.671 | | | | | 2.508.671 |
| Additional paid-in capital | 38.593.618 | | | | | 38.593.618 |
| Legal reserve | 537.302 | | | | | 537.302 |
| Treasury shares | -2.575.611 | | | | | -2.575.611 |
| Others reserves: | | | | | | |
| Extraordinary reserves | 33.663.109 | 117.428 | | | | 33.780.537 |
| Reserve for contribution on capital account | 426.657 | | | | | 426.657 |
| Cumulative conversion adjustments reserve | -1.237.873 | | | | 978.164 | -259.710 |
| Other reserves | 1.507.712 | -1 | | 178.410 | | 1.686.122 |
| Retained earnings | 19.448.171 | 1.150.120 | -944.244 | 624.337 | -315 | 20.278.069 |
| Profits (loss) of the year | 1.267.547 | -1.267.547 | | | -270.336 | -270.336 |
| <i>Parent company's shareholders' equity</i> | 94.139.303 | 0 | -944.244 | 802.747 | 707.513 | 94.705.319 |
| Capital and reserves of third parties | 78.419.072 | -834.000 | -440.304 | 869.941 | 2.408.818 | 80.423.527 |
| Profit (loss) of third parties | -834.000 | 834.000 | | | -18.469 | -18.469 |
| <i>Share Capital and Reserves attributable to non-controlling interests</i> | 77.585.072 | 0 | -440.304 | 869.941 | 2.390.349 | 80.405.058 |
| <i>Total Shareholders' equity</i> | 171.724.375 | 0 | -1.384.548 | 1.672.688 | 3.097.862 | 175.110.377 |

| <i>SHAREHOLDERS' EQUITY:</i> | Balance 31/12/2011 | Net income allocation | Dividends distributed | Other operations | Comprehensive (loss) income | Balance 31/12/2012 |
|---|-----------------------|--------------------------|--------------------------|---------------------|--------------------------------|-----------------------|
| Share Capital | 2.508.671 | | | | | 2.508.671 |
| Additional paid-in capital | 38.593.618 | | | | | 38.593.618 |
| Legal reserve | 537.302 | | | | | 537.302 |
| Treasury shares | -2.575.611 | | | 2.047.548 | | -528.063 |
| Others reserves: | | | | | | |
| Extraordinary reserves | 33.780.537 | 1.264.103 | | 1 | | 35.044.641 |
| Reserve for contribution on capital account | 426.657 | | | | | 426.657 |
| Cumulative conversion adjustments reserve | -259.710 | | | | 202.894 | -56.816 |
| Other reserves | 1.686.122 | | | 134.984 | -20.180 | 1.800.926 |
| Retained earnings | 20.278.069 | -1.534.439 | | -7.684.345 | -860 | 11.058.425 |
| Profits (loss) of the year | -270.336 | 270.336 | | | 23.198.584 | 23.198.584 |
| <i>Parent company's shareholders' equity</i> | 94.705.319 | 0 | 0 | -5.501.812 | 23.380.438 | 112.583.945 |
| Capital and reserves of third parties | 80.423.527 | -18.469 | -374.986 | -74.571.184 | -357.300 | 5.101.588 |
| Profit (loss) of third parties | -18.469 | 18.469 | | | 6.613.117 | 6.613.117 |
| <i>Share Capital and Reserves attributable to non-controlling interests</i> | 80.405.058 | 0 | -374.986 | -74.571.184 | 6.255.817 | 11.714.705 |
| <i>Total Shareholders' equity</i> | 175.110.377 | 0 | -374.986 | -80.072.996 | 29.636.255 | 124.298.650 |

The amount referred to the conversion reserve entered in the column “Comprehensive (loss) income” is related to the change that affected the assets in currency held by the Group.

The “Other movements” in the shareholders' equity of the Group refer to variations in the undivided profits which mainly summarize the effects of the changes in the area of consolidation in relation to the following companies: Deka Mela S.r.l., With Us Ltd, Asclepion GmbH, Quanta System S.p.A. and Cynosure Inc. For this latter there is also to be considered the change in the methodology of consolidation from the integral method to the shareholders' equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

INFORMATION ON THE COMPANY

The parent company El.En. SpA is a corporation which was founded and is registered in Italy. Headquarters of the company are in Calenzano (Florence), Via Baldanzese 17.

Ordinary stock of the company is quoted on the MTA which is managed by Borsa Italiana SpA.

The Consolidated Financial Statement for the El.En. Group was examined and approved by the Board of Directors on March 13th 2013.

The amounts shown in this statement are in Euros, which is the working currency of the Parent Company and many of its subsidiaries.

PRINCIPLES USED FOR DRAWING UP THE STATEMENT AND ACCOUNTING STANDARDS

PRINCIPLES USED FOR DRAWING UP THE STATEMENT

The consolidated statement has been drawn up on the basis of the principle of historical cost with the exception of a few categories of financial instruments, the evaluation of which has been conducted on the basis of the principle of *fair value*.

This consolidated Annual Report consists of:

- the Consolidated Statement of financial position,
- the Consolidated Income Statement,
- the Consolidated statement of comprehensive income
- the Consolidated Cash flow statements
- the Statement of changes in the Consolidated Shareholders' equity,
- the following Notes

The economic information which is provided here is related to the financial years 2012 and 2011. The financial information, however, is supplied with reference to December 31st 2012 and December 31st 2011.

In the month of November 2012, after the conclusion of the public offering for sale of the Cynosure shares, the company by-laws that assigned control of the Board of Directors of this company to El.En. S.p.A through the appointment of four out of seven of the board members was invalidated and consequently, when drawing up the consolidated statements the equity in Cynosure will no longer be considered controlling. For this reason the financial statement of Cynosure Inc., starting on the closing date will no longer be wholly consolidated in the statement of the El.En. Group but using the shareholders' equity method and the statement is drawn up in compliance with IFRS 5. Since the contribution of Cynosure to the result of the Group has been defined a *major line of business*, the operation is defined in the statements as a *Discontinued Operation*. Under the heading of "*net income (loss) from Discontinued Operations*" the following are included:

- in the Income Statement for the year 2012 and for purposes of comparison, for 2011, the contribution of Cynosure to the Income Statement of the Group which was for 11 months in 2012 and 12 months in 2011;
- only for 2012, the capital gains deriving from the sale of 840.000 Cynosure shares at the unit price of 15,33 Euros (net of the price of underwriting) for a total amount of 5,4 million Euros, besides the re-evaluation at fair value (represented by the closing public offering sale price) of the residual quota of the equity in Cynosure for a total amount of 13,5 million Euros.
- in the cash flow statements for the year 2012 and, for comparison purposes, that for 2011, the single flows of cash generated by the operations that constitute the *Discontinued Operations*, which are reclassified under the heading of "*Cash flow from Discontinued Operations*".

In relation to the *Discontinued Operations* we wish to call attention to the fact that, in compliance with IFRS 5, the 2011 amounts of the flow statement and in the Income Statement have been reclassified in order to supply a homogeneous comparison for this year.

For a detailed analysis of this operation, please refer to the chapter titled "Information related to IFRS 5".

The parent company El.En. S.p.A. appointed the auditing company Deloitte & Touche S.p.A. as independent auditors for the consolidated statements dated December 31st 2012.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

This consolidated statement for the financial year ending December 31st 2012 has been drawn up in compliance with the International Accounting Standards (IFRS) promulgated by the International Accounting Standard Board (IASB) and approved by the European Union. With IFRS we mean also the International Accounting Standards (IAS) still in effect, as well as the interpretive documents issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).

ACCOUNTING STANDARDS AND EVALUATION CRITERIA

The accounting standards used for drawing up the consolidated financial statement are in compliance with the accounting standards used for drawing up the consolidated statement for December 31st 2011 except for the application of new standards and interpretations applied since January 1st 2012, as described below:

IFRS 7 – Additional information

On October 7th 2010 the IASB published some amendments which were applicable to financial periods starting after July 1st 2011. The amendments were issued with the intent of facilitating the understanding of the derecognition transactions of financial assets, including the understanding of the possible effects which could be derived from any risk that remained in a company that had derecognized such assets. The amendments, moreover, require further information in those cases where a disproportionate number of these transactions have been conducted at the end of a financial period. The adoption of this modification had no effect on the financial reports.

IAS 12 – Income taxes

On December 20th 2010 the IASB issued a minor amendment to *IAS 12 – Income taxes* which requires a company to measure the deferred taxes derived from real estate investments evaluated at fair value on the basis of the way in which the book value of this asset will be recovered (through continued use or through sale). Specifically, the amendment establishes a relative assumption that the load value of a real estate investment evaluated at fair value according to IAS 40, will be recovered entirely through the sale and that measuring the deferred taxes, in the jurisdictions in which the fiscal aliquots are different, reflects the aliquot relative to the sale. The adoption of this modification did not produce any effect on the evaluation of the deferred taxes as of December 31st 2012.

New IFRS and IFRIC accounting standards, amendments, and interpretations approved by the European Union but not yet applicable and not applied in advanced by the Group.

At the time that this consolidated report was drawn up, the authorized bodies of the European Union had not yet concluded the procedures for the approval necessary for the application of the amendments and standards listed below.

IFRS 10 – Consolidated financial statement

The standard will replace *SIC-12 Consolidation – Special purpose entities (Vehicle companies)* and parts of *IAS 27 – Consolidated and separate statements* which will be renamed *Separate Statement* and will regulate the accounting treatment of the equities in the separate statement. The main variations established by the new principle are the following:

- According to IFRS 10 there is only one basic standard for consolidating all the typologies of entities and this principle is based on control. This variation removes the inconsistency that existed between the old IAS 27 (based on control) and the SIC 12 (based on the passing of risks and benefits).
- With respect to the past, a more solid definition of control has been introduced and it is based on three elements: (a) power over the company that has been acquired, (b) exposure, or rights, to variable returns that are derived from involvement with the latter; (c) capacity to use this power to influence the amount of these returns;
- IFRS 10 requires that an investor, in order to determine if he has control of the company acquired, focus on the operations that significantly influence the returns of the company.
- IFRS 10 requires that, in determining the existence of control, one considers only the substantial rights, that is, those that can be exercised in practice when important decisions must be made about the company that has been acquired.
- IFRS 10 offers practical guidelines to assist in the evaluation of the existence of control in complex situations like de facto control, potential voting rights, the situations in which it is necessary to determine if the person who has the rights of decision is acting as agent or principal., etc.

In general terms, the application of IFRS 10 requires a significant level of judgment on a certain number of applicative aspects.

The principal will be in effect retrospectively starting January 1st 2014. The Group has not yet made an analysis of the effects of this principle on the area of consolidation.

IFRS 11 – Joint venture agreements

This principal will replace *IAS 31 – Equities in joint ventures and SIC 13 – Companies with joint control – Contributions in kind from the partners sharing the joint control*. This principle supplies the criteria for identifying agreements for joint control based on the rights and the duties that are derived from the agreements rather than on the legal form of these latter and establishes the shareholders' equity method as the only method for entering into accounts the equities in jointly controlled companies in the consolidated statement. According to IFRS 11, the existence of a separate vehicle is not condition enough for the classification of an agreement of joint control as a joint venture. The new principle is applicable retrospectively starting January 1st 2014. After principle *IAS 28 – Equities in associated companies* was issued, it was amended in order to include the equities in jointly controlled companies as part of its area of application, from the date that the principle entered into force. The Group has not yet made an analysis of the effects of this principle.

IFRS 12 – Additional information on equities in other companies

The standard which was issued by IASB on May 12th 2011 is retrospectively applicable since January 1st 2014. It provides specific additional information to be given for each type of equity, including subsidiary and associated companies, joint ventures, vehicle companies and other non-consolidated vehicle companies.

IFRS 13 – Measurement of fair value

This standard, which was issued by IASB on May 12th 2011 is applicable starting January 1st 2013. The standard illustrates how fair value must be determined for purposes of drawing up the financial statements and is applied to all the cases in which the principles which require or allow the evaluation at fair value or the presentation of information based on fair value with a few exceptions. Moreover, the principle requires an information sheet concerning the measuring of the fair value (hierarchy of fair value) which is more detailed than that currently required by IFRS 7.

IAS 32 – Financial instruments: presentation in the financial statement

On December 16th 2011 the IASB issued several amendments to *IAS 32 – Financial instruments: presentation in the financial statement*, for the purpose of clarifying the application of some of the criteria for the compensation of the financial assets and liabilities present in IAS 32, making it, in fact, more difficult. The amendments are retrospectively applicable starting on or after January 1st 2014.

IFRS 7 – Financial instruments: additional information

The amendment requires information on the effects or potential effects of the compensation contracts of the financial assets and liabilities on the financial situation. The amendments are applicable for the annual statements starting on or after January 1st 2013 and the intermediate periods after that date. Information must be supplied retrospectively.

Modifications to IAS 1 – Presentation of the financial statement

On June 16th 2011 IASB issued an amendment to *IAS 1 – Presentation of the budget* which requires the companies to group the components presented in the “Other comprehensive profits (losses)” according to whether they can later be reclassified in the income statement. The amendment is applicable to the annual statements starting on or after July 1st 2012.

Modifications to IAS 19 – Benefits for employees

On June 16th 2011 the IASB issued an amendment to *IAS 19 – Benefits to employees* which eliminates the option of deferring the recognition of the actuarial gains and losses with the corridor method and require them to present the economic and financial situation of the deficit or the surplus of the fund the recognition of the cost components connected to the productivity and the net financial charges in the Income Statement, and the recognition of the actuarial assets and liabilities that are derived from re calculating the liabilities and assets among the “Other comprehensive profits (losses)”. Moreover, the yield of the assets included among the net financial charges must be calculated on the basis of the interest rate of the liabilities and not on the expected yield of the assets. Moreover, the amendment presents new additional information to be supplied in the notes that accompany the statement. The amendment is retrospectively applicable starting with the financial periods that begin on or after January 1st 2013. A reasonable estimate of the effects derived from the application of this variation of the standard for the statements on December 31st 2012 amount to 475 thousand Euros.

Accounting standards, amendments and IFRS interpretations which have not yet been approved by the European Union

As of the date of this Consolidated Statement the authorized bodies of the European Union have not yet concluded the authorization procedure required for the adoption of the amendments and standards described below.

- On November 12th 2009 the IASB published standard **IFRS 9 – Financial instruments**: The same standard was amended on October 28th 2010. The standard, which is retrospectively applicable starting on January 1st 2015, represents the first part of a gradual process which will eventually replace all of IAS 39 and introduces new criteria for the classification and evaluation of the financial assets and liabilities. In particular for financial assets, the new standard uses a single approach based on the methods for managing the financial instruments and on the characteristics of the contractual cash flow of these financial assets for the purpose of determining the evaluation criteria, and replaces the different rules that were in IAS 39. For the financial liabilities instead, the main modification that was made is related to the accounting treatment of the variations in fair value of a financial liability designated as financial liability evaluated at fair value through the Income Statement, in the case that these are due to the variation in the credit worthiness of that same liability. According to the new standard these variations must be shown in the chart with the “Other comprehensive profits and losses” and will no longer be registered in the Income Statement.

Phases two and three of the financial instrument project, which are related to impairment of the financial assets and to hedge accounting, respectively, are still in progress. The IASB, moreover, is evaluating some minor improvements of IFRS 9 for the part related to the Classification and Evaluation of the financial assets.

- On May 17th 2012 the IASB published a document called ***Annual Improvements to IFRSs: 2009-2011 Cycle***, which implements the changes in the standards as part of the annual improvement process and concentrates on the modifications that were considered necessary but not urgent. Below we are listing those which will comport a change in the presentation, entry, and evaluation of the amounts entered in the statements, while excluding those which will only determine variations in the terminology or editorial changes with minimum effects in accounting terms, or those that have effect on the standards or interpretations that are not applicable to the Group:
 - IAS 1 *Presentation of the financial statement – Comparative information*: clarifies that when additional comparative information is supplied, it must be in compliance with IAS/IFRS. Moreover, it clarifies the fact that in the case in which an entity modifies an accounting standard or makes retrospective rectifications or reclassifications, that same entity must also present a statement of financial position at the beginning of the comparative period (“third statement of financial position” with the charts of the statement, while in the explanatory notes no comparative disclosures are required for the “third statement of financial position” except for the specific entries.
 - IAS 16 *Real estate, plants and machinery – Classification of servicing equipment*: clarifies that the servicing equipment must be classified under the heading of real estate, plants and machinery if it is used for more than one year and, if not, with the inventory .
 - IAS 32 *Financial instruments: presentation in the statements* – Direct income taxes on the distributions to owners of capital instruments and on the transaction costs on capital instruments : this amendment clarifies that the direct taxes costs related to these cases must follow the rules in IAS 12.
 - IAS 34 *Intermediate reports* – Total of the assets for a *reportable segment*: the amendment clarifies that the total of assets must be reported only if this information is normally supplied to the *chief operating decision maker* of the entity and if a material change in the total assets has occurred in the segment with respect to what was reported in the last annual statement..

The date on which the proposed modifications take effect is for the financial periods starting on January 1st 2013 or later, and application in advance is allowed.

- On June 28th 2012 the IASB published the document ***Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)***. In the first place, the document intends to clarify the intentions of the Board with reference to the transition rules of IFRS 10 Consolidated statements. The document states that for an entity whose financial year coincides with the solar year and before the application of IFRS 10 to the financial year closed on December 31st 2013, the initial date of application will be January 1st 2013.

In the case that the conclusions on the area of consolidation are the same according to IAS 27 and SIC 12 and in conformity with IFRS 10 on the date of the initial entry, the entity will not have any obligation. Likewise, no obligation will arise in the case in which an equity has been sold during the comparative period (and as such is no longer present at the date of initial application).

The document is intended to clarify how an investor must retrospectively rectify the comparative period(s) if the conclusions on the area of consolidation are not the same according to IAS 27 / SIC 12 and IFRS 10 at the initial date of entry. In particular, when a retrospective adjustment as defined above, cannot be effected, an acquisition /sale will be entered into accounts at the beginning of the comparative period being presented, with a consequent adjustment shown on the net income brought forward.

Moreover, Board has modified IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* in order to furnish a similar facilitation for the presentation or the modification of the comparative information related to “the immediately preceding period” (i.e. the comparative period presented in the charts in the statement). IFRS 12 has also been modified by limiting the requirement to present comparative information for the disclosures related to “structured entities” which were not consolidated in periods before the date of application of IFRS 12.

These modifications are applicable, together with the reference standards, to the financial years starting on January 1st 2014, unless they have been applied in advance.

- On October 31st 2012 the amendments to **IFRS 10, IFRS 12 and IAS 27 “Investments Entities”** were accepted; they introduce an exception to the consolidation of the subsidiary companies for an investment company, with the exception of the cases in which the subsidiary supply services related to the investment activities of the company. For the application of these amendments, an investment company must evaluate its investments in subsidiaries at fair value through the Income Statement. In order to qualify as an investment company, the entity must:
 - Obtain funds from one or more investors for the purpose of supplying the latter with professional investment management services;
 - Promise the investors that the company purpose is to invest funds only in order to obtain yields from capital appreciation, earnings from investments, or both.
 - Measure and evaluate the performance substantially of all its investments on the basis of fair value.

These amendments are applied to the financial statements issued on and after January 1st 2014, with application in advance allowed.

- On March 19th 2011 IASB published an amendment to **IFRS 1, First adoption of the International Financial Reporting Standards - Government Loans** which modifies the reference to the entering into accounts of government loans during the transition to the IFRS.

SCOPE OF CONSOLIDATION

SUBSIDIARY COMPANIES

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

| Company name: | Notes | Headquarters | Currency | Subscr. capital | Percentage held: | | | Consolidated Percentage |
|-------------------------------------|-------|----------------------|----------|-----------------|------------------|----------|---------|-------------------------|
| | | | | | Direct | Indirect | Total | |
| <u>Parent company:</u> | | | | | | | | |
| El.En. SpA | | Calenzano (ITA) | EURO | 2.508.671 | | | | |
| <u>Subsidiary companies:</u> | | | | | | | | |
| Deka M.E.L.A. Srl | | Calenzano (ITA) | EURO | 40.560 | 85,00% | | 85,00% | 85,00% |
| Cutlite Penta Srl | | Calenzano (ITA) | EURO | 154.621 | 93,76% | | 93,76% | 93,76% |
| Esthelogue Srl | 1 | Calenzano (ITA) | EURO | 100.000 | 50,00% | 50,00% | 100,00% | 100,00% |
| Deka Srl | | Lyons (FRA) | EURO | 76.250 | 100,00% | | 100,00% | 100,00% |
| Deka Lasertechnologie GmbH | | Munchen (GER) | EURO | 51.129 | 100,00% | | 100,00% | 100,00% |
| Deka Laser Technologies Inc. | 2 | Carlsbad (USA) | USD | 25 | 11,78% | 80,71% | 92,49% | 92,49% |
| Lasit SpA | | Vico Equense (ITA) | EURO | 1.154.000 | 70,00% | | 70,00% | 70,00% |
| BRCT Inc. | | New York (USA) | USD | no par value | 100,00% | | 100,00% | 100,00% |
| Quanta System SpA | | Solbiate Olona (ITA) | EURO | 1.500.000 | 100,00% | | 100,00% | 100,00% |
| Asclepion Laser Technologies GmbH | 3 | Jena (GER) | EURO | 2.025.000 | 50,00% | 50,00% | 100,00% | 100,00% |
| Arex Srl | 4 | Solbiate Olona (ITA) | EURO | 20.500 | | 51,22% | 51,22% | 51,22% |
| AQL Srl | 5 | Vimercate (ITA) | EURO | 50.000 | | 100,00% | 100,00% | 72,50% |
| ASA Srl | 6 | Arcugnano (ITA) | EURO | 46.800 | | 60,00% | 60,00% | 51,00% |
| With Us Co Ltd | 7 | Tokyo (JAP) | YEN | 100.000.000 | | 78,85% | 78,85% | 78,85% |
| Deka Japan Co. Ltd | | Tokyo (JAP) | YEN | 10.000.000 | 55,00% | | 55,00% | 55,00% |
| Penta Chutian Laser (Wuhan) Co Ltd | 8 | Wuhan (CHINA) | YUAN | 20.467.304 | | 55,00% | 55,00% | 51,57% |
| Lasit Usa Inc. | 9 | Branford (USA) | USD | 30.000 | | 100,00% | 100,00% | 70,00% |
| Cutlite do Brasil Ltda | | Blumenau (BRASIL) | REAL | 1.404.000 | 88,00% | | 88,00% | 88,00% |
| Lasercut Technologies Inc. | 10 | Branford (USA) | USD | 50.000 | | 100,00% | 100,00% | 100,00% |
| Pharmonia Srl | 11 | Calenzano (ITA) | EURO | 50.000 | | 100,00% | 100,00% | 100,00% |
| Deka Medical Inc | 12 | San Francisco (USA) | USD | 10 | | 100,00% | 100,00% | 100,00% |
| Quanta France Sarl | 13 | Paris (FRA) | EURO | 35.000 | | 60,00% | 60,00% | 60,00% |

- (1) owned by Elen SpA (50%) and Asclepion (50%)
 (2) owned by BRCT Inc. (80,71%) and by ElEn SpA (11,78%)
 (3) owned by Elen SpA (50%) and Quanta System SpA (50%)
 (4) owned by Quanta System SpA (51,22%)
 (5) owned by Quanta System SpA (8,35%) and Lasit SpA (91,65%)
 (6) owned by Deka Mela Srl (60%)
 (7) owned by BRCT (78,85%)
 (8) owned by Cutlite Penta Srl (55%)
 (9) owned by Lasit SpA (100%)
 (10) owned by BRCT (100%)
 (11) owned by Asclepion (100%)
 (12) owned by BRCT (100%)
 (13) owned by Quanta System SpA (60%)

Operations conducted during this year

For the operations conducted during this year, please refer to the description given in the paragraph “Significant events which occurred during 2012” in the Director’s Report on operations.

ASSOCIATED COMPANIES

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

| Company name: | Notes | Headquarters | Currency | Subscr.capital | Percentage held: | | | Consolidated percentage |
|-------------------------------------|-------|-------------------------|----------|----------------|------------------|----------|---------|-------------------------|
| | | | | | Direct | Indirect | Total | |
| Cynosure Inc. | | Westford (USA) | USD | 16.397 | 12,98% | | 12,98% | 12,98% |
| Cynosure GmbH | 1 | Langen (D) | EURO | 25.565 | | 100,00% | 100,00% | 12,98% |
| Cynosure Sarl | 1 | Courbevoie (FRA) | EURO | 970.000 | | 100,00% | 100,00% | 12,98% |
| Cynosure KK | 1 | Tokyo (JAP) | YEN | 10.000.000 | | 100,00% | 100,00% | 12,98% |
| Cynosure UK | 1 | Cookham (UK) | GBP | 1 | | 100,00% | 100,00% | 12,98% |
| Suzhou Cynosure Medical Devices Co. | 1 | Suzhou (CHINA) | YUAN | no par value | | 100,00% | 100,00% | 12,98% |
| Cynosure Spain | 1 | Madrid (SPAIN) | EURO | 864.952 | | 100,00% | 100,00% | 12,98% |
| Cynosure Mexico | 1 | S.Jeronimo Aculco (MEX) | MEX | no par value | | 100,00% | 100,00% | 12,98% |
| Cynosure Korea | 1 | Seoul (SOUTH KOREA) | KRW | 350.800.000 | | 100,00% | 100,00% | 12,98% |
| Immobiliare Del.Co. Srl | | Solbiate Olona (ITA) | EURO | 24.000 | 30,00% | | 30,00% | 30,00% |
| Actis Srl | | Calenzano (ITA) | EURO | 10.200 | 12,00% | | 12,00% | 12,00% |
| SBI S.A. | | Herzele (B) | EURO | 1.200.000 | 50,00% | | 50,00% | 50,00% |
| Elesta Srl | | Calenzano (ITA) | EURO | 110.000 | 50,00% | | 50,00% | 50,00% |
| Grupo Laser Idoseme SL | 2 | Donostia (SPAIN) | EURO | 1.045.280 | | 30,00% | 30,00% | 30,00% |
| Quanta System Asia Pacific Co.LTD | 3 | Bangkok (Thailand) | BAHT | 5.000.000 | | 49,00% | 49,00% | 49,00% |

(1) owned by Cynosure Inc.
(100%)

(2) owned by Quanta System
S.p.A. (30%)

(3) owned by Quanta System
S.p.A. (49%)

The equity in Grupo Laser Idoseme SL was entered into the consolidated statement on December 31st 2012 in compliance with IFRS 5, on the basis of the mandate conferred to the president of the Board of Directors and the managing director of the subsidiary company, Quanta System S.p.A to sell this equity. On January 16th 2013 the Company stipulated a contract for the definitive sale of the equity in Grupo Laser Idoseme SL for a total price of 1.000 Euros. This equity was evaluated on the basis of the shareholders’ equity method determined on December 31st 2011 since the sale price agreed upon was greater than that amount.

Operations conducted during this period

For the operations conducted during this year, please refer to the description given in the paragraph “Significant events which occurred during 2012” in the Director’s report on operations.

EQUITIES IN OTHER COMPANIES

On January 31st 2012 the Parent Company sold to a third party its equity in Alfa Laser S.r.l. (19%) for the amount of 1.000 Euros.

On October 9th 2012 the subsidiary Quanta System S.p.A. sold to a third party its equity in T.F.D. Ticino Forniture Dentali S.r.l. (19%) for the amount of 1.000 Euros.

On December 20th 2012 Quanta System Italia S.r.l., in which Quanta System S.p.A., has an equity of 19%, was founded with the objective of re-enforcing the presence of the Group in the medical-aesthetic sector in Italy by innovating, enlarging and implementing the range of products offered.

TREASURY STOCK

On March 3rd 2008, the shareholders' meeting of the Parent Company El.En. SpA, voted to authorize the Board of Directors to acquire, in compliance and within the limits established by articles 2357 and following of the Civil Code, within 18 months of that date, treasury stock representing not more than 10% of the capital stock in accordance with the law, at a price which was not less than 20% more nor more than 10% more than the official price for negotiations registered on the day preceding the purchase. With the same vote they authorized the method for disposing of the shares which can be put back into circulation within 3 years of the purchase at a price which is not less than 95% of the average of the official prices for negotiations registered during the five days preceding the sale, all of which must take place respecting the laws in force in this regard.

Consequently, between March and April 2008 the Board of Directors of El. En. SpA proceeded with the purchase of 103.148 shares of the company at an average price of 24,97 Euros for a total of 2.575.611 Euros.

Upon request of the Board of Directors, the Shareholders' Meeting of the Parent Company which met on October 28th 2010 renewed the authorization of the Board to purchase in one or more tranches, on the regular stock market, and therefore according to the conditions described in art. 144 *bis*, sub-section 1, letter b) of the *Regolamento Emittenti Consob*, and following the operative procedures established by the organization and management regulations of the market issued by the Borsa Italiana S.p.A., within 18 months of that date, treasury stock representing a number of ordinary shares which, in any case, considering the number of shares already held in the portfolio, does not exceed one-fifth of the capital stock, respecting the laws and regulations, at a price that is not more than 20% less or over 10% more than the official price for negotiations registered on the day preceding the purchase. The vote of the shareholders' also authorized the Board of Directors to put the shares back into circulation within ten years of the date of purchase, including those already held in the portfolio on December 28th 2010, at a price that is not less than 95% of the average official price for negotiations registered during the five days preceding the sale, all of which must take place respecting the regulations in force.

On October 8th 2012 the Company sold 82.000 ordinary shares of treasury stock at 25 Euros each, for a total amount of 2.050.000 Euros to Laserfin S.r.l. as part of the amount owed for the purchase of 10% of the shares of Deka Mela S.r.l. and 40% of the shares of Quanta System S.p.A..

Upon request of the Board of Directors, the shareholders' meeting that met on November 14th 2012 authorized the Board to buy, in one or more blocks, on the regular stock market, and consequently in conformity with art. 144 *bis*, sub-section 1, letter b) of the *Regolamento Emittenti Consob* and according to the operating methods established by the management and organization rules issued by Borsa Italiana S.p.A., within eighteen months of that date, treasury stock, representing a number of ordinary shares which, in any case, considering the number of shares already held in the portfolio, does not exceed the fifth part of the capital stock, in respect of the laws and rules, at a price that is not more than 20% less nor more than 10% more than the official selling price registered on the day preceding the purchase.

The shareholders also voted to authorize the Board of Directors to return the shares to circulation within ten years of the date of acquisition at a price that is not less than 95% of the average of the official selling price registered in the five days preceding the sale, in conformity with all of the regulations in force at the time.

Due to the selling operation described above, and in consideration of the fact that no purchases were connected to the vote of November 14th 2012, the treasury stock held in the portfolio of the Company as of December 31st 2012 is 21.148 shares for a total amount of 528.062,54 Euros.

STANDARDS OF CONSOLIDATION

The statements used for the consolidation of the annual reports are those of the individual companies. These statements are opportunely reclassified and rectified in such a way as to make them uniform with the accounting standards and IFRS evaluation criteria used by the Parent Company.

The economic results of the subsidiary companies that are bought or sold during the year are included in the consolidated Income Statement from the actual date of purchase to the actual date of sale.

In drawing up the consolidated financial statement the assets and liabilities, the income and charges of the companies included in the area of consolidation have all been included. We have not included the payables and receivables, income and charges, profits and losses which have been generated by transactions made between the consolidated companies.

The book value of the equity in each of the subsidiaries is eliminated in the place of the corresponding portion of the shareholders' equity of each of the subsidiaries including the final adaptation at fair value on the date of purchase; the difference which emerges, if it is in the black (positive), is treated as goodwill, and as such is entered into accounts, in accordance with IFRS 3, as illustrated below. If it is in the red (negative) it is entered directly into the Income Statement.

The amount of capital and reserves of subsidiary companies corresponding to equities of third parties is entered under a heading of the shareholders' equity titled "Capital and Reserves of third parties"; the portion of the consolidated economic result which corresponds to the equities of third parties is entered into accounts under the heading "Income (loss) this year pertaining to third parties".

TRANSACTIONS IN FOREIGN CURRENCY

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

CONSOLIDATION OF FOREIGN CURRENCY

For the purposes of the Consolidated Statement, results, assets, and liabilities are expressed in Euros, the working currency of the Parent Company, El.En. SpA. For drawing up the Consolidated Statement, the accounting situations with a working currency which is different from the Euro are converted into Euros using, for the assets and liabilities, including goodwill and the adjustments made at the time of consolidation, the exchange rate in force on the date of closure of the financial period being presented and, for the Income Statement, the average exchange rates for the period which approximate the exchange rates in force on the date of the respective transactions. The relative differences in exchange rates are shown directly in the shareholders' equity and are displayed separately in a special reserve of the same. The differences in the exchange rate are shown in the Income Statement at the time that the subsidiary is sold.

The first time that the IFRS were applied, the cumulative differences generated by the consolidation of the foreign companies with a working currency different from the Euro were reclassified into Retained earnings, as is allowed by the IFRS 1; consequently, only the differences in conversion accumulated and entered into accounts after January 1st 2004 are involved in the determination of the capital gains and losses deriving from their possible sale.

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

| | Exchange Rate | Average exchange rate | Exchange Rate |
|------------|---------------|-----------------------|---------------|
| Currencies | 30/12/2011 | 31/12/2012 | 31/12/2012 |
| USD | 1,2939 | 1,2848 | 1,3194 |
| Yen | 100,20 | 102,49 | 113,61 |
| Baht | 40,99 | 39,93 | 40,35 |
| Yuan | 8,16 | 8,11 | 8,22 |
| Real | 2,42 | 2,51 | 2,70 |

USE OF ESTIMATES

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

Goodwill is subjected to an impairment test in order to determine any loss in value.

ACCOUNTING POLICIES

A) INTANGIBLE FIXED ASSETS WITH A FINITE AND INDEFINITE LIFE

Intangible assets are those assets lacking an identifiable physical consistency able to produce future economic benefits. They are entered at the historical purchase cost, shown net of the amortization applied in the course of the financial years and directly ascribed to the single headings. The Group has chosen to maintain historical cost, rather than fair value, as the measurement criteria for intangible fixed assets. In the case in which, independently of the amortization already entered, there should be a loss of value, the fixed asset is correspondingly devalued; if, in subsequent financial years the reasons for the devaluation should cease to exist, the value is restored to a maximum limit of its original value, adjusted only by the amortization.

The costs incurred internally for the development of new products and services constitute, depending on the individual case, tangible or intangible assets generated internally and are entered in the assets only where all the following conditions are satisfied: 1) where the technical possibility or intention to complete the asset so as to make it available for use or sale exists; 2) where there is a capacity for the Group to use or sell the asset; 3) the existence of a market for the products and services deriving from the asset, or of utility for internal purposes; 4) the ability of the asset to generate future economic benefits; 5) the availability of sufficient technical and financial resources to complete the development and sale or internal use of the products and services deriving from it; 6) reliable assessment of the costs attributable to the asset during its development. The capitalization of development costs includes only the expenses incurred which may be directly attributed to the development process. Research costs are entered in the Income Statement in the financial year in which they are incurred. The Other Intangible Fixed Assets with a finite useful life are assessed at purchase or production cost and amortized at a constant rate during their estimated useful life.

Goodwill and other activities which have an indefinite life are not subject to systematic amortization but to an annual impairment test. If the amount that can be recovered is estimated to be less than the relative book value, it is reduced to the lowest recoverable value. A loss in value is shown immediately in the Income Statement. For goodwill, devaluations are not subject to reversals of impairment.

Business combinations and goodwill

Business combinations since January 2010

Business combinations are entered into accounts using the acquisitions method. The cost of an acquisition is evaluated as the sum of the amount transferred measured at fair value on the date of the acquisition and the amount of any minority equities in the company acquired. For each business combination the purchaser must evaluate at fair value any minority equities in the company acquired or else in proportion to the quota of the minority equity in the net assets identified in the company acquired. The costs of acquisitions are entered into accounts and classified among the management expenses.

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

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

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

Goodwill is initially evaluated at the costs which emerges from the excess between the sum of the amounts paid and the amount recognized for the minority quotas with respect to the identified net assets acquired and the liabilities assumed by the Group. If the amount is less than the fair value of the net assets of the subsidiary acquired, the difference is reported in the Income Statement.

purposes of the verification for reduction of value, on the date of acquisition, the goodwill acquired in a business combination must be allocated to each of the "cash generating units" (CGU) which have been identified, from which one expects benefits from the business combination, no matter whether the other assets or liabilities from the entity acquired are assigned to that unit. The identification of the Cash Generating Units corresponds to the individual juridical entities.

If the goodwill has been allocated to a financial cash generating unit and the entity divests part of the assets of that unit, the goodwill associated with the divested assets must be included in the accounting value of the assets when the profits

or losses derived from the divestment are determined. The goodwill associated with the divested asset must be determined on the basis of the relative values of the divested asset and the part of the financial cash generating unit that has been kept.

Goodwill derived from acquisition made prior to January 1st 2004 is entered at the value registered under this heading in the last consolidated financial report drawn up on the basis of the previous accounting principles (December 31st 2003)

Goodwill related to equities in associated companies is included in the overall value of these companies. In the case that a negative goodwill emerges, it is immediately entered in the Income Statement.

Business combinations prior to January 1st 2010

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

B) TANGIBLE FIXED ASSETS

The assets have been entered at the purchase cost or production cost, inclusive of accessory charges, net of depreciation. Ordinary maintenance expenses have been entirely entered in the Income Statement. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and amortized according to the residual possibility of use of the said item.

The Group uses the method of original cost as opposed to fair value as the assessment criteria for tangible fixed assets. Specifically, in accordance with such standards, the value of land and of the buildings constructed on it is separated and only the building is amortized.

The aliquots used for depreciation are the following:

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

C) FINANCIAL CHARGES

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

D) LOSSES IN VALUE OF ASSETS

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

The presumed cashing-in value is the higher of the two variables, net sales price and utility value. In determining the utility value, expected cash flow are discounted using a pre-tax discount rate which reflects the current market value of the money rate referred to the investment period and specific risks of the business. For a business not generating highly independent flows of funds, the cashing-in value is determined in relation to the cash-generating unit which the said business belongs to. A loss of value is entered in the Income Statement wherever the value entered for the asset or the relative cash generating unit which it is allocated to, is higher than the presumed cashing-in value. With the exception of goodwill, value losses are readjusted wherever the causes which have generated them cease to exist.

E) FINANCIAL ASSETS: EQUITIES

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

Joint-venture companies are evaluated in the consolidated statement with the shareholders' equity method, starting on the date in which the joint-venture is initiated up to the date on which it ceases to exist.

F) FINANCIAL INSTRUMENTS

Equities in other companies

The equities in other companies which are not subsidiaries or associated (usually with an ownership of less than 20%) are classified at the time of purchase, among the financial assets "available for sale" or among the assets "evaluated at fair value through the Income Statement" with the current or non-current assets. Changes in the value of equities that are classified as available for sale are entered into a reserve of the shareholders' equity which will be entered into the Income Statement at the time of sale. Changes in the value of the equities classified as assets evaluated at fair value through the Income Statement are entered directly into the Income Statement. These equities are evaluated at cost according to IAS 39.

Financial instruments and financial assets at fair value with variations entered in the Income Statement.

This category includes the assets held for negotiation and the designated assets, at the time that they were first reported, as financial assets at fair value with variations entered in the Income Statement. The Group evaluates its financial assets at the time for value registered in the Income Statement (held for negotiation) if the intention to sell them within a brief period of time is still appropriate.

Stocks – financial assets available for sale

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

Commercial receivables

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

Other financial assets

Financial assets are added and removed from the financial statement according to the date of negotiation and are initially evaluated at cost, inclusive of the charges directly connected with the acquisition. At the subsequent dates of the financial statement, the financial assets to be held until expiry date are shown at cost amortized according to the effective interest rate method, net of any devaluation applied to reflect value losses.

Financial assets other than those held until expiration are classified as held for negotiation or available for sale and are estimated at fair value each financial year with attribution respectively in the Income Statement under the heading "Financial Revenue (Charges)" or in a special reserve of the Shareholders' equity, in the latter case until such time as they are cashed-in or until they have suffered a loss in value.

Cash and cash equivalents

This heading includes cash reserves and bank accounts and other short-term financial investments with a high level of availability which can be easily converted into cash at a negligible risk of varying in value.

Treasury stock

Treasury stock is entered against shareholders' equity. No profit/loss is shown in the Income Statement for the purchase, sale, issue or cancellation of treasury stock.

Commercial payables

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

Financial liabilities

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

Derivatives and measurement of hedging operations

Fair value hedge: if a derivative is designated as a hedge against exposure to the fluctuations in the current value of an asset or a liability entered into accounts, that can be attributed to a particular risk which can effect the income statement, the profit or loss derived from the later evaluations of the current value of the hedging instrument are shown in the income statement. The profit or loss on the amount being hedged, that are attributed to the risk being covered, modify the book value of this amount and are entered into the income statement.

Cash flow hedge: if an instrument is designated as a hedge against the fluctuations in cash flow of an asset or a liability entered into accounts or a highly probable planned operation and which could have an effect on the Income Statement, the efficient portion of the profits or losses on the financial instrument is shown in the shareholders' equity. The profit or loss accumulated are subtracted from the shareholders' equity and entered in the Income Statement for the same period in which the hedging operation is shown. The profit or loss associated with the hedge or with that part of the hedge which has become ineffective, are entered immediately in the Income Statement. If a hedging instrument or a hedging report are closed, but the operation which is the subject of the hedging has not yet occurred, the profits and the losses accumulated and up to that time entered in the shareholders' equity, are shown in the Income Statement when the relative operation actually occurs. If the operation which is the subject of the hedging is no longer considered probable, the profits and losses that have not yet been realized and suspended in the shareholders' equity are immediately shown in the Income Statement.

G) INVENTORY

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

Inventory stocks of works in progress are evaluated on the basis of production costs, with reference to the average weighted cost.

H) RETIREMENT FUNDS AND EMPLOYEE BENEFITS

SEVERANCE INDEMNITY

Up until December 31st 2006 the severance indemnity fund was considered a defined benefit plan. The regulating of this fund was changed by law no. 296 of December 27th 2006 ("Legge Finanziaria 2007") and later decrees and regulations issued during the first months of 2007. On the basis of these modifications, and with particular reference to companies with at least 50 employees, this institution is now considered a defined benefit plan exclusively for the amounts which matured before January 1st 2007 (and not yet liquidated in the financial statement) whereas for the quotas which mature after that date, it is considered a defined contribution plan.

For defined benefit plans, the amount already matured is projected to estimate the amount to be paid at the moment of termination of the employment contract and subsequently recalculated, using the "Projected unit credit method". This kind of accounting methodology is based on theories of a demographic and financial nature so as to make a reasonable estimate of the amount of benefits which each employee has already matured on the basis of the work done.

By means of the actuarial estimate, the current service cost which defines the amount of rights matured during the financial year by employees is entered under the "labor costs" heading of the Income Statement and the interest cost, which constitutes the figurative charge which the company would have to pay if it took out a loan equal to the severance indemnity on the market, is entered among the "Financial Revenue (Charges)".

The actuarial profits and losses accumulated up until last year which reflect the effects of changes in the actuarial hypotheses used, are entered pro-quota in the Income Statement for the rest of the average working life of the employees when their net value not entered at the end of the preceding year exceeds the value of the liability by 10% (so-called corridor method).

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

STOCK OPTION PLANS

The costs of staff labor remunerated by means of a *stock option plan* are determined on the basis of the fair value of the options granted to the employees at the date of assignment.

The calculation method for the determination of *fair value* bears in mind all the characteristics of the options (duration of the option, price and conditions for exercising the options etc), as well as the value of the stock at the date of assignment, of the volatility of the stock and of the interest rate curve again at the date of assignment consistently with the duration of the plan. The Black & Scholes pricing model is used.

The cost is shown in the Income Statement during the period in which the rights granted mature, considering the best possible estimate of the number of options becoming exercisable.

In compliance with the IFRS 1, the said standard has been applied to all the assignments subsequent to November 7th 2002 which had still not matured by January 1st 2005.

I) PROVISIONS FOR LIABILITIES AND CONTINGENCIES

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

L) REVENUE RECOGNITION

The revenue from the sale of goods is recorded when the significant risks and benefits of the ownership of the goods are transferred to the purchaser, which is normally the time when they are delivered or shipped.

Financial revenue and charges are entered on the basis of interest matured on the net value of the relative financial asset or liability using the actual interest rate.

M) ENTRIES IN FOREIGN CURRENCY

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

N) GRANTS

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

O) FINANCIAL LEASING

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

P) TAXES

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

Q) EARNINGS PER SHARE

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

STOCK OPTION PLANS

El.En. spa

The chart below shows information related to the stock options voted during the year 2008 by the Parent Company El.En. S.p.A. Stock option plans were implemented within the company with the aim of providing the Group with an instrument for encouraging employee incentive and loyalty.

| | Max. expiration date | Outstanding options 1.01.12 | Options issued 01.01.12- 31.12.12 | Options cancelled 01.01.12- 31.12.12 | Options exercised 01.01.12- 31.12.12 | Expired option not exercised 01.01.12- 31.12.12 | Outstanding options 31.12.12 | Exercisable options 31.12.12 | Exercise price |
|-------------------|----------------------------|---------------------------------------|--|---|---|---|--|--|----------------|
| Plan 2008/2013 | May, 15 2013 | 152.000 | 0 | 0 | 0 | 0 | 152.000 | 152.000 | € 24,75 |

For the stock option plan, the fair value was determined following the “Black & Scholes” pricing model using the following hypotheses:

Market interest rate for risk free investments: 4,8%

Historical volatility: 26,11%

Time interval used for calculating volatility: 3 years prior to the date of issue

The overall fair value of the stock options is 770 thousand Euros.

During the financial year 2012 the average price registered for El.En. SpA shares was about 12,76 Euros.

With regard to the characteristics of the individual stock option plans as well as the increases of capital decided on to implement it, please refer to the description contained in note (10) of this report.

INFORMATION RELATED TO IFRS 5

With a public offering initiated on November 12th 2012 Cynosure Inc. promoted the sale to the public of 2,6 million newly issued ordinary shares and, as part of the same offering, El.En. put up for sale 600.000 shares of Cynosure Inc.. Afterwards, Leerink Swann LLC, the bank responsible for placing the offering, exercise their Greenshoe option by buying a further 240.000 shares from El.En. S.p.A. and 240.000 newly issued shares. On November 21st the operation was closed with a price of 20,50 US dollars per share.

At the time that the offering was closed, due to the sale of the shares, the equity held by El.En. S.p.A. in Cynosure Inc. fell below the threshold of 20% to about 13% meaning that, according to the by-laws, El.En. Spa no longer has a sufficient number of shares to control the Board of Directors of Cynosure as they had done previously because they had the right to appoint four out of the seven Board Members. For this reason the equity in Cynosure, also for purposes of drawing up the financial statement, is no longer considered controlling. Consequently, the statements of Cynosure Inc., starting on the date of closing, will no longer be fully consolidated in the statements of the El.En. Group but with the shareholders' equity method and the statement has consequently been drawn up in compliance with IFRS 5.

Since, up until the date of the sale, the contribution of Cynosure to the result of the Group is defined as a *major line of business* the operation is represented as a *Discontinued Operation*. Consequently in the income statement for 2012 and, for purposes of comparison for 2011, the entries for revenue and income and for costs and charges as well as the capital gains from the sale and re-evaluation of the shares have been reclassified under the heading of "Income (loss) from Discontinued operations".

The charts below show the break-down of the results of the discontinued operations for 2012 and for the preceding year:

| | Discontinued Operations | Continuing Operation Elisions | 2012 Balance |
|--|-------------------------|-------------------------------|--------------------|
| Revenues | 106.904.971 | (4.783.338) | 102.121.633 |
| Change in inventory of finished goods and WIP | 5.051.365 | | 5.051.365 |
| Other revenues and income | 423.764 | (1.848) | 421.916 |
| Value of production | 112.380.100 | (4.785.186) | 107.594.914 |
| Purchase of raw materials | 42.293.323 | (4.745.652) | 37.547.671 |
| Change in inventory of raw material | (1.199.992) | | (1.199.992) |
| Other direct services | 10.918.768 | | 10.918.768 |
| Gross margin | 60.368.001 | (39.534) | 60.328.467 |
| Other operating services and charges | 21.274.184 | | 21.274.184 |
| Added value | 39.093.817 | (39.534) | 39.054.283 |
| For staff costs | 24.169.698 | | 24.169.698 |
| EBITDA | 14.924.119 | (39.534) | 14.884.585 |
| Depreciation, amortization and other accruals | 5.113.543 | | 5.113.543 |
| EBIT | 9.810.576 | (39.534) | 9.771.042 |
| Net financial income (charges) | (200.989) | 39.534 | (161.455) |
| Capital gain on stocks sold | 5.415.602 | | 5.415.602 |
| Revaluations | 13.530.159 | | 13.530.159 |
| Other net income (expense) | | | 0 |
| Income (loss) before taxes | 28.555.348 | 0 | 28.555.348 |
| Income taxes | 1.559.281 | | 1.559.281 |
| Income taxes on capital gain and revaluation | 324.068 | | 324.068 |
| Income (loss) for the financial period from discontinued operations | 26.671.999 | 0 | 26.671.999 |
| Minority interest from discontinued operations | 5.602.792 | | 5.602.792 |
| Net income (loss) from discontinued operations | 21.069.207 | 0 | 21.069.207 |

The net income from "Discontinued Operations" for 2012, is 26,7 million Euros and includes among other things, the contribution of Cynosure for the eleven months in which it was still in the Group, the capital gains derived from the sale of 840.000 shares of the American company at the unit price of 15,33 Euros (net of the commissions for underwriting) for the amount of 5,4 million Euros, besides the re-evaluation at fair value (represented by the closing price of the public sale offering), of the residual quota of the equity in Cynosure, for a total amount of 13,5 million

Euros. The net income from the “*Discontinued Operations*” for the year 2012 also includes the re-classification of the Comprehensive result of the conversion reserve related to Cynosure Inc. for 438 thousand Euros, after the loss of control of the American company.

| | Discontinued Operations | Continuing Operation Elisions | 2011 Balance |
|--|-------------------------|----------------------------------|--------------------|
| Revenues | 79.201.886 | (5.457.403) | 73.744.483 |
| Change in inventory of finished goods and WIP | 2.006.391 | | 2.006.391 |
| Other revenues and income | 393.143 | (7.456) | 385.687 |
| Value of production | 81.601.420 | (5.464.859) | 76.136.561 |
| Purchase of raw materials | 33.594.615 | (5.501.681) | 28.092.934 |
| Change in inventory of raw material | (2.643.930) | | (2.643.930) |
| Other direct services | 8.766.304 | (458) | 8.765.846 |
| Gross margin | 41.884.431 | 37.280 | 41.921.711 |
| Other operating services and charges | 19.431.222 | (14.824) | 19.416.398 |
| Added value | 22.453.209 | 52.104 | 22.505.313 |
| For staff costs | 19.374.712 | | 19.374.712 |
| EBITDA | 3.078.497 | 52.104 | 3.130.601 |
| Depreciation, amortization and other accruals | 5.245.461 | | 5.245.461 |
| EBIT | (2.166.964) | 52.104 | (2.114.860) |
| Net financial income (charges) | (135.614) | (52.104) | (187.718) |
| Capital gain on stocks sold | | | |
| Revaluations | | | |
| Other net income (expense) | | | |
| Income (loss) before taxes | (2.302.578) | 0 | (2.302.578) |
| Income taxes | 93.644 | | 93.644 |
| Income taxes on capital gain and revaluation | | | |
| Income (loss) for the financial period from discontinued operations | (2.396.222) | 0 | (2.396.222) |
| Minority interest from discontinued operations | (1.404.498) | | (1.404.498) |
| Net income (loss) from discontinued operations | (991.724) | 0 | (991.724) |

The income (loss) from “*Discontinued Operations*” for the year 2011 includes the contribution of Cynosure Inc. To the net result of the Group.

Information on the Consolidated Statements of financial position - Assets

Non-current assets

Intangible assets (note 1)

The table below shows the breakdown on intangible assets as of 31 December 2012 and 31 December 2011, as well as movements during the period:

| Categories | Balance | Other | | | Conversion | Balance |
|---|-------------------|----------------|----------------|----------------------------|-----------------|--------------------------|
| | 31/12/11 | Variation | (Devaluation) | Operations (Amortizations) | Adjustments | 31/12/12 |
| Goodwill | 17.393.236 | | -90.900 | -14.336.350 | 127.079 | 3.093.065 |
| Patents and rights to use patents of others | 1.850.202 | 1.616 | | -1.854.624 | 18.142 | 10.056 |
| Concessions, licences, trade marks and similar rights | 2.690.250 | 172.329 | | -2.386.496 | 23.395 | 272.771 |
| Other | 2.024.624 | 29.850 | | -2.009.582 | 17.753 | 26.876 |
| Intangible assets in progress and payments on account | | 25.000 | | | | 25.000 |
| <i>Total</i> | 23.958.312 | 228.795 | -90.900 | -20.587.052 | -267.756 | 186.369 3.427.768 |

Goodwill

Goodwill, which constitutes the most significant component of the intangible fixed assets, represents the excess of the purchase cost with respect to the fair value of the assets acquired net of the current and potential liabilities assumed. Goodwill is not subject to amortization and is subject to an impairment test at least once a year. The significant decrease in goodwill with respect to last year is due to the fact that Cynosure Inc. is no longer fully consolidated, as shown in the column “Other movements”.

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

The following chart shows the book value of goodwill for each “Cash generating unit”:

| CASH GENERATING UNIT (CGU) | Goodwill 31/12/2012 | Goodwill 31/12/2011 |
|-----------------------------------|------------------------|------------------------|
| Cynosure Inc. | | 14.209.271 |
| Quanta System S.p.A. | 2.079.260 | 2.079.260 |
| ASA S.r.l. | 439.082 | 439.082 |
| Cutlite Penta S.r.l. | 415.465 | 407.982 |
| Asclepion Laser Technologies GmbH | 72.758 | 72.758 |
| Arex S.r.l. | 55.000 | 55.000 |
| Ot-Las S.r.l. | | 7.483 |
| Deka MELA S.r.l. | 31.500 | 31.500 |
| Deka Laser Technologies Inc | | 27.000 |
| Quanta France Sarl | | 63.900 |
| Total | 3.093.065 | 17.393.236 |

As of December 31st 2012 the recoverable value of the CGUs shown on the chart was subjected to an impairment test in order to verify the existence of any losses in value by comparing the accounting value of the unit and the recoverable amount, i.e., the current value of the expected future financial flows which one supposes will be derived from the continued use and from the eventual disuse at the end of the useful life of the unit. Results of these tests are shown below.

Quanta System S.p.A.: the recoverable amount was determined using the Discounted Cash Flow (DCF) method by actualizing the cash flows contained in the economic-financial plan approved by the Board of Directors of Quanta System SpA, which covered a time span from 2013-2015. In order to determine the recoverable amount of the CGU they considered the actualized financial flows for the 3 years of explicit forecasts added to the terminal value, assumed at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.

The main assumption of the economic-financial plan used to make the impairment test is related to the growth rate of the sales volume over the time span covered by the plan. The rates used in order to formulate the forecasts used in the impairment tests are consistent with the final data registered during 2012 and with the outlook for the particular market in which they operate.

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

The actualization rate applied to the expected cash flows (WACC) is 10,76%; for the cash flows related to the years following the period of explicit forecasts, we hypothesize a long term growth rate “g” of 1,5%.

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

An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the book value assuming the following hypothesis: a growth rate “g” of 0,5% and a WACC +1% equal to 11,76%.

Cutlite Penta S.r.l.: the recoverable amount was determined using the Discounted Cash Flow (DCF) method by actualizing the cash flows contained in the economic-financial plan approved by the Board of Directors of Cutlite Penta S.r.l., which covered a time span from 2013-2015. In order to determine the recoverable amount of the CGU they considered the actualized financial flows for the 3 years of explicit forecasts added to the terminal value, assumed at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.

The main assumption of the economic-financial plan used to make the impairment test is related to the growth rate of the sales volume over the time span covered by the plan. The rates used in order to formulate the forecasts used in the impairment tests are consistent with the final data registered during 2012.

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

The actualization rate applied to the expected cash flows (WACC) is 10,76%; for the cash flows related to the years following the period of explicit forecasts, we hypothesize a long term growth rate “g” of 1,5%.

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

An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the book value assuming the following hypothesis: a growth rate “g” of 0,5% and a WACC +1% equal to 11,76% for which a small devaluation of the goodwill could be presented.

ASA S.r.l.: the recoverable amount was determined using the Discounted Cash Flow (DCF) method by actualizing the cash flows contained in the economic-financial plan approved by the Board of Directors of ASA S.r.l., which covered a time span from 2013-2015. This company in Vicenza, a subsidiary of Deka MELA S.r.l, which operates in the sector of Physical therapy, despite the difficult economic conditions typical of the past few years, showed a growth in sales volume and constant profitability.

These results made it possible to distribute significant dividends. In order to determine the recoverable amount of the CGU they considered the actualized financial flows for the 3 years of explicit forecasts added to the terminal value, assumed at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.

The main assumption of the economic-financial plan used to make the impairment test is related to the growth rate of the sales volume over the time span covered by the plan. The rates used in order to formulate the forecasts used in the impairment tests are consistent with the final data registered during 2012 and with the outlook for the particular market in which they operate.

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

The actualization rate applied to the expected cash flows (WACC) is 10,76%; for the cash flows related to the years following the period of explicit forecasts, we hypothesize a long term growth rate “g” of 1,5%.

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

An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the accounting value assuming the following hypothesis: a growth rate “g” of 0,5% and a WACC +1% equal to 11,76%.

The goodwill of Cynosure Inc. is no longer reported since the company is no longer fully consolidated but is consolidated using the shareholders' equity method; the goodwill of Quanta France and Deka Laser Technologies Inc.

have been devaluated because the factors and the variables considered have been changed since they were originally entered. The goodwill of Ot-las S.r.l. was joined with that of Cutlite Penta S.r.l. after the two companies merged.

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

Other intangible fixed assets

The “Patent and rights to use the patents of others” on December 31st 2011 were related to the capitalization of the costs sustained by Cynosure Inc., which is no longer part of the area of consolidation. On December 31st 2012 the entry reflects the costs sustained by the subsidiaries Deka Laser Technologies Inc. and Quanta System S.p.A. for patents and licensing agreements.

Under the heading “concessions, licenses, trademarks and similar rights” we have entered among other things, the overall costs sustained by the subsidiaries, Asclepion, With Us, Chutian and Quanta System for new software.

The decreases in this category, as in the residual category of “Others” (which included the entry of the costs sustained by the subsidiary Quanta System SpA for the creation of a new web site and by the subsidiary Deka Mela S.r.l. for software) are due to the deconsolidation of Cynosure Inc.

Tangible fixed assets (note 2)

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

| <i>Cost</i> | Balance 31/12/11 | Increments | Devaluations | Other operations | (Disposals) | Conversion Adjustment s | Balance 31/12/12 |
|-------------------------------------|-----------------------------|-------------------|---------------------|-----------------------------|--------------------|--|-----------------------------|
| Lands | 2.426.132 | | | | | -3.352 | 2.422.780 |
| Buildings | 14.773.847 | 2.488 | | | | -9.344 | 14.766.991 |
| Plants and machinery | 4.248.247 | 78.129 | | -90.885 | -17.483 | -7.461 | 4.210.547 |
| Industrial and commercial equipment | 30.203.521 | 1.121.954 | | -21.090.621 | -603.533 | 118.073 | 9.749.394 |
| Other goods | 12.117.068 | 1.345.777 | | -3.994.968 | -761.659 | -65.758 | 8.640.460 |
| Tangible assets under construction | 3.384 | | | -3.362 | | -22 | |
| <i>Total</i> | 63.772.199 | 2.548.348 | | -25.179.836 | -1.382.675 | 32.136 | 39.790.172 |

| <i>Depreciation provisions</i> | Balance 31/12/11 | Depreciation | Devaluations | Other operations | (Disposals) | Conversion Adjustment s | Balance 31/12/12 |
|-------------------------------------|-----------------------------|---------------------|---------------------|-----------------------------|--------------------|--|-----------------------------|
| Lands | | | | | | | |
| Buildings | 2.027.030 | 448.355 | | -2 | | -2.005 | 2.473.378 |
| Plants and machinery | 2.205.938 | 410.405 | | -90.347 | -14.813 | -2.305 | 2.508.878 |
| Industrial and commercial equipment | 22.876.294 | 1.139.676 | | -15.999.680 | -374.850 | 88.213 | 7.729.653 |
| Other goods | 8.855.851 | 716.957 | | -3.268.156 | -604.125 | -36.997 | 5.663.530 |
| Tangible assets under construction | | | | | | | |
| <i>Total</i> | 35.965.113 | 2.715.393 | | -19.358.185 | -993.788 | 46.906 | 18.375.439 |

| <i>Net value</i> | Balance 31/12/11 | Increments | Other operations | (Depreciations and devaluations) | (Disposals) | Conversion Adjustment s | Balance 31/12/12 |
|-------------------------------------|-----------------------------|-------------------|-----------------------------|---|--------------------|--|-----------------------------|
| Lands | 2.426.132 | | | | | -3.352 | 2.422.780 |
| Buildings | 12.746.817 | 2.488 | 2 | -448.355 | | -7.339 | 12.293.613 |
| Plants and machinery | 2.042.309 | 78.129 | -538 | -410.405 | -2.670 | -5.156 | 1.701.669 |
| Industrial and commercial equipment | 7.327.227 | 1.121.954 | -5.090.941 | -1.139.676 | -228.683 | 29.860 | 2.019.741 |
| Other goods | 3.261.217 | 1.345.777 | -726.812 | -716.957 | -157.534 | -28.761 | 2.976.930 |
| Tangible assets under construction | 3.384 | | -3.362 | | | -22 | |
| <i>Total</i> | 27.807.086 | 2.548.348 | -5.821.651 | -2.806.293 | -388.887 | -14.770 | 21.414.733 |

In accordance with the current accounting standards, the value of the land has been separated from the value of the buildings located upon it and the lands have not been amortized since they constitute an element having an unlimited useful life. The value of the lands on December 31st 2012 was 2.423 thousand Euros.

The heading of “Buildings” includes the building complex in Via Baldanzese a Calenzano (Florence), where the Parent Company operates along with the four subsidiaries Deka M.E.L.A., Cutlite Penta, Esthelogue Srl and Pharmonia Srl, the new building complex in Via Dante Alighieri also in Calenzano, purchased in 2008, the building in the city of Torre Annunziata purchased in 2006 for the research, development and production activities of the subsidiary Lasit SpA, the building located in Branford, Connecticut, which the subsidiary BRCT possesses where Lasercut Technologies Inc. operates and the building which since May of 2008 houses the activities of the subsidiary Asclepion GmbH.

The increments in the category of “Plants and machinery” are related in particular to the investments made by the Parent Company El.En. SpA, Asclepion GmbH and ASA Srl.

The heading of “Industrial and commercial equipment” decreased on account of the deconsolidation of the American Company Cynosure Inc., as described above; the amount is shown in the column “Other movements”. On December 31st 2012 the entry refers in particular to El.En. and to the subsidiaries With Us, Asclepion GmbH, Quanta System, Deka Medical, Chutian and Deka Mela; for this latter, it should be recalled that, as in the past, we have capitalized the costs of some of the machinery sold with operative leasing; these sales, in fact, have been considered as revenue from multi-year leasing in compliance with the IAS/IFRS standards.

The increase in the category of “Other Goods” refers mainly to the purchase of new motor vehicle and furniture.

Equity investments (note 3)

The chart below provides information on the equity investments:

| | 31/12/12 | 31/12/11 | Variation | Var. % |
|--------------------------------------|------------|----------|------------|-----------|
| <i>Equity investments in:</i> | | | | |
| associated companies | 32.476.985 | 306.283 | 32.170.702 | 10503,59% |
| other companies | 73.431 | 135.846 | -62.415 | -45,95% |
| <i>Total</i> | 32.550.416 | 442.129 | 32.108.287 | 7262,20% |

Equities in associated companies

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

It should be recalled that the associated companies Cynosure Inc., Immobiliare Del.Co. Srl, Smartbleach International SA (SBI SA), Elesta Srl, Quanta System Asia Pacific Co.LTD are consolidated using the shareholders’ equity method.

The significant variation under the heading of equities is mainly due to the reclassification of Cynosure Inc. among the associated companies and to the evaluation at fair value of the Cynosure shares which remained after loss of control in the company in November 2012 and which were entered into the Income Statement under the heading of “Income (loss) from Discontinued Operations” for an amount of 13.530 thousand Euros; for a detailed description, please refer to the Chapter on “Information related to IFRS 5”.

The equity in Cynosure, Inc. was evaluated with the shareholders’ equity method on account of the involvement of El.En. S.p.A. in the activities of Cynosure Inc. as the principal shareholder, the presence in the Board of Directors through a member from the Group and as an important strategic supplier.

In compliance with IFRS 3 (*Revised*), the determination of fair value of the residual quota was made on the basis of the selling price at the public offering realized by Cynosure and which determined the allocation of the difference between the fair value of the residual interest and the quota of the shareholders’ equity of the Parent Company to goodwill.

In conformità with IAS 36 the recoverable value of the equity in the associated company Cynosure, Inc. used for conducting the impairment test, was determined using the *fair value less cost to sell*. In particular, since the shares negotiated on the regular NASDAQ Global Select Market (USA), the *fair value less cost to sell* was calculated by taking as a point of reference the share price at the date of closing of the financial statement. Moreover, on the date that the impairment test was conducted no indications emerged that suggested that the value of the equity might have suffered a loss due to decrease in value. In relation to this, one can observe that during the period between the date of the sale of the shares and the date of the closing of the financial statements, the market price of Cynosure shares

increased. This trend towards an increase was confirmed also by the prices for the shares that were registered between the closing of the financial statement and today's date.

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

| | |
|-----------------------------------|-----------------------|
| Cynosure Inc. | 31.794 thousand Euros |
| Immobiliare Del.Co. S.r.l.: | 256 thousand Euros |
| Actis S.r.l.: | 1 thousand Euros |
| SBI S.A.: | 253 thousand Euros |
| Elesta S.r.l.: | 119 thousand Euros |
| Quanta System Asia Pacific Co.LTD | 53 thousand Euros |

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

| | Total Assets | Total liabilities | Net income (Loss) | Revenues and other income | Charges and expenses |
|-----------------------------------|--------------|-------------------|-------------------|---------------------------|----------------------|
| Cynosure Inc. (*) | 177.425.700 | 27.730.910 | 8.530.839 | 119.468.638 | 110.937.800 |
| Actis Active Sensors S.r.l. (**) | 172.831 | 65.912 | 1.278 | 131.124 | 129.846 |
| Elesta S.r.l. (ex IALT Srl) | 2.223.747 | 1.985.758 | 12.067 | 2.480.318 | 2.468.251 |
| Immobiliare Del.Co. S.r.l. | 686.988 | 627.720 | -10.275 | 152.862 | 163.137 |
| S.B.I. SA | 690.181 | 184.725 | -107.646 | 278.681 | 386.327 |
| Quanta System Asia Pacific Co.LTD | 423.256 | 314.155 | -123.342 | 304.181 | 427.523 |

(*) Consolidated data

(**) Data on December 31st 2011

Other equities

For the other operations conducted during this period, please refer to the paragraph titled "Scope of Consolidation" in this report.

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

| <i>Other non current assets</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|---------------------------------|------------|------------|------------|----------|
| Securities | | 5.096.801 | -5.096.801 | -100,00% |
| Deferred tax assets | 5.681.705 | 6.354.281 | -672.576 | -10,58% |
| Other non current assets | 4.302 | 120.635 | -116.333 | -96,43% |
| <i>Total</i> | 5.686.007 | 11.571.717 | -5.885.710 | -50,86% |

The heading of "Securities" entered on December 31st 2011 was related to investments made by Cynosure Inc. in mid-term government bonds and, as such, entered among the non-current assets. With the deconsolidation of Cynosure, that entry no longer appears on December 31st 2012.

For an analysis of the heading "Deferred tax assets", refer to note (16) below concerning the analysis of deferred tax assets and liabilities.

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory:

| <i>Inventories:</i> | 31/12/12 | 31/12/11 | Variation | Var. % |
|---|------------|------------|-------------|---------|
| Raw materials and consumables | 21.562.512 | 27.625.779 | -6.063.267 | -21,95% |
| Work in progress and semi finished products | 12.121.018 | 15.317.124 | -3.196.106 | -20,87% |
| Finished products and goods for sale | 11.781.839 | 26.401.245 | -14.619.406 | -55,37% |
| <i>Total</i> | 45.465.369 | 69.344.148 | -23.878.779 | -34,44% |

A comparison between the final inventories shows the decrease in their amounts due to the deconsolidation of Cynosure.

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

| <i>Inventory:</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|------------------------------|------------|------------|-------------|---------|
| Gross amount | 52.046.275 | 77.081.772 | -25.035.497 | -32,48% |
| minus: devaluation provision | -6.580.906 | -7.737.624 | 1.156.718 | -14,95% |
| <i>Total</i> | 45.465.369 | 69.344.148 | -23.878.779 | -34,44% |

The incidence of the obsolescence provision on the gross value of the inventory rose from 10,04% on December 31st 2011 to 12,64% on December 31st 2012.

Trade receivables (note 6)

Receivables are composed as follows

| <i>Debtors:</i> | 31/12/12 | 31/12/11 | Variation | Var. % |
|--------------------|------------|------------|-------------|---------|
| Trade debtors | 35.902.198 | 49.151.139 | -13.248.941 | -26,96% |
| Associated debtors | 3.015.331 | 1.378.867 | 1.636.464 | 118,68% |
| <i>Total</i> | 38.917.529 | 50.530.006 | -11.612.477 | -22,98% |

| <i>Trade debtors:</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|--|------------|------------|-------------|---------|
| Italy | 16.626.864 | 18.436.593 | -1.809.729 | -9,82% |
| European Community | 6.236.278 | 10.513.733 | -4.277.455 | -40,68% |
| Outside of European Community | 19.166.530 | 27.268.804 | -8.102.274 | -29,71% |
| minus: devaluation provision for debtors | -6.127.474 | -7.067.991 | 940.517 | -13,31% |
| <i>Total</i> | 35.902.198 | 49.151.139 | -13.248.941 | -26,96% |

The drop in the commercial receivables is due to the full deconsolidation of the associated company Cynosure Inc.

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

| <i>Provision for bad debts</i> | 2012 | 2011 |
|---------------------------------------|------------------|------------------|
| At the beginning of the period | 7.067.991 | 5.504.670 |
| Amounts accrued | 1.514.758 | 2.359.476 |
| Amounts utilized | -936.219 | -827.425 |
| Unused amounts reversed | -64.340 | -57.638 |
| Other operations | -1.462.814 | |
| Conversion adjustment | 8.098 | 88.908 |
| At the end of the period | 6.127.474 | 7.067.991 |

Breakdown of trade receivables from third parties are shown below:

| <i>Account receivables vs. third parties:</i> | 31/12/2012 | 31/12/2011 |
|---|-------------------|-------------------|
| To expire | 21.840.223 | 24.073.282 |
| Expired: | | |
| 30 days | 6.018.626 | 9.660.866 |
| 60 days | 1.614.567 | 4.277.097 |
| 90 days | 943.327 | 2.742.800 |
| 180 days | 1.842.118 | 3.123.508 |
| over 180 days | 3.643.337 | 5.273.586 |
| Total | 35.902.198 | 49.151.139 |

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

| <u>Account receivables in:</u> | 31/12/2012 | 31/12/2011 |
|---------------------------------------|-------------------|-------------------|
| Euro | 24.183.241 | 28.839.319 |
| USD | 2.839.213 | 6.958.826 |
| Other currencies | 8.879.744 | 13.352.994 |
| Total | 35.902.198 | 49.151.139 |

The value in Euro shown in the chart for the receivables originally expressed in US dollars or other currency represents the amount in currency converted at the exchange rate in force on December 31st 2012 and December 31st 2011.

For a detailed analysis of the trade and financial receivables from associated companies, please refer to the paragraph in the chapter titled “Related parties”.

Tax receivables/Other receivables (note 7)

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

| | 31/12/2012 | 31/12/2011 | Variation | Variation % |
|---------------------------|------------|------------|------------|-------------|
| <i><u>Tax debtors</u></i> | | | | |
| VAT credits | 2.727.382 | 4.537.951 | -1.810.569 | -39,90% |
| Income tax credits | 794.657 | 1.451.480 | -656.823 | -45,25% |
| <i>Total tax debtors</i> | 3.522.039 | 5.989.431 | -2.467.392 | -41,20% |

| | | | | |
|---|-----------|-----------|------------|---------|
| <i><u>Financial receivables</u></i> | | | | |
| Financial receivables from third parts | 20.000 | 20.000 | - | 0,00% |
| Financial receivables from associated companies | 63.565 | 63.565 | - | 0,00% |
| <i>Total</i> | 83.565 | 83.565 | - | 0,00% |
| <i><u>Other receivables</u></i> | | | | |
| Security deposits | 367.191 | 616.631 | -249.440 | -40,45% |
| Down payments | 1.805.032 | 1.952.611 | -147.579 | -7,56% |
| Other credits | 2.506.743 | 4.403.418 | -1.896.675 | -43,07% |
| <i>Total</i> | 4.678.966 | 6.972.660 | -2.293.694 | -32,90% |
| <i>Total financial and other receivables</i> | 4.762.531 | 7.056.225 | -2.293.694 | -32,51% |

The financial year closed with a VAT credit of over 2,7 million Euros which was mostly a result of the intense export activity of the Group.

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

For a detailed analysis of the financial receivables from associated companies, please refer to the following chapter regarding “Related parties”, in this document.

Other current financial assets (note 8)

| | | | | |
|--|------------|------------|-------------|----------|
| <i><u>Investments which are not permanent:</u></i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
| Other investments | 1.013 | 24.332.276 | -24.331.263 | -100,00% |
| <i>Total</i> | 1.013 | 24.332.276 | -24.331.263 | -100,00% |

The amount entered under the heading of “Other investments” on December 31st 2011 is made up of temporary uses of cash used in particular by Cynosure Inc. with the cash they hold. In particular, these investments consisted of instruments belonging to the category of “financial assets available for sale” consisting prevalently of investments in bonds or similar securities. With the deconsolidation of Cynosure, the common investment funds of the subsidiary Deka Sarl remain in this category.

Cash and cash equivalents (note 9)

Cash at bank and on hand is composed as follows:

| <i>Cash and cash Equivalents:</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|-----------------------------------|-------------------|-------------------|-------------------|----------------|
| bank and postal current accounts | 40.417.223 | 48.256.782 | -7.839.559 | -16,25% |
| cash on hand | 58.099 | 107.760 | -49.661 | -46,08% |
| <i>Total</i> | 40.475.322 | 48.364.542 | -7.889.220 | -16,31% |

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

Net financial position as of December 31st 2012

The net financial position of the Group as of December 31st 2012 expressed in thousands of Euros, was as follows:

| Net financial position | 31/12/2012 | 31/12/2011 |
|--|-------------------|-------------------|
| Cash and bank | 40.475 | 48.365 |
| Financial instruments | 1 | 24.332 |
| Cash and cash equivalents | 40.476 | 72.697 |
| Short term financial receivables | 20 | 20 |
| Bank short term loan | (9.321) | (11.265) |
| Part of financial long term liabilities due within 12 months | (3.100) | (1.732) |
| Financial short term liabilities | (12.421) | (12.997) |
| Net current financial position | 28.075 | 59.720 |
| Bank long term loan | (7.187) | (4.548) |
| Bonds | 0 | (425) |
| Other long term financial liabilities | (3.093) | (1.711) |
| Financial long term liabilities | (10.281) | (6.684) |
| Net financial position | 17.794 | 53.035 |

The net financial position of the Group is registered for an amount of about 18 million Euros; this represents a decrease with respect to December 31st 2011 which is connected to the change in the method of consolidation (no longer full consolidation but with the shareholders' equity method) of the American company Cynosure Inc. which held most of the cash and all of the securities.

The sale of the shares of Cynosure Inc., which benefited the financial position of the Group, brought in cash in the amount of 12,8 million Euros to the Parent Company El.En. S.p.A.. The cash was used as follows: dividends were paid by Deka Mela S.r.l. for 240 thousand Euros and by ASA S.r.l. for 210 thousand Euros. The purchase of 40% of Quanta System S.p.A. and of 10% of Deka Mela S.r.l., which was made this year, comported a monetary expenditure and the entry of a debt for an overall amount of 3,5 million Euros.

From the net financial position we have excluded financial credits towards associated companies for an amount of 64 thousand Euros since they are connected to a policy of financial support of the companies belonging to the Group (for detailed information see the paragraphs on operations with related parties). In continuation of past policy, we felt it opportune not to include this type of financing in the net financial position displayed above.

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

Information on the Consolidated Statements of financial position - Liabilities

Share Capital and Reserves

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

Share Capital (note 10)

As of December 31st 2012, the capital stock of the El.En Group, which coincides with that of the Parent Company, was as follows:

| | | |
|----------------------------|-------|-----------|
| Authorized | Euros | 2.591.871 |
| Underwritten and deposited | Euros | 2.508.671 |

Nominal value of each share

0,52

| <i>Categories</i> | 31/12/2011 | Increase. | (Decrease.) | 31/12/2012 |
|------------------------|-------------------|------------------|--------------------|-------------------|
| No. of Ordinary Shares | 4.824.368 | | | 4.824.368 |
| <i>Total</i> | 4.824.368 | | | 4.824.368 |

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

Increases in capital for use in the stock option plan

The special assembly of El.En. SpA held on May 15th 2008 voted to authorize the Board of Directors, in accordance with and by effect of art. 2443 of the Civil Code, for a period of up to five years from the date of the deliberation, to increase the share capital of the Company once or several times upon payment, by a nominal maximum amount of 83.200,00 Euros through the issue of a maximum of 160,000 ordinary shares with a nominal value of euro 0,52 each, with entitlement equal to those of the ordinary company shares at the date of subscription, to be liberated by payment of a price to be determined by the Board of Directors in the respect of the dictates of art. 2441, sub-paragraph VI, civil code. – that is considering the shareholders' equity, also bearing in mind the official prices registered by the shares on the stock market over the last six months – and as a unitary value inclusive of the premium, not less than the greatest of the following: a) the value of each share determined on the basis of the consolidated shareholders' equity of the El.En. Group as of December 31st of the year previous to the issue of the options; b) the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organized and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options; c) the arithmetical average of the recorded official prices of the company's ordinary shares on the Market, organized and managed by the Borsa Italiana SpA in the 30 days prior to the assigning of the options.

The Board of Directors of El.En. SpA, with the vote taken on July 15th 2008, implemented the authority of the shareholders meeting of May 15th 2008, to increase the capital stock by 83.200,00 for use in the stock option plan for 2008-2013 and approved the relative regulations. The option rights were assigned, by a vote taken on the same day, exclusively to employees of El.En. S.p.A. and the other companies of the Group which, at the time of assignment, were working in a subordinate position. The stock option plan is divided into two equal portions which can be implemented in conformity with the following terms:

a) up to a maximum amount of 41.600,00 Euros starting on July 15th 2011 until the date of approval of the proposed annual report for 2011 by the Board of Directors.

Subsequently, the rights on the options could/can be exercised as follows:

- if the shareholders' meeting, during the approval of the report for 2011, votes to distribute the profits, from the day that the relative dividends for 2011 become payable up until the date of approval of the company report for 2012 by the Board of Directors;
- otherwise, if the profits are not distributed for the year 2011, from the 15th of May 2012 up until the date of the approval of the proposed annual report for 2012 by the Board of Directors;
- if, during the approval of the report for 2012, the shareholders' meeting votes in favor of the distribution of the profits, from the date, if earlier than the 15th of May 2013, of the maturity of the payments of the dividends for 2012 up until May 15th 2013.
- otherwise, if it is decided to not distribute the profits for the year 2012, the period in which the rights can be exercised will terminate on the date, if earlier than May 15th 2013, of the approval of the proposed annual report for the year 2012 by the Board of Directors, and otherwise on the 15th of May 2013.

Therefore – exclusively for the above mentioned nominal sum of 41.600,00 Euros – the underwriting of the increase in capital approved by the Board of Directors can take place exclusively during the time intervals mentioned above for the exercising of the rights.

b) concerning the residual amount of the increase, equal to the nominal amount of 41.600,00 Euros, starting on July 15th 2012 up until the date of approval of the proposed annual report for the year 2012 by the Board of Directors.

Subsequently, the rights to the options may be exercised as follows:

- if the shareholders' meeting, during the approval of the report for 2012, approves the distribution of profits for the year 2012, from the date in which payment of dividends matures for the dividends for the year 2012 up until the 15th of May 2013;
- otherwise, if it is decided not to distribute the profits for the year 2012, the period for exercising the rights will terminate on the date, if before May 15th 2013, of the approval of proposed annual report for 2012, and otherwise, on May 15th 2013.

Therefore, the underwriting of the increase in capital approved by the Board of Directors for the residual amount of 41.600,00 nominal Euros can take place only during the time intervals indicated above for the exercising of the rights to pick up the options.

It should be noted that on the date of this report no stock options had been picked up.

Additional paid in capital (note 11)

On December 31st 2012 the share premium reserve, coinciding with that of the Parent Company, amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2011.

Other reserves (note 12)

| <i>Other reserves</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|--|------------|------------|-----------|----------|
| Legal reserve | 537.302 | 537.302 | | 0,00% |
| Extraordinary reserve | 35.044.641 | 33.780.537 | 1.264.104 | 3,74% |
| Reserve for Conversion adjustments | -56.816 | -259.710 | 202.894 | -78,12% |
| Stock options reserve fund | 1.807.714 | 1.672.730 | 134.984 | 8,07% |
| Reserve for contributions on capital account | 426.657 | 426.657 | | 0,00% |
| Other reserves | -6.788 | 13.392 | -20.180 | -150,69% |
| <i>Total</i> | 37.752.710 | 36.170.908 | 1.581.802 | 4,37% |

As of December 31st 2012 the “extraordinary reserve” was 35.045 thousand Euros. The increase which took place with respect to December 31st 2011 is related to the destination of part of the profits from 2011 by the Parent Company El.En., in accordance with the decision voted by the shareholders' meeting on May 15th 2012.

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

The conversion reserve summarizes the effects of the variations in the exchange rate on the investments in foreign currency. The effects for the year 2012 are shown in the column “ Comprehensive (loss) income ” in the shareholders' equity chart.

The reserve for contributions in capital account must be considered a reserve of profits.

Treasury Stock (note 13)

As described in detail in the paragraph related to the scope of consolidation, at the date of closing of this document, December 31st 2012, the treasury stock purchased by the Parent Company El.En. S.p.A. amounted to a total of 21.148 shares at the average price of 24,97 Euros per share for a total amount of 528.063 Euros.

Profits/losses brought forward (note 14)

This category includes a synthesis of the contribution of all the consolidated companies to the shareholders' equity of the Group. During this financial year the variation is due to the clearance account of the profits from last year and the effects in the variation of the area of consolidation due to the following companies: Dekamela S.r.l., With Us Ltd, Asclepion GmbH, Quanta System S.p.A. and Cynosure Inc. For this latter, one must also take into consideration the change in method of consolidation from full consolidation to shareholders' equity method.

Non-current liabilities

Retirement funds and employee benefits (note 15)

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

| Balance 31/12/2011 | Accrual | Utilization | Payment to complementary pension forms, to INPS fund and other movements | Balance 31/12/2012 |
|-----------------------|-----------|-------------|---|-----------------------|
| 2.761.474 | 1.062.675 | -187.496 | -771.411 | 2.865.242 |

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

For IAS purposes the payment of a severance indemnity represents a “long term benefit subsequent to the termination of employment”; this is an obligation of the “defined benefit ” type which entails entering a liability similar to that entered for defined benefit pension plans.

As far as the companies located in Italy are concerned, after the modifications to the severance indemnity in conformity with the Law of December 27th 2006 (and later modifications), for IAS purposes, only the liability relative to the matured severance provision left in the company has been evaluated because the quota maturing has been paid to a separate entity (complementary pension type). Also for employees who have explicitly decided to keep the indemnity provision in the company, the indemnity matured since January 1st 2007 has been paid into the treasury Fund managed by INPS. This provision, according to the financial law 2007, guarantees the employees working in the private sector the payment of the severance indemnity for the amount corresponding to the payments deposited to the latter.

It should be recalled that the company uses the so-called “corridor method” in which the net cumulative value of the actuarial surplus and deficit is not registered until it exceeds in absolute terms 10% of the current value of the liabilities.

On December 31st 2012 the net accumulated value of the actuarial losses not registered was equal to 475 thousand Euros. The present value of the liabilities as of December 31st 2012 was 3.286 thousand Euros.

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

| Financial hypotheses | Year 2011 | Year 2012 |
|---|---|---|
| Annual implementation rate | 4,60% | 2,69% |
| Annual inflation rate | 2,00% | 2,00% |
| Annual increase rate of salaries (including inflation) | Executives 4,00% White collar workers 2,50% Blue collar workers 2,50% | Executives 1,00% White collar workers 0,50% Blue collar workers 0,50% |

The interest rate used to determine the current value of the liability was based on the rate of iBoxx 10+ AA for the amount of 2,69% in conformity with the criteria used last year.

The amount entered in the column “Payment to complementary pension forms, to INPS fund and other movements” of the chart showing the activity in the severance indemnity fund mostly represents the severance indemnity quotas deducted from the fund because they were intended for other additional non-company funds or to the treasury Fund

managed by INPS (with particular reference to the Parent Company El.En and the subsidiary Quanta System.), in accordance with the choices made by the employees.

Analysis of deferred tax assets and liabilities (note 4) (note 16)

Deferred tax assets and liabilities are accrued on the temporary differences between assets and liabilities recognized for fiscal purposes and those entered into accounts.

The breakdown is as follows:

| | Balance 31/12/2011 | Accrual | (Utilization) | Other | Conversion Adjustments | Balance 31/12/2012 |
|---|-------------------------------|----------------|----------------------|--------------|-----------------------------------|-------------------------------|
| Deferred tax assets on inventory devaluations | 1.475.245 | 45.239 | -99.731 | 3 | -2.725 | 1.418.031 |
| Deferred tax assets on warranty reserve | 235.173 | 10.694 | -38.632 | | -4.155 | 203.080 |
| Deferred tax assets on bad debt reserve | 1.240.662 | 399.025 | -55.661 | 2 | -426 | 1.583.602 |
| Deferred tax assets on loss brought forward from the previous years | 766.430 | 77.436 | -36.974 | -423.806 | -10.940 | 372.146 |
| Deferred tax assets on intercompany profits | 1.927.992 | 152.522 | -15.429 | -661.796 | | 1.403.289 |
| Deferred tax assets on severance indemnity provision discount | -38.511 | -647 | -3.900 | 1 | | -43.057 |
| Other deferred tax assets | 747.290 | 132.391 | -153.060 | 45.146 | -27.153 | 744.614 |
| <i>Total</i> | 6.354.281 | 816.660 | -403.387 | -1.040.450 | -45.399 | 5.681.705 |
| Deferred tax liabilities on advanced depreciations | 174.520 | | -14.638 | 120 | | 160.002 |
| Deferred tax liabilities for contributions on capital account | 269.228 | 280.314 | -21.595 | | | 527.947 |
| Other deferred tax liabilities | 728.675 | 14.902 | -316.951 | 231.070 | -30.546 | 627.150 |
| <i>Total</i> | 1.172.423 | 295.216 | -353.184 | 231.190 | -30.546 | 1.315.099 |
| <i>Net amount</i> | 5.181.858 | 521.444 | -50.203 | -1.271.640 | -14.853 | 4.366.606 |

Deferred tax assets amounted to about 5.682 thousand Euros. The increase this year is due mainly to the fund for stock obsolescence, to the changes in the inter-Group profits on the end of year inventory, and to the devaluation made on some receivables. The amounts entered under “Other movements” refer mostly to the deconsolidation of Cynosure.

Deferred tax liabilities amounted to 1.315 thousand Euros. The variations in the “other deferred tax liabilities” are related, among other things to an evaluation for tax purposes of some LIFO evaluated inventories and to the difference in some exchange rates which were not realized. A further increase was due to the installment payment of the taxes on some grants in capital account received during the year.

Other accruals (note 17)

The chart below shows the operations made with other accruals:

| | Balance 31/12/2011 | Accrual | (Utilisation) | Other | Conversion Adjustments | Balance 31/12/2012 |
|---------------------------------------|-----------------------|---------|---------------|------------|---------------------------|-----------------------|
| Reserve for pension costs and similar | 557.612 | 83.840 | -16.264 | -19.498 | | 605.690 |
| <i>Others:</i> | | | | | | |
| Warranty reserve on the products | 3.600.587 | 267.662 | -224.487 | -2.479.201 | -12.202 | 1.152.359 |
| Reserve for risks and charges | 2.480.849 | 178.810 | -68.041 | | -67 | 2.591.551 |
| Other minor reserves | 44.000 | 35.219 | -44.000 | | | 35.219 |
| <i>Total other reserves</i> | 6.125.436 | 481.691 | -336.528 | -2.479.201 | -12.269 | 3.779.129 |
| <i>Total</i> | 6.683.048 | 565.531 | -352.792 | -2.498.699 | -12.269 | 4.384.819 |

The clients' agents' indemnity fund included in the entry "Reserve for pension costs and similar" on December 31st 2012, amounted to 549 thousand Euros as opposed to 506 thousand Euros on December 31st 2011.

According to IAS 37, the amount owed must be calculated using the actualization techniques to estimate as precisely as possible, the overall cost sustained for the payment of benefits to the agents after the termination of employment.

The technical evaluations were made on the basis of the hypotheses described below.

| Financial hypotheses | Year 2011 | Year 2012 |
|-------------------------------|-----------|-----------|
| Annual rate of implementation | 4,60% | 4,60% |
| Annual rate of inflation | 2,00% | 2,00% |

The reserve for product guarantees is calculated on the basis of the costs for spare parts and servicing under warranty incurred in the previous financial year, adjusted to the volume of sales of the current financial year. The amount entered in the column "Others" refers mostly to the deconsolidation of Cynosure.

Amounts owed and financial liabilities (note 18)

| <i>Financial m/l term debts</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|----------------------------------|------------|------------|-----------|----------|
| Bonds | | 425.099 | -425.099 | -100,00% |
| Amounts owed to banks | 7.187.456 | 4.547.896 | 2.639.560 | 58,04% |
| Amounts owed for leasing | 383.534 | 507.749 | -124.215 | -24,46% |
| Amounts owed to other financiers | 2.709.924 | 1.203.493 | 1.506.431 | 125,17% |
| <i>Total</i> | 10.280.914 | 6.684.237 | 3.596.677 | 53,81% |

For comments on Bonds, see Note 19 below.

The mid- to long-term debts owed to banks as of December 31st 2012 mostly represent the amounts due after one year:

- bank financing which was granted to Asclepion GmbH for the construction of the building where the company is now operating;
- financing granted to El.En. S.p.A. by Mediocredito Italiano S.p.A. for 3,4 million Euros to be paid back in set amounts every six months starting on December 15th 2011 and terminating on June 15th 2016. Of this amount, on 1,7 million Euros the interest rate applied for the first installment was 2,40%; for the remaining 1,7 million the rate applied was 5,70%; for the following periods, the interests will be the same as the Euribor rate at six months, as registered on the second target working day before the expiration date of the preceding interest period, increased by a spread. The spread is 3,90 points on the first 1,7 million Euros reduced to 0,60 on the remaining 1,7 million Euros;
- financing granted to El.En. S.p.A. by Mediocredito Italiano S.p.A. for a total of 2,8 million Euros, to be repaid in equal installments every six months starting on June 30th 2012 and ending on December 31st 2016. The interest rate applied until June 29th 2012 is 3,95% (the same as Euribor at six months registered the second target working day

before the stipulation of the contract increased by 2,90 points); for every six months period that follows the interest rate will be the same as Euribor at six months registered on the second target working day before the expiration date of the preceding six months, increased by 2,90 points;

d) financing granted to El.En. S.p.A. by Mediocredito Italiano S.p.A. for a total of 2,2 million Euros, to be repaid in equal installments every six months starting on June 30th 2012 and ending on December 31st 2016. The interest rate applied until June 29th 2012 is 3,95% (the same as Euribor at six months registered the second target working day before the stipulation of the contract increased by 2,90 points); for every six months period that follows the interest rate will be the same as Euribor at six months registered on the second target working day before the expiration date of the preceding six months, increased by 2,90 points;

e) financing with SACE warranty granted to El.En. S.p.A. by Banco Popolare s.c.r.l. for a total of 2 million Euros to be repaid in 12 deferred quarterly installments starting on June 30th 2012 and ending on March 31st 2015. The interest rate applied is equal to Euribor at three months registered on the second working day before the end of each solar quarter, increased by 2,50 points.

“Amounts owed to other financiers” consist, among other things, in the quotas which are payable after one year for:

- a) Facilitated financing for applied research, issued by MIUR, to Quanta System SpA, granted in several installments, for an amount of 673.500 Euros at the annual interest rate of 0,50%, payable in 14 semi-annual deferred installments, starting on January 1st 2009, last installment July 1st 2015.
- b) Financing issued by the Banca Nazionale del Lavoro to the subsidiary Quanta System SpA, granted for an overall amount of 500 thousand Euros at the Euribor rate at three months increased by 1,30 points, for a duration of five years, from the date of issuance including a period of pre-amortization of 6 months, to be paid back in deferred quarterly installments including capital and interest starting on October 9th 2009, last installment April 9th 2014.
- c) Facilitated financing from Finlombarda/Regione Lombardia for applied research, issued to the subsidiary Quanta System SpA for a total of 900.000 Euros, at the rate of 0,50% on half of the capital and 4,01% annually on the other half, to be paid back in 14 half-yearly installments with the last installment on June 30th 2016.
- d) Centrobanca facilitated financing for applied research, granted to the subsidiary Lasit for 231.060 Euros at the annual interest rate of 0,96% last installment August 5th 2014
- e) Financing issued by BMW Group Financial Service, to the subsidiary Lasit for a total of 89.200 Euros to be repaid in monthly installments starting on May 22nd 2012 with the last installment on April 22nd 2016.

Among the other amounts owed to financiers, there is a mid- to long-term debt of El.En. S.p.A. to Laserfin S.r.l. company as a result of the acquisition of 10% of the equity in Deka Mela S.r.l. and of 40% of the equity in Quanta System S.p.A..

Current liabilities

Financial debts (note 19)

Below, a breakdown of the financial debts is given:

| <i>Financial short term debts</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|--|-------------------|-------------------|------------------|---------------|
| Bonds | 377.373 | 427.660 | -50.287 | -11,76% |
| Amounts owed to banks | 9.321.477 | 11.264.978 | -1.943.501 | -17,25% |
| Amount owed for leasing | 114.927 | 275.140 | -160.213 | -58,23% |
| Liabilities (derivatives on interest and exchange rates) | 23.492 | | 23.492 | |
| Amounts owed to other financiers | 2.583.735 | 1.029.394 | 1.554.341 | 151,00% |
| <i>Total</i> | 12.421.004 | 12.997.172 | -576.168 | -4,43% |

The heading of “Bonds” is related to the short-term quota of the debenture loan issued by the subsidiary With Us in 2010 for the original amount of 130 million Yen, with expiration date between 2011 and 2013, paid at the fix rate of 0,55% annually or for the first six months and at the variable rate for the rest of the period. The bonds are guaranteed by the Bank of Tokyo-Mitsubishi UFJH and by the President of the Company. These bonds are underwritten by institutional investors and have been entered into accounts in compliance with IAS 39.

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

- debts for advance payments on invoices of the subsidiary Esthelogue Srl;
- short-term quota on the loan granted to El.En. (see note 18);
- short-term quota on the financing granted to Asclepion (see note 18);
- overdraft coverage granted by credit institutions to subsidiary companies and, in particular, to Quanta System SpA and With Us Co;
- bank financing granted to Penta Chutian Laser (Wuhan) Co., Ltd for an amount of about 2.800 thousand Euros of which 973 thousand (corresponding to 8 million Yuan) at an annual rate of 7,572% and 1.216 thousand Euros (about 10 million Yuan) at an annual rate of 6,9%.

The heading of “Liabilities (derivatives on interest and Exchange rates)” includes the evaluation at fair value according to IAS 39 of the derivatives initiated by the Parent Company El.En. S.p.A. and by the subsidiary Quanta System S.p.A.. In particular:

- the Parent Company El.En. S.p.A. stipulated an IRS derivative contract for covering the interest rate on the SACE financing issued by the Banco Popolare s.c.r.l. (see note 18). The contract expires on March 31st 2015, at the nominal value of 1.500.000 Euros on December 31st 2012, the fair value on December 31st 2012 was - 20.180 Euros;
- the subsidiary Quanta System stipulated an IRS derivative contract for covering the interest rate on the financing issued by the BNL bank (see note 18). The contract expires on April 15th 2014, nominal value of 157.895 Euros on December 31st 2012 and fair value on December 31st 2012 was - 3.312 Euros.

The heading of “amounts owed to other financiers” includes almost entirely the short-term quotas for the financing described in the preceding note.

Among the amounts owed to other financiers there are the short-term debts of El.En. S.p.A. to Laserfin S.r.l. which is a consequence of the purchase of 10% of the equity in Deka Mela S.r.l. and of 40% of the equity in the subsidiary Quanta System S.p.A., as well as the debt of the subsidiary Cutlite do Brasil owed to a minority shareholder who sold his equity which amounted to 10% of the capital.

Trade Payable (note 20)

| <i>Trade debts:</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|--|------------|------------|-------------|---------|
| Trade accounts payable | 22.923.219 | 34.452.352 | -11.529.133 | -33,46% |
| Trade accounts payable with associated companies | 68.563 | 124.139 | -55.576 | -44,77% |
| <i>Total</i> | 22.991.782 | 34.576.491 | -11.584.709 | -33,50% |

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

The chart below shows the trade debts toward third parties for 2012 divided according to the currency.

| <u>Account payables in:</u> | 31/12/2012 | 31/12/2011 |
|-----------------------------|------------|------------|
| Euro | 18.077.215 | 19.845.706 |
| USD | 1.379.808 | 9.525.890 |
| Other currencies | 3.466.196 | 5.080.756 |
| Total | 22.923.219 | 34.452.352 |

On the chart, the value in Euros of the debts originally expressed in US dollars or other currencies represents the amount of currency converted at the exchange rate in force on December 31st 2012 and December 31st 2011.

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

The income tax debts matured for some of the companies belonging to the Group on December 31st 2012 amounted to 1.101 thousand Euros and are entered net of the down payments and deductions.

The breakdown of the Other debts is shown on the chart:

| | 31/12/2012 | 31/12/2011 | Variation | Variation % |
|--|------------|------------|-------------|-------------|
| <i>Social security debts</i> | | | | |
| Debts owed to INPS | 1.646.675 | 1.544.018 | 102.657 | 6,65% |
| Debts owed to INAIL | 134.014 | 137.623 | -3.609 | -2,62% |
| Debts owed to other Social Security Institutions | 235.383 | 232.232 | 3.151 | 1,36% |
| <i>Total</i> | 2.016.072 | 1.913.873 | 102.199 | 5,34% |
| <i>Other debts</i> | | | | |
| Debts owed to tax administration for VAT | 608.909 | 1.105.834 | -496.925 | -44,94% |
| Debts owed to tax administration for deductions | 1.209.925 | 1.069.974 | 139.951 | 13,08% |
| Other tax debts | 266.203 | 92.043 | 174.160 | 189,22% |
| Owed to staff for wages and salaries | 4.313.700 | 6.081.340 | -1.767.640 | -29,07% |
| Down payments | 3.577.207 | 6.759.198 | -3.181.991 | -47,08% |
| Amounts towards associated companies | 1.381 | | 1.381 | |
| Other debts | 4.343.331 | 11.626.648 | -7.283.317 | -62,64% |
| <i>Total</i> | 14.320.656 | 26.735.037 | -12.414.381 | -46,43% |
| <i>Total Social security debts and other debts</i> | 16.336.728 | 28.648.910 | -12.312.182 | -42,98% |

The amounts "Owed to staff" include, among other things, the debts for deferred salaries of personnel employed as of December 31st 2012.

The entry of "Down payments" is made up of down payments received from clients.

Analysis of debts according to due date

| | 31/12/2012 | | | 31/12/2011 | | |
|--|---------------|-------------------|-------------------|---------------|-------------------|-------------------|
| | Within 1 year | From 1 to 5 years | More than 5 years | Within 1 year | From 1 to 5 years | More than 5 years |
| Bonds | 377.373 | | | 427.660 | 425.099 | |
| Amounts owed to banks | 9.321.477 | 6.060.396 | 1.127.060 | 11.264.978 | 3.210.094 | 1.337.802 |
| Amounts owed to leasing company | 114.927 | 383.534 | | 275.140 | 507.749 | |
| Liabilities (forward exchange contracts) | 23.492 | | | | | |
| Amounts owed to other financiers | 2.583.735 | 2.709.924 | | 1.029.394 | 1.203.493 | |
| Amounts owed to suppliers | 22.923.219 | | | 34.452.352 | | |
| Amounts owed to associated companies | 69.944 | | | 124.139 | | |
| Income taxes debts | 1.100.845 | | | 761.740 | | |
| Amounts owed to social security institutions | 2.016.072 | | | 1.913.873 | | |
| Other liabilities | 14.319.275 | | | 26.735.037 | | |
| <i>Total</i> | 52.850.359 | 9.153.854 | 1.127.060 | 76.984.313 | 5.346.435 | 1.337.802 |

Non-current liabilities held for sale (note 22)

The liabilities held for sale amount to 227 thousand Euros and are related to the equity method evaluation of the equity in Grupo Laser Idoseme SL. On December 31st 2012 this equity was evaluated on the basis of the equity method determined on December 31st 2011, by virtue of the mandate conferred to the President of the Board of Directors and to the Managing Director of the controlling company, Quanta System S.p.A. to sell the equity. On January 16th 2013 the company stipulated a contract for the definitive sale of the equity in Grupo Laser Idoseme SL for a total price of 1.000 Euros. This equity is evaluated on the basis of the shareholders' equity method determined on December 31st 2011 because the sales price agreed upon was greater than this evaluation.

Segment information -IFRS8

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

| 31/12/12 | Total | Medical | Industrial | Other |
|---|---------|---------|------------|-------|
| Revenues | 152.255 | 110.122 | 41.281 | 852 |
| Intersectorial revenues | (1.020) | | (169) | (852) |
| Net Revenues | 151.234 | 110.122 | 41.113 | |
| Other revenues and income | 2.739 | 959 | 258 | 1.523 |
| Gross Margin | 72.050 | 55.083 | 15.445 | 1.523 |
| <i>Inc.%</i> | 47% | 50% | 37% | 100% |
| Margin | 15.006 | 13.582 | (99) | 1.523 |
| <i>Inc.%</i> | 10% | 12% | 0% | 100% |
| Not assigned charges | 7.532 | | | |
| EBIT | 7.474 | | | |
| Net financial income (charges) | (1.362) | | | |
| Share of profit of associated companies | 48 | 51 | | (3) |
| Other Income (expense) net | (68) | | | |
| Income (loss) before taxes | 6.092 | | | |
| Income taxes | 2.953 | | | |
| Income (loss) from continuing operations | 3.140 | | | |
| Income (loss) from discontinued operations | 26.672 | 26.672 | | |
| Income (loss) before minority interest | 29.812 | | | |
| Minority interest | 6.613 | | | |
| Net income (loss) | 23.199 | | | |

| 31/12/11 | Total | Medical | Industrial | Other |
|---|--------------|----------------|-------------------|--------------|
| Revenues | 138.431 | 96.595 | 40.735 | 1.102 |
| Intersectorial revenues | (1.039) | | (262) | (777) |
| Net Revenues | 137.392 | 96.595 | 40.473 | 325 |
| Other revenues and income | 2.060 | 1.030 | 196 | 835 |
| Gross Margin | 67.137 | 49.504 | 16.841 | 793 |
| <i>Inc. %</i> | 48% | 51% | 41% | 68% |
| Margin | 13.168 | 10.483 | 1.893 | 793 |
| <i>Inc. %</i> | 9% | 11% | 5% | 68% |
| Not assigned charges | 8.074 | | | |
| EBIT | 5.094 | | | |
| Net financial income (charges) | 342 | | | |
| Share of profit of associated companies | (689) | (686) | (11) | 8 |
| Other Income (expense) net | 19 | | | |
| Income (loss) before taxes | 4.765 | | | |
| Income taxes | 2.658 | | | |
| Income (loss) from continuing operations | 2.107 | | | |
| Income (loss) from discontinued operations | (2.396) | (2.396) | | |
| Income (loss) before minority interest | (289) | | | |
| Minority interest | (18) | | | |
| Net income (loss) | (270) | | | |

| 31/12/2012 | Total | Medical | Industrial | Other |
|--------------------------|--------------|----------------|-------------------|--------------|
| Assets assigned | 131.719 | 82.233 | 49.486 | |
| Equity investments | 32.289 | 32.220 | 69 | |
| Assets not assigned | 32.216 | | | |
| Total assets | 196.223 | 114.452 | 49.555 | 0 |
| Liabilities assigned | 39.743 | 23.716 | 16.028 | |
| Liabilities not assigned | 32.181 | | | |
| Total liabilities | 71.924 | 23.716 | 16.028 | 0 |

| 31/12/2011 | Total | Medical | Industrial | Other |
|--------------------------|--------------|----------------|-------------------|--------------|
| Assets assigned | 253.362 | 201.297 | 52.065 | |
| Equity investments | 183 | 65 | 118 | |
| Assets not assigned | 15.851 | | | |
| Total assets | 269.396 | 201.362 | 52.183 | 0 |
| Liabilities assigned | 65.917 | 48.458 | 17.460 | |
| Liabilities not assigned | 28.368 | | | |
| Total liabilities | 94.285 | 48.458 | 17.460 | 0 |

| 31/12/2012 | Total | Medical | Industrial | Other |
|--------------------------|--------------|----------------|-------------------|--------------|
| Changes in fixed assets: | | | | |
| - assigned | (26.693) | (26.456) | (238) | 0 |
| - not assigned | (230) | | | |
| Total | (26.923) | (26.456) | (238) | 0 |

| 31/12/2011 | Total | Medical | Industrial | Other |
|--------------------------|--------------|----------------|-------------------|--------------|
| Changes in fixed assets: | | | | |
| - assigned | 15.678 | 16.106 | (429) | 0 |
| - not assigned | 20 | | | |
| Total | 15.698 | 16.106 | (429) | 0 |

Information according to the geographic area

| 31/12/12 | Total | Italy | Europe | Row |
|----------|---------|--------|--------|--------|
| Revenues | 151.234 | 27.055 | 32.164 | 92.016 |

| 31/12/11 | Total | Italy | Europe | Row |
|----------|---------|--------|--------|--------|
| Revenues | 137.392 | 25.929 | 32.860 | 78.603 |

| 31/12/2012 | Total | Italy | Europe | Row |
|----------------------|---------|---------|--------|--------|
| Assets assigned | 163.672 | 114.458 | 15.695 | 33.520 |
| Equity investments | 32.550 | 32.550 | | |
| Total assets | 196.223 | 147.008 | 15.695 | 33.520 |
| Liabilities assigned | 71.924 | 46.508 | 9.604 | 15.812 |
| Total liabilities | 71.924 | 46.508 | 9.604 | 15.812 |

| 31/12/2011 | Total | Italy | Europe | Row |
|----------------------|---------|---------|--------|---------|
| Assets assigned | 268.954 | 99.667 | 16.023 | 153.264 |
| Equity investments | 442 | 442 | | |
| Total assets | 269.396 | 100.109 | 16.023 | 153.264 |
| Liabilities assigned | 94.285 | 43.609 | 9.565 | 41.112 |
| Total liabilities | 94.285 | 43.609 | 9.565 | 41.112 |

| 31/12/2012 | Total | Italy | Europe | Row |
|--------------------------|----------|---------|--------|----------|
| Changes in fixed assets: | | | | |
| - assigned | (26.923) | (2.799) | (393) | (23.731) |
| Total | (26.923) | (2.799) | (393) | (23.731) |

| 31/12/2011 | Total | Italy | Europe | Row |
|--------------------------|--------|-------|--------|--------|
| Changes in fixed assets: | | | | |
| - assigned | 15.698 | (558) | (301) | 16.557 |
| Total | 15.698 | (558) | (301) | 16.557 |

Information on the consolidated Income Statement

Revenue (note 23)

The overall increase in the revenue, which amounted to 151,2 million Euros, is over 10% and meets the expectations for this year. The industrial sector has basically maintained its position, while the medical sector represents the fastest growing category along with a good sales volume for services and spare parts.

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|-----------------------------------|-------------|-------------|------------|--------|
| Sales of industrial laser systems | 35.589.837 | 35.890.371 | -300.534 | -0,84% |
| Sales of medical laser systems | 87.888.752 | 76.208.340 | 11.680.412 | 15,33% |
| Service and sales of spare parts | 27.755.730 | 25.293.647 | 2.462.083 | 9,73% |
| <i>Total</i> | 151.234.319 | 137.392.358 | 13.841.961 | 10,07% |

Other income (note 24)

The analysis of the other income is as follows:

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|--|------------|------------|-----------|---------|
| Recovery for accidents and insurance reimbursements | 8.001 | 44.260 | -36.259 | -81,92% |
| Expense recovery | 572.534 | 581.203 | -8.669 | -1,49% |
| Capital gains on disposal of fixed assets | 265.653 | 104.994 | 160.659 | 153,02% |
| Other income | 1.870.084 | 1.329.904 | 540.180 | 40,62% |
| Contribution on fiscal year account and on capital account | 23.069 | | 23.069 | |
| <i>Total</i> | 2.739.341 | 2.060.361 | 678.980 | 32,95% |

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

The entry “Other income” consists for the most part of grants for research projects which have been entered into accounts by the Parent Company, El.En. SpA for the amount of approx. 1.391 thousand Euros and by the subsidiary Quanta System for 131 thousand Euros.

Costs for the purchase of goods (note 25)

The analysis is shown on the following table:

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|---|------------|------------|-----------|---------|
| Purchase of raw materials and finished products | 65.809.046 | 62.891.287 | 2.917.759 | 4,64% |
| Purchase of packaging | 721.235 | 735.463 | -14.228 | -1,93% |
| Shipment charges on purchases | 850.058 | 869.662 | -19.604 | -2,25% |
| Other purchase expenses | 691.329 | 1.044.891 | -353.562 | -33,84% |
| Other purchases | 748.482 | 729.870 | 18.612 | 2,55% |
| <i>Total</i> | 68.820.150 | 66.271.173 | 2.548.977 | 3,85% |

The increase in purchases was 3,85% and is a direct consequence of the rise in the business volume.

Other direct services/ operating services and charges (note 26)

Breakdown of this category is shown on the chart below:

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|--|-------------------|-------------------|------------------|---------------|
| <i>Direct services</i> | | | | |
| Assemblies outsourcing to third parties | 3.645.930 | 4.324.748 | -678.818 | -15,70% |
| Technical services | 658.246 | 668.802 | -10.556 | -1,58% |
| Shipment charges on sales | 1.550.602 | 1.589.911 | -39.309 | -2,47% |
| Commissions | 3.851.536 | 4.041.254 | -189.718 | -4,69% |
| Royalties | 33.826 | 33.847 | -21 | -0,06% |
| Travel expenses | 815.437 | 833.773 | -18.336 | -2,20% |
| Other direct services | 338.823 | 294.676 | 44.147 | 14,98% |
| <i>Total</i> | <i>10.894.400</i> | <i>11.787.011</i> | <i>- 892.611</i> | <i>-7,57%</i> |
| <i>Operating services and charges</i> | | | | |
| Maintenance and technical assistance on equipments | 294.233 | 312.212 | -17.979 | -5,76% |
| Services and commercial consulting | 1.121.808 | 1.332.870 | -211.062 | -15,84% |
| Legal and administrative services | 1.569.649 | 1.265.013 | 304.636 | 24,08% |
| Auditing fees and charges | 189.620 | 259.819 | -70.199 | -27,02% |
| Insurances | 634.972 | 608.348 | 26.624 | 4,38% |
| Travel and overnight expenses | 2.770.897 | 2.447.127 | 323.770 | 13,23% |
| Promotional and advertising expenses | 5.539.267 | 5.360.223 | 179.044 | 3,34% |
| Building charges | 1.800.919 | 1.614.899 | 186.020 | 11,52% |
| Other taxes | 227.478 | 238.412 | -10.934 | -4,59% |
| Expenses for vehicles | 1.149.210 | 968.814 | 180.396 | 18,62% |
| Office supplies | 438.315 | 302.564 | 135.751 | 44,87% |
| Hardware and Software assistance | 304.146 | 298.938 | 5.208 | 1,74% |
| Bank charges | 355.634 | 317.186 | 38.448 | 12,12% |
| Rent | 1.621.761 | 1.587.001 | 34.760 | 2,19% |
| Other operating services and charges | 7.828.129 | 8.411.845 | -583.716 | -6,94% |
| <i>Total</i> | <i>25.846.038</i> | <i>25.325.271</i> | <i>520.767</i> | <i>2,06%</i> |

The most significant changes in the category of “other direct services” is related to outsourcing to third parties.

The single most important amounts of “Other operating services and charges” are represented by the costs for remuneration of the administrative bodies and of the Board of Auditors for an amount of 2.441 thousand Euros and by the costs of technical and scientific consulting and study and research for an amount of about 1.901 thousand Euros; for the activities and the costs of Research and Development, please consult the Director’s report on operations.

Future commitments for use of goods belonging to others

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

| | 31/12/2012 | 31/12/2011 |
|--|------------------|------------------|
| Operating lease commitments: | | |
| Within one year | 1.340.458 | 1.411.980 |
| After 1 year but not more than 5 years | 2.275.902 | 2.384.884 |
| More than five years | 420.607 | 415.774 |
| Total | 4.036.967 | 4.212.638 |

Employee costs (note 27)

The chart below shows the costs for staff:

| <i>For staff costs</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|----------------------------------|------------|------------|-----------|---------|
| Wages and salaries | 25.890.976 | 23.568.628 | 2.322.348 | 9,85% |
| Social security costs | 6.606.320 | 6.230.717 | 375.603 | 6,03% |
| Accruals for severance indemnity | 944.116 | 918.347 | 25.769 | 2,81% |
| Stock options | 134.984 | 178.410 | -43.426 | -24,34% |
| Other costs | 108.972 | 93.479 | 15.493 | 16,57% |
| <i>Total</i> | 33.685.368 | 30.989.581 | 2.695.787 | 8,70% |

The cost for personnel was 33.685 thousand Euros, registering an increase of 8,7% with respect the 30.990 thousand Euros for the period last year. The figurative costs entered into accounts in relation to the stock options assigned to employees are part of the personnel costs. On December 31st 2011 these costs were 178 thousand Euros, while on December 31st 2012 they fell to 135 thousand Euros; these costs refer mainly to the stock options issued by the Parent Company El.En. S.p.A..

Depreciation, amortization and other accruals (note 28)

The table below shows the breakdown for this category:

| <i>Depreciations, amortizations, and other accruals</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|---|------------|------------|-----------|---------|
| Amortization of intangible assets | 267.756 | 266.296 | 1.460 | 0,55% |
| Depreciation of tangible assets | 2.715.393 | 2.680.092 | 35.301 | 1,32% |
| Devaluations of fixed assets | 90.900 | | 90.900 | |
| Accrual for risk on receivables | 1.580.456 | 2.472.083 | -891.627 | -36,07% |
| Other accruals for risks and charges | 390.158 | 309.693 | 80.465 | 25,98% |
| <i>Total</i> | 5.044.663 | 5.728.164 | -683.501 | -11,93% |

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

The accrual for risks and charges includes, among other things, the product guarantee accrual which increase as a consequence of the increase in the sales volume.

Financial income and charges (note 29)

The breakdown of the category is as follows:

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|---|------------|-------------|-----------|---------|
| Financial incomes: | | | | |
| Interests from banks | 352.128 | 484.708 | -132.580 | -27,35% |
| Dividends | 6.668 | | 6.668 | |
| Interests from associated company | 2.086 | | 2.086 | |
| Interests on investments | 3.051 | 1.539 | 1.512 | 98,25% |
| Income from negotiations | 129 | 607 | - 478 | -78,75% |
| Foreign exchange gain | 715.808 | 1.487.046 | - 771.238 | -51,86% |
| Other financial incomes | 154.978 | 143.009 | 11.969 | 8,37% |
| <i>Total</i> | 1.234.848 | 2.116.909 | -882.061 | -41,67% |
| Financial charges: | | | | |
| Interest on bank debts for account overdraft | - 455.052 | - 445.133 | - 9.919 | 2,23% |
| Interest on bank debts for medium and long - term loans | - 308.898 | -62.282 | - 246.616 | 395,97% |
| Foreign exchange loss | -1.532.817 | - 1.089.690 | -443.127 | 40,67% |
| other financial charges | -300.468 | - 178.195 | -122.273 | 68,62% |
| <i>Total</i> | -2.597.235 | -1.775.300 | -821.935 | 46,30% |

The entry “Interest from banks”, showed an decrease of about 133 thousand Euros, and fell from 485 thousand Euros on December 31st 2011 to 352 thousand Euros on December 31st 2012.

The entry “other financial charges” includes, for the amount of 119 thousand Euros, the interest due on account of the application of accounting standard IAS 19 to the severance pay.

Other net income and charges (note 30)

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|-------------------------------------|----------------|----------------|----------------|-----------------|
| <i>Other charges</i> | | | | |
| Loss on equity investments | -18.000 | | -18.000 | |
| Devaluation of equity investments | -49.620 | -45.145 | -4.475 | 9,91% |
| <i>Total</i> | -67.620 | -45.145 | -22.475 | 49,78% |
| <i>Other income</i> | | | | |
| Capital gains on equity investments | | 63.646 | -63.646 | -100,00% |
| <i>Total</i> | | 63.646 | -63.646 | -100,00% |

The heading of “Loss on equity investments” includes the devaluations on the value of the equity undergone by the subsidiary Quanta System S.p.A. as a result of the sale of the equity held in T.F.D. Ticino Forniture Dentali.

The heading of “Devaluation of equity investments” refers to the devaluation made on the value of the equity in Centro Laser for an amount of 11 thousand Euros, RTM for an amount of 37 thousand Euros and Alfa Laser for an amount of 1.000 Euros (equities evaluated at cost). The equity in Alfa Laser S.r.l. was later sold by the Parent Company El.En. S.p.A..

It should be recalled that, last year, the entry in “Capital gains on equities” for the amount of 63.646 Euros, included 10 thousand Euros which originated with the entry of Quanta France in the area of consolidation with the consequent re-evaluation of the quota that been held previously, while the remaining part was related to the sale of the Laser International Ltd. company by Quanta System S.p.A..

Income taxes (note 31)

| Description: | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|--|------------|------------|-----------|----------|
| IRES and other foreign income taxes | 2.776.233 | 2.352.980 | 423.253 | 17,99% |
| IRAP | 886.440 | 776.721 | 109.719 | 14,13% |
| IRES and other foreign income taxes - Deferred (Advanced) | -471.453 | -117.998 | -353.455 | 299,54% |
| IRAP - Deferred (Advanced) | 212 | 7.694 | -7.482 | -97,24% |
| Receivable for income tax | -14.577 | -357.640 | 343.063 | -95,92% |
| Taxes related to the previous years | -224.237 | -3.714 | -220.523 | 5937,61% |
| <i>Total income taxes</i> | 2.952.618 | 2.658.043 | 294.575 | 11,08% |

The costs for current and deferred taxes this year was 2.953 thousand Euros

The heading of “Taxes related to the previous year” includes, among other things, the entry made by the Parent Company and by some of the Italian subsidiaries, of credits from the internal revenue service for the reimbursement of the excess IRES taxes paid for not deducting the IRAP relative to the expenses for employees and similar in conformity with art. 2, sub-section 1-quater, D.L. 201/2011.

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

| | 2012 | 2011 |
|---|-----------|-----------|
| Profit/loss before taxes | 6.092.320 | 4.765.460 |
| Theoretical IRES Aliquot | 27,50% | 27,50% |
| Theoretical IRES | 1.675.388 | 1.310.502 |
| | | |
| Higher (lower) fiscal incidence of the foreign companies with respect to the theoretical aliquot | 761.321 | 563.864 |
| One time income tax charges | (250.161) | |
| Tax credits | (14.577) | (357.640) |
| Higher (lower) fiscal incidence of Italian companies with respect to the theoretical aliquot | 249.262 | 921.630 |
| Higher (lower) fiscal incidence due to the effects of consolidation | (340.689) | (207.087) |
| Actual IRES | 2.080.544 | 2.231.268 |
| Actual IRES aliquot | 34,15% | 46,82% |

Dividends distributed (note 32)

The shareholders' meeting of El.En. SpA held on May 13th 2011 voted to distribute a dividend of 0,20 Euros for each share in circulation at the maturity date of the coupon. The dividend paid amounted to 944.244 Euros.

The shareholders' meeting of El.En. S.p.A. that was held on May 15th 2012 voted to not distribute any dividends and to allocate all of the profits, amounting to 1.264.103 Euros, in the extraordinary reserve.

Earnings per share (note 33)

The pondered average number of the shares in circulation increased due to the effects of the sale of 82.000 shares of treasury stock to Laserfin S.r.l..

Discontinued operations (note 34)

As already mentioned above, as a consequence of the sale of part of the Cynosure shares held by El.En (as described in the paragraph titled "Significant events which occurred during 2012") and after the loss of control of the American company, starting at the end of November 2012, this company is no longer fully consolidated, but is consolidated with the equity method and therefore the statement has been drawn up in compliance with IFRS 5.

Since, up until the date of the sale, the contribution of Cynosure to the results of the Group was defined as a *major line of business*, the sale is represented as a *Discontinued Operation*. Consequently, in the Income Statement for the financial year 2012 and, for purposes of comparison, 2011, the entries for revenue and income and costs and charges as well as those for capital gains and re-evaluation have been reclassified under the heading of "*Income (loss) from Discontinued operations*".

The net income from "*Discontinued Operations*" for 2012, is 26,7 million Euros, and includes among other things, the contribution of Cynosure for the eleven months that the company was still in the Group, the capital gains derived from the sale of 840.000 shares of the American company at the unit price of Euros 15,33 (net of the underwriting commission) for an amount of 5,4 million Euros, besides the re-evaluation at fair value (represented by the closing price of the public offering sale) of the residual quota of the equity in Cynosure for a total amount of 13,5 million Euros. The net income from "*Discontinued Operations*" for 2012 includes the reclassification of the comprehensive result of the conversion reserve relative to Cynosure Inc. for the amount of 438 thousand Euros after the loss of control of the American company.

The net income from "*Discontinued Operations*" for 2011 includes the contribution of Cynosure Inc. to the net result of the Group.

Non-recurring significant, atypical and unusual events and operations (note 35)

In compliance with *Comunicazione Consob* of July 28th 2006 n. DEM/6064293, for the year 2012, the partial sale of the equity in Cynosure Inc. is to be considered a non-recurring significant event. It should be recalled that no operations or events of this type occurred last year.

| | Shareholders' equity | | Incombe (loss) for the period | | Net financial position | | Cash flows (*) | |
|---|----------------------|------------|-------------------------------|------------|------------------------|------------|--------------------|-------------|
| | Euros | % | Euros | % | Euros | % | Euros | % |
| Book value (A) | 112.583.945 | | 23.198.584 | | 17.794.417 | | (7.889.220) | |
| Income/assets arising from the sale of equity in Cynosure Inc. | (18.183.579) | 16% | (18.183.579) | 78% | (12.876.305) | 72% | 12.134.669 | 154% |
| Total operations (B) | (18.183.579) | 16% | (18.183.579) | 78% | (12.876.305) | 72% | 12.134.669 | 154% |
| | | | | | | | | |
| Gross figurative value (A + B) | 94.400.366 | | 5.015.005 | | 4.918.112 | | 4.245.449 | |
| (*) Cash flows refer to the increase (or decrease) in the period of the cash and cash equivalents | | | | | | | | |

In compliance with *Comunicazione Consob* of July 28th 2006 n. DEM/6064293, we declare that during 2012 the Group did not conduct any atypical or unusual operations as defined by the above mentioned communication.

Information about related parties (note 36)

In accordance with the IAS 24 the following subjects are considered related parties:

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

One of the Managing Directors, the majority shareholder of the Parent company, has an outright ownership of a 25% quota of Immobiliare del Ciliegio Srl, also a shareholder of the Parent Company.

All the transactions with related parties took place at normal market conditions.

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

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

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

| Name | Position | Term duration | Fees in: | Fixed Fees | Remuneration for participation on committees | Bonus and other incentives | Non monetary benefits | Other rewards | Total | Indemnity for termination of mandate or employment |
|--------------------|--|---|---------------------------------------|------------------|--|----------------------------|-----------------------|---------------|-------------------|--|
| Gabriele Clementi | Chairman of the Board of Directors | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 90.794 14.636 | | 72.890 | 2.362 | | 166.046 14.636 | 6.500 |
| Barbara Bazzocchi | Managing Director | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 90.794 12.000 | | 30.305 | 2.362 | | 123.461 12.000 | 6.500 |
| Andrea Cangioli | Managing Director | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 91.151 14.636 | | 36.445 | 2.005 | | 129.601 14.636 | 6.500 |
| Michele Legnaioli | Director | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 12.000 | | | | | 12.000 | |
| Paolo Blasi | Director | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 12.000 | | | | | 12.000 | |
| Angelo E. Ferrario | Director | Up to August 27th 2012 | El.En. SpA Subsidiaries/associates | 8.000 90.116 | | | | | 8.000 90.116 | |
| Alberto Pecci | Director | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 12.000 | | | | | 12.000 | |
| Stefano Modi | Director | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 99.250 | | 23.505 | 11.599 | 23.608 | 157.962 | |
| Vincenzo Pilla | President of the Board of Statutory Auditors | Approval of the financials for 31.12.2012 | El.En. SpA Subsidiaries/associates | 31.200 34.978 | | | | | 31.200 34.978 | |
| Gino Manfrian | Statutory Auditor | Approval of the financials for 31.12.2012 | El.En. SpA Subsidiaries/associates | 20.800 17.613 | | | | | 20.800 17.613 | |
| Paolo Caselli | Statutory Auditor | Approval of the financials for 31.12.2012 | El.En. SpA Subsidiaries/associates | 20.800 30.768 | | | | 8.320 | 29.120 30.768 | |
| Manfredi Bufalini | Supplementary Auditor | Approval of the financials for 31.12.2012 | El.En. SpA Subsidiaries/associates | 6.240 | | | | | 6.240 | |

Note: the salaries shown on the chart are determined on the accrual basis.

Fixed salaries:

- The amounts paid to the directors of the Parent Company for their roles in other companies included in the area of consolidation are as follows: Barbara Bazzocchi, as chairman of the Board of Directors of Cutlite Penta Srl received a salary of 12.000 Euros; Gabriele Clementi as member of the Board of Directors of With Us received a salary of 1.500 thousand yen from that company; Andrea Cangioli as member of the Board of Directors of With Us received a salary of

1.500 thousand yen from that company; Angelo E. Ferrario, as president of the Board of Directors of Quanta System SpA until he resigned, received a salary of 90.116 Euros from that company.

- With reference to the board member Stefano Modi the heading of “fixed fees” also includes a salary of 87.250,00 Euros as payment for his work as an employee.

- The salaries of members of the Board of Statutory Auditors for carrying out their functions in other companies included within the area of consolidation are as follows: Vincenzo Pilla as President of the Board of Statutory Auditors of Deka Mela Srl and Lasit SpA and acting Auditor of Cutlite Penta Srl received from these companies a total salary of 34.978 Euros; Gino Manfredi, as acting Auditor of Deka Mela Srl and Cutlite Penta Srl received a total salary of 17.613 Euros for the period in which he worked for these companies; Paolo Caselli as President of the Board of Statutory Auditors of Cutlite Penta Srl and acting Auditor of Deka Mela Srl and Lasit SpA received from these companies a total salary of 30.768 Euros; Manfredi Bufalini in his role as acting auditor of Quanta System SpA received from the company the amount of 6.240 Euros.

Bonuses and other incentives:

In this column the chart shows the amounts received by some of the members of the Board of Directors as an incentive bonus for achieving certain goals which were set by the Board in accordance with the vote of the Shareholders’ meeting held on May 15th 2012, which, when determining the amount of remuneration of the Board of Directors, had established at the maximum amount 1 million Euros the variable part of the overall bonuses to be assigned and to assign to the managing directors, including the president with powers of attorney, and the board members with special positions as described in art. 21 of the by-laws and art. 2389, sub-section 3 Civil Code. These bonuses will be paid in 2013.

Non-monetary benefits:

- The heading “Non-monetary benefits” refers to a fringe benefit paid to the President of the Board of Directors and the executive directors in accordance with the vote of the shareholders’ meeting held on May 15th 2012.

- For the Board Member Stefano Modi it refers to the fringe benefit he receives as an employee as well as other managers.

Other rewards:

- With reference to the Board Member Stefano Modi la voce “Other bonuses” refers to transfers and one-off payments.

- The acting auditor Dott. Paolo Caselli received a bonus of 8.320 Euros as a member of the Controlling body of El.En. S.p.A., in compliance with ex D.Lgs. 231/01.

Indemnity for termination of mandate or employment:

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

Prof. Leonardo Masotti, President of the Scientific Committee, received a fixed remuneration of 8.400 Euros, besides an incentive bonus of 26.505 Euros. Moreover, as President of the Board of Directors of Deka M.E.L.A. Srl he received a salary of 15.000 Euros and as a member of the Board of Directors of With Us he received 1.500 thousand Yen from that company.

The Parent Company does not have a general director.

Physical persons possessing an equity in El.En. SpA

Besides the members of the Board of Directors, the Board of Statutory Auditors and the President of the Technical-Scientific Committee, partner Carlo Raffini whom the Parent Company El.En. for a specific professional task for the entire year, received a salary of 32.000 Euros; moreover, for a similar task carried out for the subsidiaries Deka M.E.L.A. Srl and Cutlite Penta Srl he received 20.000 Euros.

Subsidiary companies

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

As already mentioned, this report is drawn up in conformità with IFRS5 and the contribution of Cynosure is summarized in the Income Statement in the category titled “Income (loss) from Discontinued operations”. The amounts versus subsidiary companies therefore refer to economic relations between the companies of the Group and Cynosure for the period of time during which the company was still a subsidiary.

Associated companies

All of the transactions involving payables and receivables, costs and revenue, and all financing and guarantees granted to the associated companies during 2012 are clearly shown in detail.

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

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

| Associated companies: | Financial receivables | | Commercial receivables | |
|-----------------------------------|-----------------------|----------|------------------------|----------|
| | < 1 year | > 1 year | < 1 year | > 1 year |
| Cynosure, Inc. | | | 1.839.444 | |
| SBI SA | | | 109.250 | |
| Actis Srl | | | 2.904 | |
| Immobiliare Del.Co. Srl | 13.565 | | 1.059.152 | |
| Elesta Srl | | | 4.581 | |
| Quanta System Asia Pacific Co.LTD | 50.000 | | | |
| <i>Total</i> | 63.565 | - | 3.015.331 | - |

| Associated companies: | Financial payables | | Other payables | | Commercial payables | |
|-------------------------|--------------------|----------|----------------|----------|---------------------|----------|
| | < 1 year | > 1 year | < 1 year | > 1 year | < 1 year | > 1 year |
| Cynosure | | | 1.381 | | 4.319 | |
| Elesta Srl | | | | | 5.248 | |
| Immobiliare Del.Co. Srl | | | | | 36.976 | |
| Actis Srl | | | | | 19.360 | |
| SBI SA | | | | | 2.660 | |
| <i>Total</i> | - | - | 1.381 | - | 68.563 | - |

| Associated companies: | Sales | Service | Total |
|-----------------------------------|-----------|---------|-----------|
| | | | |
| Cynosure Inc. | 245.615 | | 245.615 |
| SBI S.A. | 129.145 | | 129.145 |
| Elesta Srl | 1.617.451 | 3.460 | 1.620.911 |
| Grupo Laser Idoseme SL | 365.785 | 27.470 | 393.255 |
| Quanta System Asia Pacific Co.LTD | 264.123 | | 264.123 |
| <i>Total</i> | 2.622.119 | 30.930 | 2.653.049 |

| Associated companies: | Other revenues |
|------------------------|----------------|
| Elesta Srl | 1.343 |
| Actis Srl | 2.400 |
| Immobiliare Delco Srl | 17.500 |
| Grupo Laser Idoseme SL | 19.715 |
| <i>Total</i> | 40.958 |

| Associated companies: | Purchase of raw materials | Services | Other | Total |
|-------------------------------------|---------------------------|----------|-------|---------|
| | | | | |
| Actis Srl | | 16.000 | | 16.000 |
| SBI S.A. | 2.660 | | | 2.660 |
| Elesta Srl | 65.162 | | | 65.162 |
| Immobiliare Delco Srl | | 146.503 | | 146.503 |
| Grupo Laser Idoseme SL | 35.000 | 51.940 | | 86.940 |
| Quanta Syatem Asia Pacific Co.,Ltd. | 55.000 | 6.665 | | 61.665 |
| <i>Total</i> | 157.822 | 221.108 | - | 378.930 |

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

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

| Impact of related party transactions | Total | related parties | % |
|---|-------------|-----------------|--------|
| a) Impact of related party transactions on the statement of financial position | | | |
| Equity investments | 32.550.416 | 32.476.985 | 99,77% |
| Accounts receivables | 38.917.529 | 3.015.331 | 7,75% |
| Other receivables | 4.762.531 | 63.565 | 1,33% |
| Non current financial liabilities | 10.280.914 | | 0,00% |
| Current financial liabilities | 12.421.004 | | 0,00% |
| Accounts payables | 22.991.782 | 68.563 | 0,30% |
| Other payables | 16.336.728 | 1.381 | 0,01% |
| b) Impact of related party transactions on the income statement | | | |
| Revenues | 151.234.319 | 7.429.201 | 4,91% |
| Other revenues and income | 2.739.341 | 42.806 | 1,56% |
| Purchases of raw materials | 68.820.150 | 165.061 | 0,24% |
| Other direct services | 10.894.400 | 58.605 | 0,54% |
| Other operating services and charges | 25.846.038 | 162.503 | 0,63% |
| Financial charges | 2.597.235 | | 0,00% |
| Financial income | 1.234.848 | 2.086 | 0,17% |
| Income taxes | 2.952.618 | | 0,00% |

Risk factors and Procedures for the management of financial risks (note 37))

Operating risks

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

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

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

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

Currency risks

Again in 2012, approx. 61% of the consolidated sales were made in markets outside of the European Union; most of the transactions were conducted in US dollars. During this year, the Parent Company El.En. has effected operations in derivatives in order to avoid currency risks. These operations were conducted for the purpose of avoiding currency risks on part of the payment received for the sale of the Cynosure Inc. shares that has been described above, and they are entered into accounts at fair value on the basis of the EUR/USD exchange rate on December 31st 2012.

| Operation | Exchange rates | | | |
|------------|----------------|-------------|------------|----------|
| | Notional value | | Fair value | |
| | | | Positive | Negative |
| PUT option | \$5.000.000 | € 3.846.154 | 72.144 | - |
| Total | \$5.000.000 | € 3.846.154 | 72.144 | - |

When the financial instrument expired (January 30th 2013), the operation was closed at the Exchange rate of 1,30 when the current rate was 1,3541 and there was no potential loss in fair value. For this reason it was decided not to conduct a sensitivity analysis on December 31st 2012.

Since the company draws up its consolidated financial statements in Euros, the fluctuations in the exchange rates used to convert the data in the statements of the subsidiaries originally expressed in foreign currency could negatively influence the results of the Group, the consolidated financial position and the consolidated shareholders' equity as expressed in Euros in the consolidated statements of the Group.

Credit risks

Credit risks

As far as the commercial transactions are concerned, the company operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance. There are no significant concentrations of credit risks within the Group. The devaluation fund which is accrued at the end of the year represent about 17% of the total trade receivables from third parties. For an analysis of receivables overdue from third parties, see the description in the relative note of the consolidated financial statement.

In relation to guarantees granted to others, it should be noted that the Parent Company El.En., along with a minority partner, in 2009 underwrote a bank guarantee for a maximum of 1 million Euros to guarantee the debt of the subsidiary Quanta System to the Banca Popolare di Milano for facilitated financing of 900 thousand Euros, the installments for which expire up to 84 months after the date of issuance, which took place in the second half of 2009. Moreover, after the acquisition of the entire equity from the minority shareholder on October 8th 2012, El.En. was committed to relieve this partner of any type of economic demand made by the Banca Popolare di Milano.

During 2010 the Parent Company El.En. S.p.A. underwrote the following guarantees:

- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 763 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the "TROPHOS" research project which has been included in the grant issued by the *Bando Unico* R&S in the year 2008 and approved by the Region of Tuscany with Directive Decree 6744 on December 31st 2008 which originally expired in April 2012 and has been extended to April 30th 2013;
 - a bank guarantee, jointly with the companies which participate in the ATS constituted for this purpose for a maximum of 1.434 thousand Euros as a guarantee for the payback of the amount granted as down payment on the "TEMART" research project which has been included in the grant issued by the *Bando Regionale* in the year 2008 and approved by the Region of Tuscany with Directive Decree 5673 on November 21st 2008 which expires in July 2013;
 - a bank guarantee for a maximum of 751 thousand Euros as a guarantee for the payment of the sum required as a reimbursement for the VAT related to the tax period 2008 which expires in November 2013;
- and in 2011:
- a bank guarantee jointly with the companies which are participating in the ATS constituted for this purpose, for a maximum of 3.074 thousand Euros as a guarantee for the pay back of the amount guarantee as down payment on the research project "MILORD", which has been included in the grant issued by *Bando Regionale* 2010 approved by the Region of Tuscany with Directive Decree n. 670 of February 25th 2011, which expires in September 2014.

The subsidiary Deka MELA underwrote a bank guarantee for a maximum of 1.178 thousand Euros as a guarantee for the payment of the sum required as a reimbursement for the tax on the value added related to the fiscal period 2010, which expires in March 2015.

Moreover, the subsidiary Quanta System issued bank guarantees in favor of some credit institutions of the associated company Grupo Laser Idoseme for a residual total of 127 thousand Euros which came due on February 27th 2013; of this amount, a bank guarantee of 125 thousand Euros was renewed and expires on February 28th 2014.

Cash and interest rate risks

As far as exposure of the Group to cash and interest rate risks is concerned, it should be recalled that the amount of cash held by the Group remained substantial during this year and was sufficient to pay off all debts and with a very positive net financial position at the end of the year. For this reason we believe that this type of risks is adequately covered. In any case, during the year, the Parent Company El.En. and Quanta System underwrote IRS contracts with major credit institutions for the coverage of the interest rates on current financing.

The coverage was made with the neutralization of the potential losses on the instrument (the financing) with the profits registered on another element (the derivative).

IAS 39 describes various types of *Hedge Accounting* including the *Cash Flow Hedge* which corresponds to this case.

The *Cash Flow Hedge* has as its objective that of covering exposure to variations in future cash flow which can be attributed risks associated with certain items in the financial statement.

In this case, the variations in *fair value* of the derivative are referred to the shareholders' equity for the effective amount of the coverage and they are reported in the income statement only when, with reference to the item covered, the variation in cash flow to be compensated appears. If the coverage turns out not to be effective the variation in fair value of the coverage contract must be entered in the income statement.

| <i>Operation</i> | <i>Notional value</i> | <i>Fair value</i> | |
|------------------|-----------------------|-------------------|-----------------|
| | | <i>Positive</i> | <i>Negative</i> |
| IRS | € 1.500.000 | | (20.180) |
| IRS | € 157.895 | | (3.312) |
| Total | € 1.657.895 | | (23.492) |

In order to evaluate the potential impact derived from the variation in the interest rates being used, it should be pointed out that, since the financing involved is not for exceptionally large amounts, any variations in the rate would not have a significant impact on the shareholders' equity.

Management of capital

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

Financial Instruments (note 38)

Fair value

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

| | Book value 31/12/2012 | Book value 31/12/2011 | Fair value 31/12/2012 | Fair value 31/12/2011 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Financial assets | | | | |
| Financial receivables within 12 months | 83.565 | 83.565 | 83.565 | 83.565 |
| Mid and long term Financial instruments | | 5.096.801 | | 5.096.801 |
| Short term Financial instruments | 1.013 | 24.332.276 | 1.013 | 24.332.276 |
| Cash and cash equivalents | 40.475.322 | 48.364.542 | 40.475.322 | 48.364.542 |
| Financial liabilities | | | | |
| Financial mid and long term debts | 10.280.914 | 6.684.237 | 10.280.914 | 6.684.237 |
| Financial liabilities due within 12 months | 12.421.004 | 12.997.172 | 12.421.004 | 12.997.172 |

Fair value hierarchy

The Group uses the following hierarchy in order to determine and to document the fair value of the financial instruments based on evaluation techniques:

Level 1: quoted prices (not rectified) in a market which is active for identical assets and liabilities.

Level 2: other techniques for which all the input which have a significant effect on the registered fair value can be observed, either directly or indirectly.

Level 3: techniques which use input which have a significant effect on the registered fair value which are not based on observable market data.

As of December 31st 2012 the Group possesses the following securities evaluated at fair value.

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------|----------|--------------|----------|--------------|
| Equity securities | - | 1.013 | - | 1.013 |
| Total | - | 1.013 | - | 1.013 |

Other information (note 39)

Information supplied in compliance with art. 149-duodecies of the *Regolamento Emittenti Consob*

In compliance with article 149-duodecies of the *Regolamento Emittenti Consob*, the chart below shows the amounts for the year 2012 related to auditing services and for those other than the ones conducted by Deloitte & Touche S.p.A for the Parent Company and for some of the Italian and foreign subsidiaries.

| | Company providing the service | Receiver | note | 2012 fees (Euros) |
|----------------|-------------------------------|----------------------|------|-------------------|
| Audit | Deloitte & Touche SpA | Parent Company | | 43.683 |
| | Deloitte & Touche SpA | Italian subsidiaries | | 47.000 |
| | Deloitte & Touche SpA | Foreign subsidiaries | | 16.000 |
| | Deloitte network | Foreign subsidiaries | | 35.118 |
| Other services | Deloitte network | Foreign subsidiaries | (1) | 5.675 |
| | Deloitte network | Parent Company | (2) | 10.000 |
| | | | | 157.476 |

(1) Services of agreed upon procedures

(2) Activities supporting the control and up-dating of the system of evaluation and control of risks related to financial information reports

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

Average number of employees

| | Average 2012 | | Average 2011 | | Variation | Var. % |
|-------|-----------------|-----|-----------------|-----|-----------|--------|
| | 31/12/2012 | | 31/12/2011 | | | |
| Total | 802,50 | 812 | 881,00 | 793 | 19 | 2,40% |

For the Board of Directors

Managing director– Ing. Andrea Cangiali

Declaration of the consolidated financial statement in conformity with art. 81-ter CONSOB regulation n. 11971 of May 14th 1999 and later modifications and additions

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

- the conformity in relation to the characteristics of the company and
- the actual application of the administrative and accounting procedures used in drawing up the consolidated financial statement, during 2012.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the consolidated financial statement dated December 31st 2012:

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

3.2 The director's report on operations contains a reliable analysis of the trends and results of the activities as well as the situation of the quoted company and the group of companies included in the scope of consolidation, together with a description of the principal risks and uncertainties which they are exposed.

Calenzano, March 13th 2013

Managing Director

Ing. Andrea Cangioli

Executive officer responsible for the
preparation of the financial statements

Dott. Enrico Romagnoli

EL. EN. S.p.A.

Headquarters in Via Baldanzese 17 – Calenzano (Florence)

Registro Imprese Firenze n. 03137680488

Report of the Board of Statutory Auditors to the Shareholders' Meeting on the consolidated financial statement as of December 31st 2012

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

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

The Board of Statutory Auditors in any case conducted its supervising activity on the financial statement as of December 31st 2012 and on the director's report on operations for 2012 (related also to the consolidated financials) in compliance with the standards issued by the *Consiglio Nazionale dei Dottori Commercialisti* (National Commission of Certified accountants) and by the *Consiglio Nazionale dei Ragionieri* (now called the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*).

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

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

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

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

The consolidated financial statement of the Group was drawn up in conformity with the IFRS international accounting principles. After European regulation n. 1606 of

July 2002 came into effect, starting on January 1st 2005 the El.En. Group, in fact, adopted the International Accounting Principles (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Commission.

The director's report on operations is consistent with the data and results of the consolidated statement and supplies ample information on the economic and financial position of the Group.

In the director's report on operations, the directors supply ample information concerning the effects of the sale of 840 thousand shares of Cynosure Inc. which brought the equity under the threshold of 20%, to about 13%. On account of this sale the company by-laws which granted El.En. the right to control the Board of Directors of Cynosure are no longer in effect and consequently the equity in Cynosure, for purposes of drawing up the consolidated financial statements, is no longer considered controlling. For this reason, the financial statement of Cynosure Inc., starting at the end of November 2012 is no longer fully consolidated in the statements of the El.En. Group.

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

Florence, March 27th 2013.

The Board of Statutory Auditors

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

Dr. Paolo Caselli, statutory auditor.

Dr. Gino Manfriani, statutory auditor.

**AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS
PURSUANT TO ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39
OF JANUARY 27, 2010**

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

1. We have audited the consolidated financial statements of El.En. S.p.A. and subsidiaries (the "El.En. Group"), which comprise the statement of financial position as of December 31, 2012, and the income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present for comparative purposes prior year data. As explained in the explanatory notes to the consolidated financial statements, the Directors, pursuant to the provisions of IFRS 5, have reclassified certain comparative data related to the prior year's consolidated financial statements with respect to the figures previously reported and audited by other auditors, on which they issued their auditors' reports dated March 30, 2012. These reclassifications of comparative data and related disclosures included in the explanatory notes to the consolidated financial statements have been audited by us for the purpose of expressing our opinion on the consolidated financial statements as of December 31, 2012.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of El.En. Group as of December 31, 2012, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. The Directors of El.En. S.p.A. are responsible for the preparation of the report on operations and the annual report on corporate governance in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on corporate governance, with the consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the annual report on corporate governance are consistent with the consolidated financial statements of El.En. Group as of December 31, 2012.

DELOITTE & TOUCHE S.p.A.

Signed by

Gianni Massini

Partner

Florence, Italy

March 27, 2013

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

**EL.EN. SpA SEPARATE FINANCIAL STATEMENT
AS OF DECEMBER 31st 2012**

ACCOUNTING CHARTS AND NOTES

Statement of financial position

| | Notes | 31/12/2012 | 31/12/2011 |
|--|-------|--------------------|-------------------|
| Statement of financial position | | | |
| Intangible assets | 1 | 40.437 | 22.651 |
| Tangible assets | 2 | 12.807.466 | 13.380.473 |
| Equity investments: | 3 | | |
| - in subsidiaries | | 13.992.057 | 18.040.507 |
| - in associates | | 7.731.257 | 581.991 |
| - other investments | | 53.463 | 91.130 |
| Total equity investments | | 21.776.777 | 18.713.628 |
| Deferred tax assets | 4 | 2.318.885 | 1.716.002 |
| Other non current assets | 4 | 3.108 | 3.108 |
| Total non current assets | | 36.946.673 | 33.835.862 |
| Inventories | 5 | 17.350.233 | 19.230.447 |
| Accounts receivables: | 6 | | |
| - from third parties | | 2.940.546 | 3.103.209 |
| - from subsidiaries | | 25.902.356 | 27.714.897 |
| - from associates | | 2.559.869 | 776.656 |
| Total accounts receivables: | | 31.402.771 | 31.594.762 |
| Tax receivables | 7 | 1.181.304 | 1.725.035 |
| Other receivables: | 7 | | |
| - from third parties | | 809.816 | 665.653 |
| - from subsidiaries | | 3.513.807 | 3.658.057 |
| - from associates | | 13.565 | 13.565 |
| Total other receivables | | 4.337.188 | 4.337.275 |
| Financial instruments | 8 | | |
| Cash and cash equivalents | 9 | 22.928.956 | 6.123.263 |
| Total current assets | | 77.200.452 | 63.010.782 |
| TOTAL ASSETS | | 114.147.125 | 96.846.644 |
| Share capital | 10 | 2.508.671 | 2.508.671 |
| Additional paid in capital | 11 | 38.593.618 | 38.593.618 |
| Other reserves | 12 | 37.809.529 | 36.430.618 |
| Treasury stock | 13 | -528.063 | -2.575.611 |
| Retained earnings / (deficit) | 14 | -918.092 | -920.544 |
| Net income / (loss) | | 9.804.911 | 1.264.103 |
| Total equity | | 87.270.574 | 75.300.855 |
| Severance indemnity | 15 | 934.114 | 926.251 |
| Deferred tax liabilities | 16 | 768.807 | 610.831 |
| Other accruals | 17 | 3.028.470 | 2.240.056 |
| Financial liabilities: | 18 | | |
| - to third parties | | 7.358.333 | 2.380.000 |
| Total financial liabilities | | 7.358.333 | 2.380.000 |
| Non current liabilities | | 12.089.724 | 6.157.138 |
| Financial liabilities: | 19 | | |
| - to third parties | | 3.649.253 | 4.251.763 |
| - to subsidiaries | | 399.615 | |
| Total financial liabilities | | 4.048.868 | 4.251.763 |
| Accounts payables: | 20 | | |
| - to third parties | | 5.903.192 | 6.360.294 |
| - to subsidiaries | | 1.290.229 | 1.415.192 |
| - to associates | | 24.745 | 45.980 |

| | | | |
|---|----|--------------------|-------------------|
| Total accounts payables | | 7.218.166 | 7.821.466 |
| Income tax payables | 21 | 33.218 | |
| Other payables: | 21 | | |
| - to third parties | | 3.103.475 | 2.932.899 |
| - to subsidiaries | | 381.719 | 382.523 |
| - to associates | | 1.381 | |
| Total other payables | | 3.486.575 | 3.315.422 |
| Current liabilities | | 14.786.827 | 15.388.651 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 114.147.125 | 96.846.644 |

Income statement

| Income statement | Notes | 31/12/2012 | 31/12/2011 |
|---|--------------|-------------------|-------------------|
| Revenues: | 22 | | |
| - from third parties | | 8.834.006 | 8.605.045 |
| - from subsidiaries | | 32.748.746 | 35.883.283 |
| - from associates | | 586.288 | 284.301 |
| Total revenues | | 42.169.040 | 44.772.629 |
| Other revenues and income: | 23 | | |
| - from third parties | | 1.459.952 | 633.942 |
| - from subsidiaries | | 371.891 | 380.938 |
| - from associates | | 3.743 | 3.600 |
| Total other revenues and income | | 1.835.586 | 1.018.480 |
| Total revenues and income | | 44.004.626 | 45.791.109 |
| Purchase of raw materials: | 24 | | |
| - to third parties | | 15.436.643 | 19.365.771 |
| - to subsidiaries | | 3.218.491 | 3.356.750 |
| - to associates | | 2.660 | 17.700 |
| Total purchase of raw materials | | 18.657.794 | 22.740.221 |
| Change in inventory of finished goods and WIP | | 494.086 | (1.598.204) |
| Change in inventory of raw material | | 1.107.785 | 319.687 |
| Other direct services: | 25 | | |
| - to third parties | | 2.905.429 | 3.574.729 |
| - to subsidiaries | | 186.368 | 355.899 |
| Total other direct services | | 3.091.797 | 3.930.628 |
| Other operating services and charges: | 25 | | |
| - to third parties | | 4.707.696 | 5.036.510 |
| - to subsidiaries | | 108.476 | 143.387 |
| - to associates | | 16.000 | 63.000 |
| Total other operating services and charges | | 4.832.172 | 5.242.897 |
| For staff costs | 26 | 9.949.930 | 9.789.998 |
| Depreciation, amortization and other accruals | 27 | 3.196.635 | 2.190.852 |
| EBIT | | 2.674.427 | 3.175.030 |
| Financial charges: | 28 | | |
| - to third parties | | (1.161.525) | (450.040) |
| Total financial charges | | (1.161.525) | (450.040) |
| Financial income | 28 | | |
| - from third parties | | 714.937 | 980.359 |
| - from subsidiaries | | 71.290 | 82.098 |
| Total financial income | | 786.227 | 1.062.457 |
| Other net expenses | 29 | (1.727.038) | (1.386.834) |
| Other net income | 29 | 10.038.401 | |
| Income (loss) before taxes | | 10.610.492 | 2.400.613 |

| | | | |
|--------------------------|----|------------------|------------------|
| Income taxes | 30 | 805.581 | 1.136.510 |
| Net income (loss) | | 9.804.911 | 1.264.103 |

| | | | |
|-------------------------------------|--|------|------|
| Basic net (loss) income per share | | 2,04 | 0,27 |
| Diluted net (loss) income per share | | 2,04 | 0,27 |

(*)In accordance with Delibera Consob 15519 of 27th July 2006, the amounts related to significant non-recurring events, amounted to 10.038 thousand Euros, are listed in note (32).

Statement of comprehensive income

| | 31/12/2012 | 31/12/2011 |
|--|------------|------------|
| Reported net (loss) income | 9.804.911 | 1.264.103 |
| Unrealized gain (loss) on marketable securities and on hedging derivatives | -17.728 | |
| Total comprehensive (loss) income | 9.787.183 | 1.264.103 |

Cash flow statement

| Cash flow statement | Note | 31/12/2012 | related parties | 31/12/2011 | related parties |
|--|------|-------------------|-----------------|-------------------|-----------------|
| Cash flow generated by operating activity: | | | | | |
| Profit (loss) for the financial period | | 9.804.911 | | 1.264.103 | |
| Amortizations and depreciations | 27 | 1.016.552 | | 1.038.134 | |
| Devaluations of equity investments | 29 | 796.618 | 758.452 | 1.185.172 | 1.167.222 |
| Stock Options | 26 | 134.988 | | 178.409 | |
| Change of employee severance indemnity | 15 | 7.863 | | -8.278 | |
| Change of provisions for risks and charges | 17 | 788.414 | 785.821 | 44.268 | 62.115 |
| Change of provisions for deferred income tax assets | 4 | -602.883 | | -239.685 | |
| Change of provisions for deferred income tax liabilities | 16 | 157.976 | | 170.280 | |
| Stocks | 5 | 1.880.214 | | -997.994 | |
| Receivables | 6 | 191.991 | 29.328 | -1.280.117 | -1.373.660 |
| Tax receivables | 7 | 543.731 | | 575.355 | |
| Other receivables | 7 | -180.163 | -36.000 | 159.284 | 81.000 |
| Payables | 20 | -603.300 | -146.198 | -2.933.091 | 134.462 |
| Income Tax payables | 21 | 33.218 | | -565.127 | |
| Other payables | 21 | 171.153 | 577 | -14.273 | 381.142 |
| | | 4.336.372 | | -2.687.663 | |
| Cash flow generated by operating activity | | 14.141.283 | | -1.423.560 | |
| Cash flow generated by investment activity: | | | | | |
| (Increase) decrease in tangible assets | 2 | -429.604 | | -545.586 | |
| (Increase) decrease in intangible assets | 1 | -31.727 | | -23.683 | |
| (Increase) decrease in equity investments and non current assets | 3-4 | -3.859.767 | -3.859.267 | -1.851.899 | -1.851.899 |
| Increase (decrease) in financial receivables | 7 | 180.250 | 180.250 | -475.369 | -475.369 |
| Cash flow generated by investment activity | | -4.140.848 | | -2.896.537 | |
| Cash flow from financing activity: | | | | | |
| Increase (decrease) in non current financial liabilities | 18 | 4.978.333 | | 2.313.608 | |
| Increase (decrease) in current financial liabilities | 19 | -202.895 | 399.615 | 4.155.436 | |
| Change in Treasury Stock | 13 | 2.047.548 | | | |
| Dividends distributed | 31 | | | -944.244 | |
| Cash flow from financing activity | | 6.822.986 | | 5.524.800 | |
| Change in cumulative translation adjustment reserve and other no monetary changes | | -17.728 | | | |
| Increase (decrease) in cash and cash equivalents | | 16.805.693 | | 1.204.703 | |
| Cash and cash equivalents at the beginning of the financial period | | 6.123.263 | | 4.918.560 | |
| Cash and cash equivalents at the end of the financial period | | 22.928.956 | | 6.123.263 | |

All of the cash and cash equivalents consist of cash on hand and balance in the checking accounts of the banks.

Interest earned during this financial period amounts to 232 thousand Euros, of which 71 thousand Euros from subsidiary companies.

Current income taxes for this financial year were 1.565 thousand Euros.

Changes in the Shareholders' equity

| <i>SHAREHOLDERS' EQUITY:</i> | Balance 31/12/2010 | Net income allocation | Dividends distributed | Other operations | Comprehensive (loss) income | Balance 31/12/2011 |
|---|-------------------------------|----------------------------------|----------------------------------|-----------------------------|--|-------------------------------|
| Share Capital | 2.508.671 | | | | | 2.508.671 |
| Additional paid-in capital | 38.593.618 | | | | | 38.593.618 |
| Legal reserve | 537.302 | | | | | 537.302 |
| Treasury shares | -2.575.611 | | | | | -2.575.611 |
| Others reserves: | | | | | | |
| Extraordinary reserves | 33.663.109 | 117.428 | | | | 33.780.537 |
| Reserve for contribution on capital account | 426.657 | | | | | 426.657 |
| Other reserves | 1.507.713 | | | 178.409 | | 1.686.122 |
| Retained earnings | -920.544 | 944.244 | -944.244 | | | -920.544 |
| Profits (loss) of the year | 1.061.672 | -1.061.672 | | | 1.264.103 | 1.264.103 |
| <i>Total Shareholders' equity</i> | 74.802.587 | 0 | -944.244 | 178.409 | 1.264.103 | 75.300.855 |

| <i>SHAREHOLDERS' EQUITY:</i> | Balance 31/12/2011 | Net income allocation | Dividends distributed | Other operations | Comprehensive (loss) income | Balance 31/12/2012 |
|---|-------------------------------|----------------------------------|----------------------------------|-----------------------------|--|-------------------------------|
| Share Capital | 2.508.671 | | | | | 2.508.671 |
| Additional paid-in capital | 38.593.618 | | | | | 38.593.618 |
| Legal reserve | 537.302 | | | | | 537.302 |
| Treasury shares | -2.575.611 | | | 2.047.548 | | -528.063 |
| Others reserves: | | | | | | |
| Extraordinary reserves | 33.780.537 | 1.264.103 | | 1 | | 35.044.641 |
| Reserve for contribution on capital account | 426.657 | | | | | 426.657 |
| Other reserves | 1.686.122 | | | 134.987 | -20.180 | 1.800.929 |
| Retained earnings | -920.544 | | | | 2.452 | -918.092 |
| Profits (loss) of the year | 1.264.103 | -1.264.103 | | | 9.804.911 | 9.804.911 |
| <i>Total Shareholders' equity</i> | 75.300.855 | 0 | 0 | 2.182.536 | 9.787.183 | 87.270.574 |

NOTES TO THE FINANCIAL STATEMENT

INFORMATION ON THE COMPANY

El.En. SpA is a corporation which was founded and is registered in Italy. Headquarters of the company are in Calenzano (Florence), Via Baldanzese 17.

Ordinary stock of the company is quoted on the MTA which is managed by Borsa Italiana SpA.

The El.En. Financial Statement was examined and approved by the Board of Directors on March 13th 2013.

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

PRINCIPLES USED FOR DRAWING UP THE STATEMENT AND ACCOUNTING STANDARDS

PRINCIPLES USED FOR DRAWING UP THE FINANCIAL STATEMENT

The statement for the financial year 2012 which represents the separate statement of El.En. S.p.A. is drawn up on the basis of the principle of historical cost with the exception of a few categories of financial instruments for which the evaluation has been made on the basis of the principle of *fair value*.

This separate Financial Statement consists of:

- the Statement of financial position,
- the Income statement,
- the statement of comprehensive income
- the Cash flow statements
- the Statement of changes in the Shareholders' equity,
- the Explanatory Notes which follow.

The economic information given refers to the financial years 2012 and 2011. The financial information on the other hand refer to the situations on December 31st 2012 and December 31st 2011.

For information concerning the type of activities in which the company is involved and the significant events which occurred after the closing of the financial year, please refer to the director's report on operations.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The statement as of December 31st 2012 has been formulated using the International Accounting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union, including all of the international standards which are subject to interpretation (International Accounting Standards - IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the former Standing Interpretations Committee (SIC) besides the revised standards which came into effect this year.

ACCOUNTING STANDARDS AND EVALUATION CRITERIA

The accounting principles used for drawing up this financial report are in compliance with the accounting standards used for drawing up the financial report on December 31st 2011 with the exception of the new principles and those revised by the International Accounting Standards Board and the interpretations of the International Financial Reporting Interpretations Committee as described in the consolidated financial statement for the El.En. Group in the specific chapter titled "Accounting standards and evaluation criteria" which should be consulted for further details.

USE OF ESTIMATES

In applying the IFRS, the drawing up of the Separate Financial Statement requires estimates and assumptions to be made which affect the assets and liability figures of the financial statement and relative information and potential assets and liabilities at the date of reference. The definitive results could differ from such estimates. The estimates are used to enter the provisions for risks on receivables, for obsolescence of stocks, amortization and depreciation, devaluation of

assets, stock options, employee benefits, taxes and other provisions and funds. The estimates and assumptions are periodically reviewed and the effects of any variation are reflected in the Income statement.

ACCOUNTING POLICIES

A) INTANGIBLE FIXED ASSETS WITH A FINITE AND INDEFINITE LIFE

Intangible assets are those assets lacking an identifiable physical consistency able to produce future economic benefits. They are entered at the historical purchase cost, shown net of the amortization applied in the course of the financial years and directly ascribed to the single headings. The company has chosen to maintain historical cost, rather than fair value, as the measurement criteria for intangible fixed assets. In the case in which, independently of the amortization already entered, there should be a loss of value, the fixed asset is correspondingly devalued; if, in subsequent financial years the reasons for the devaluation should cease to exist, the value is restored to a maximum limit of its original value, adjusted only by the amortization.

The costs incurred internally for the development of new products and services constitute, depending on the individual case, tangible or intangible assets generated internally and are entered in the assets only where all the following conditions are satisfied: 1) where the technical possibility or intention to complete the asset so as to make it available for use or sale exists; 2) where there is a capacity for the company to use or sell the asset; 3) the existence of a market for the products and services deriving from the asset, or of utility for internal purposes; 4) the ability of the asset to generate future economic benefits; 5) the availability of sufficient technical and financial resources to complete the development and sale or internal use of the products and services deriving from it; 6) reliable assessment of the costs attributable to the asset during its development. The capitalization of development costs includes only the expenses incurred which may be directly attributed to the development process. Research costs are entered in the Income statement in the financial year in which they are incurred. The Other Intangible Fixed Assets with a finite useful life are assessed at purchase or production cost and amortized at a constant rate during their estimated useful life.

Goodwill and other activities which have an indefinite life are not subject to systematic amortization but to an annual impairment test.

B) TANGIBLE FIXED ASSETS

The assets have been entered at the purchase cost or production cost, inclusive of accessory charges, net of depreciation. Ordinary maintenance expenses have been entirely entered in the Income statement. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and depreciated according to the residual possibility of use of the said item.

The company uses the method of original cost as opposed to fair value as the assessment criteria for tangible fixed assets. Specifically, in accordance with such standards, the value of land and of the buildings constructed on it is separated and only the building is depreciated.

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

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

C) FINANCIAL CHARGES

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

D) LOSSES IN VALUE OF ASSETS

At each date referred to in the financial year shown, the tangible and intangible assets with a finite life have been assessed for the purposes of identifying any indicators of loss in value. The recoverable value of the goodwill and

intangible assets with an indefinite life, where present, have been estimated at each date of reference. If there is any indication of a reduction in value the presumed cashing-in value is estimated.

The presumed cashing-in value is the higher of the two variables, net sales price and utility value. In determining the utility value, expected future flows of funds are discounted using a pre-tax discount rate which reflects the current market value of the money rate referred to the investment period and specific risks of the business. For a business not generating highly independent flows of funds, the cashing-in value is determined in relation to the cash-generating unit which the said business belongs to. A loss of value is entered in the Income statement wherever the value entered for the asset or the relative cash generating unit which it is allocated to, is higher than the presumed cashing-in value. With the exception of goodwill, value losses are readjusted wherever the causes which have generated them cease to exist.

E) FINANCIAL ASSETS: EQUITIES

According to IAS 27, the equities in subsidiary companies, in entities jointly controlled and in associated companies not classified as for sale (IFRS 5) must be entered into accounts at cost or in conformity with IAS 39. In the separate annual report of El.En. SpA the cost criteria has been used.

Since the necessary conditions exist, a consolidated statement has been drawn up.

F) FINANCIAL INSTRUMENTS

Equities in other companies

The equities in other companies which are not subsidiaries or associated (usually with an ownership of less than 20%) are classified at the time of purchase, among the financial assets "available for sale" or among the assets "evaluated at fair value through the Income statement" with the current or non-current assets. Changes in the value of equities that are classified as available for sale are entered into a reserve of the shareholders' equity which will be entered into the Income statement at the time of sale. Changes in the value of the equities classified as assets evaluated at fair value through the Income statement are entered directly into the Income statement. These equities are evaluated at cost according to IAS 39.

Commercial receivables

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

Other financial assets

Financial assets are added and removed from the financial statement according to the date of negotiation and are initially evaluated at cost, inclusive of the charges directly connected with the acquisition. At the subsequent dates of the financial statement, the financial assets to be held until expiry date are shown at cost amortized according to the effective interest rate method, net of any devaluation applied to reflect value losses.

Financial assets other than those held until expiration are classified as held for negotiation or available for sale and are estimated at fair value each financial year with attribution respectively in the Income statement under the heading "Financial Revenue (Charges)" or in a special reserve of the Shareholders' equity, in the latter case until such time as they are cashed-in or until they have suffered a loss in value.

Cash and cash equivalents

This heading includes cash reserves and bank accounts and other short-term financial investments with a high level of availability which can be easily converted into cash at a negligible risk of varying in value.

Treasury stock

Treasury stock is entered against shareholders' equity. No profit/loss is shown in the Income statement for the purchase, sale, issue or cancellation of treasury stock.

Commercial payables

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

Financial liabilities

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

Derivatives and measurement of hedging operations

Fair value hedge: if a derivative financial instrument is designated as a hedge against fluctuations in the fair value of an asset or a liability that is entered in the statements, attributed to a particular risk which can affect the income statement, the profit or loss derived from the later evaluations of the current value of the hedging instrument are shown in the

income statement. The profit or loss on the amount that is hedged that can be attributed to the risk that is hedged, modify the book value of that amount and are shown in the income statement.

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

G) INVENTORY

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

Inventory stocks of works in progress are evaluated on the basis of production costs, with reference to the average weighted cost.

H) RETIREMENT FUNDS AND EMPLOYEE BENEFITS

SEVERANCE INDEMNITY

Up until December 31st 2006 the severance indemnity fund was considered a defined benefit plan. The regulating of this fund was changed by law no. 296 of December 27th 2006 ("Legge Finanziaria 2007") and later decrees and regulations issued during the first months of 2007. On the basis of these modifications, and with particular reference to companies with at least 50 employees, this institution is now considered a defined benefit plan exclusively for the amounts which matured before January 1st 2007 (and not yet liquidated in the financial statement) whereas for the quotas which mature after that date, it is considered a defined contribution plan.

For defined benefit plans, the amount already matured is projected to estimate the amount to be paid at the moment of termination of the employment contract and subsequently recalculated, using the "Projected unit credit method". This kind of accounting methodology is based on theories of a demographic and financial nature so as to make a reasonable estimate of the amount of benefits which each employee has already matured on the basis of the work done.

By means of the actuarial estimate, the current service cost which defines the amount of rights matured during the financial year by employees is entered under the "labour costs" heading of the Income statement and the interest cost, which constitutes the figurative charge which the company would have to pay if it took out a loan equal to the severance indemnity on the market, is entered among the "Financial Revenue (Charges)".

The actuarial profits and losses accumulated up until last year which reflect the effects of changes in the actuarial hypotheses used, are entered pro-quota in the Income statement for the rest of the average working life of the employees when their net value not entered at the end of the preceding year exceeds the value of the liability by 10% (so-called corridor method).

For defined contribution plans the Company pays its contribution to a public or private pension fund on an obligatory, contractual or voluntary basis. Once the contributions have been paid the Company has no further obligations. The contributions they have paid are entered into the income statement under the heading of "personnel cost" when owed.

STOCK OPTION PLANS

The costs of staff labor remunerated by means of a *stock option plan* are determined on the basis of the fair value of the options granted to the employees at the date of assignment.

The calculation method for the determination of *fair value* bears in mind all the characteristics of the options (duration of the option, price and conditions for exercising the options etc), as well as the value of the stock at the date of assignment, of the volatility of the stock and of the interest rate curve again at the date of assignment consistently with the duration of the plan. The Black & Scholes pricing model is used.

The cost is shown in the Income statement during the period in which the rights granted mature, considering the best possible estimate of the number of options becoming exercisable.

In conformity with the IFRS 1, the said standard has been applied to all the assignments subsequent to November 7th 2002 which had still not matured by January 1st 2005.

I) PROVISIONS FOR LIABILITIES AND CONTINGENCIES

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

L) REVENUE RECOGNITION

The revenue from the sale of goods is recorded when the significant risks and benefits of the ownership of the goods are transferred to the purchaser, which is normally the time when they are delivered or shipped.

Financial revenue and charges are entered on the basis of interest matured on the net value of the relative financial asset or liability using the actual interest rate.

M) ENTRIES IN FOREIGN CURRENCY

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

N) GRANTS

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

Grants in operating account are shown entirely in the Income statement at the moment in which the conditions for entering them are satisfied.

O) TAXES

Current income taxes for the financial year have been entered according to the aliquots and regulations currently in force on the basis of a realistic estimate of taxable income for the period. The fiscal debts for these taxes are entered among the tax debts net of any down payments.

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

STOCK OPTION PLANS

The chart below shows information related to the stock option plan which was implemented in 2008, with the aim of providing the company with an instrument for encouraging employee incentive and loyalty.

| | Max. expiration date | Outstanding options 1.01.12 | Options issued 01.01.12- 31.12.12 | Options cancelled 01.01.12- 31.12.12 | Options exercised 01.01.12- 31.12.12 | Expired option not exercised 01.01.12- 31.12.12 | Outstanding options 31.12.12 | Exercisable options 31.12.12 | Exercise price |
|-------------------|----------------------------|---------------------------------------|--|---|---|---|--|--|----------------|
| Plan 2008/2013 | May, 15 2013 | 152.000 | 0 | 0 | 0 | 0 | 152.000 | 152.000 | € 24,75 |

For the stock option plan, the fair value was determined following the “Black & Scholes” pricing model using the following hypotheses:

Market interest rate for risk free investments: 4,8%

Historical volatility: 26,11%

Time interval used for calculating volatility: 3 years prior to the date of issue

The overall fair value of the stock options is 770 thousand Euros.

During the financial year 2012 the average price registered for El.En. SpA shares was about 12,76 Euros.

With regard to the characteristics of the individual stock option plans as well as the increases of capital decided on to implement it, please refer to the description contained in note (10) of this report.

Information on the Statement of financial position - Assets

Non-current assets

Intangible assets (note 1)

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

| <i>Categories</i> | Balance 31/12/11 | Variation | (Devaluation) | Other Operations | (Amortizations) | Balance 31/12/12 |
|---|-----------------------------|------------------|----------------------|-----------------------------|------------------------|-----------------------------|
| Concessions, licences, trade marks and similar rights | 17.150 | 5.078 | | | -9.892 | 12.336 |
| Other | 5.501 | 1.649 | | | -4.049 | 3.101 |
| Intangible assets in progress and payments on account | | 25.000 | | | | 25.000 |
| <i>Total</i> | 22.651 | 31.727 | | | -13.941 | 40.437 |

Under the category of concessions, licenses, trade marks and similar rights we have entered the costs sustained for the acquisition of software licenses; under the category of intangible assets in progress we have entered the amount paid as a down payment for the know-how related to the use of digital sensors in radiology.

Tangible fixed assets (note 2)

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

| <i>Cost</i> | Balance 31/12/11 | Increments | Devaluations | Other operations | (Disposals) | Balance 31/12/12 |
|-------------------------------------|-----------------------------|-------------------|---------------------|-----------------------------|--------------------|-----------------------------|
| Lands | 1.881.777 | | | | | 1.881.777 |
| Buildings | 10.607.170 | 2.488 | | | | 10.609.658 |
| Plants and machinery | 2.067.597 | 21.773 | | | | 2.089.370 |
| Industrial and commercial equipment | 3.969.921 | 322.644 | | | -70.496 | 4.222.069 |
| Other goods | 1.732.000 | 92.588 | | | -58.006 | 1.766.582 |
| <i>Total</i> | 20.258.465 | 439.493 | | | -128.502 | 20.569.456 |

| <i>Depreciation provisions</i> | Balance 31/12/11 | Depreciation | Devaluations | Other operations | (Disposals) | Balance 31/12/12 |
|-------------------------------------|-----------------------------|---------------------|---------------------|-----------------------------|--------------------|-----------------------------|
| Lands | | | | | | |
| Buildings | 1.517.787 | 318.253 | | -2 | | 1.836.038 |
| Plants and machinery | 854.159 | 185.250 | | | | 1.039.409 |
| Industrial and commercial equipment | 3.337.037 | 323.618 | | | -61.226 | 3.599.429 |
| Other goods | 1.169.009 | 175.490 | | | -57.385 | 1.287.114 |
| <i>Total</i> | 6.877.992 | 1.002.611 | | -2 | -118.611 | 7.761.990 |

| <i>Net value</i> | Balance 31/12/11 | Increments | Other operations | (Depreciations and devaluations) | (Disposals) | Balance 31/12/12 |
|-------------------------------------|-----------------------------|-------------------|-----------------------------|---|--------------------|-----------------------------|
| Lands | 1.881.777 | | | | | 1.881.777 |
| Buildings | 9.089.383 | 2.488 | 2 | -318.253 | | 8.773.620 |
| Plants and machinery | 1.213.438 | 21.773 | | -185.250 | | 1.049.961 |
| Industrial and commercial equipment | 632.884 | 322.644 | | -323.618 | -9.270 | 622.640 |
| Other goods | 562.991 | 92.588 | | -175.490 | -621 | 479.468 |
| <i>Total</i> | 13.380.473 | 439.493 | 2 | -1.002.611 | -9.891 | 12.807.466 |

In accordance with the current accounting standards, the value of the land has been separated from the value of the buildings located upon it and the lands have not been amortized since they constitute an element having an unlimited useful life. The value of the lands on December 31st 2012 was 1.882 thousand Euros.

The heading of “Buildings” includes the building complex in Via Baldanzese a Calenzano (Florence), where the company operates along with the subsidiaries Deka M.E.L.A., Cutlite Penta, Esthelogue Srl and Pharmonia Srl, the new building complex in Via Dante Alighieri also in Calenzano, purchased in 2008, the building in the city of Torre Annunziata purchased in 2006 for the research, development and production activities of the subsidiary Lasit SpA.

The increase under the heading of “industrial and commercial equipment” is due mainly to the capitalization of lasers made by the company while the increases under the heading of “Other goods” is related in particular to the purchase of new motor vehicles.

The sales shown in the column “disposals” of the category of “industrial and commercial equipment” and “Other goods” refers to sales of assets or disposal of goods that were considered obsolete.

Equity investments (note 3)

Equities in subsidiary companies

| Company name: | Headquarters | % owned | Value of charge | Equity 31/12/2012 | Result 31/12/2012 | Share of equity | Difference |
|-----------------------------------|-----------------------------|----------------|------------------------|--------------------------|--------------------------|------------------------|-------------------|
| Deka M.E.L.A. Srl | Calenzano (FI) - Italy | 85,00% | 1.431.564 | 8.959.135 | 724.231 | 7.615.265 | 6.183.701 |
| Cutlite Penta Srl | Calenzano (FI) - Italy | 93,76% | 2.357.417 | 1.642.937 | -649.384 | 1.540.418 | -816.999 |
| Esthelogue Srl | Calenzano (FI) - Italy | 50,00% | 186.980 | 114.731 | -259.217 | 57.366 | -129.615 |
| Quanta System Spa | Solbiate Olona (VA) - Italy | 100,00% | 7.904.017 | 3.187.825 | 756.606 | 3.187.825 | -4.716.192 |
| Lasit SpA | Vico Equense (NA) - Italy | 70,00% | 1.043.614 | 1.902.215 | 388.860 | 1.331.551 | 287.937 |
| Deka Sarl | Lyons - France | 100,00% | | -726.682 | -704.173 | -726.682 | -726.682 |
| Deka Lasertechnologie GmbH | Munich - Germany | 100,00% | | -1.676.210 | -33.974 | -1.676.210 | -1.676.210 |
| Asclepion Laser Technologies GmbH | Jena – Germany | 50,00% | 1.025.879 | 5.442.882 | 412.159 | 2.721.441 | 1.695.562 |
| BRCT Inc | New York - USA | 100,00% | | 1.212.045 | 1.684 | 1.212.045 | 1.212.045 |
| Deka Laser Technologies Inc | Carlsbad – USA | 11,78% | | -1.580.393 | -350.299 | -186.170 | -186.170 |
| Cutlite do Brasil Ltda | Blumenau - Brazil | 88,00% | | -379.168 | -470.739 | -333.668 | -333.668 |
| Deka Japan Co. Ltd | Tokyo – Japan | 55,00% | 42.586 | 812.876 | 303.733 | 447.082 | 404.496 |
| Total | | | 13.992.057 | 18.912.193 | 119.487 | 15.190.261 | 1.198.204 |

On August 3rd 2012 the Company acquired from the then-subsiary Ot-las S.r.l. (which in December 2012 merged with the subsidiary Cutlite Penta S.r.l. as described below), for the amount of 450 thousand Euros, 17,33% of the capital stock of Lasit S.p.A. thus bringing its equity to 70%.

On the same day El.En. S.p.A. acquired from the minority partners of Ot-las the remaining 10% of the capital stock for the amount of 150 thousand Euros so that its equity in the company is 100%.

On October 8th 2012 El.En. S.p.A. acquired from the minority shareholder Laserfin S.p.A. 40% of the shares in Quanta System S.p.A. and 10% of the equities of DEKA M.E.L.A. S.r.l.. Both companies were already subsidiaries of El.En. S.p.A.. After this operation consequently the Company holds 100% of the shares of Quanta System and 85% of the shares of DEKA M.E.L.A. S.r.l.. The operation was conducted with an aim to simplifying the equities inside of the Group and the Group structure. To pay for the equities in the two companies El.En. S.p.A. transferred to the seller 82.000 ordinary shares of El.En. S.p.A. which they had in their portfolio, as well as a cash payment of 3,4 million Euros to be paid over a period of three years and, an “earn out” payment of 125 thousand Euros. In relation to the evaluation of 25 Euros used for the El.En. S.p.A. shares, which is equal to the book value of these shares, the overall amount paid for this operation was 5,6 million Euros.

On October 30th 2012 the shareholders’ assemblies of the subsidiaries Cutlite Penta S.r.l. and Ot-las S.r.l. voted to approve the merger of the two companies through incorporation of the latter into the former (the merger plan had already been approved by the Board of Directors of the two companies on October 24th 2012).

After the legal term had expired during which none of the creditors of the two companies had raised any objections, on December 18th 2012 the two companies stipulated an act of merger through the incorporation of Ot-las S.r.l. into Cutlite Penta S.r.l.. As a result of this merger the incorporating company acquires legal right to all of the assets and liabilities of the incorporated company. The merger will take effect on December 31st 2012, the last day of the month in which the last entry in the register of companies was made, in compliance with art. 2504 bis c.c.. In conformity with art. 2501 ter, I sub section, n. 6, c.c. the operations of the incorporated company are entered into the accounts of the incorporating company starting on January 1st 2012, the first day of the fiscal year in progress on the date of effectiveness of the merger in relation to third parties. All direct fiscal effects will also start from this date. After the merger the equity of El.En. S.p.A. in Cutlite Penta S.r.l. will increase from 90,67% to 93,76%.

On December 21st 2012 El.En. S.p.A. acquired 10% of the equity in Cutlite do Brasil from a minority partner for an amount of 1.080.400 Real, equal to about 395 thousand Euros; as a result their equity in the company rose from 78% to 88%.

For Quanta System S.p.A. the difference between the amount entered in the financial statement and the corresponding fraction of the shareholders' equity is basically attributed to the goodwill paid at the time of acquisition. The amount of this goodwill is mostly justified by an analysis of the expected profitability of the company made using the DCF method and from the capital gains implicit in the equity held in the subsidiary Asclepion.

From the analysis of the expected profitability of Esthelogue S.r.l., made using the DCF method, no indications of loss of value emerged and therefore we did not deem it necessary to proceed with the alignment of the value entered in the statement with the corresponding fraction of the shareholders' equity. The use value was determined with the Discounted Cash Flow (DCF) method, by actualizing the cash flow contained in the economic and financial plan approved by the Board of Directors of Esthelogue S.r.l., and referring to the time period from 2013 to 2015. For purposes of determining the use value of the CGU we considered the financial flows actualized in the three years of explicit forecast added to a terminal value, presumed to be the same as the current value of the perpetual revenue of the flows generated during the last year for which an explicit forecast was made.

The main assumption of the economic and financial plan used to conduct the impairment test is related to the growth rate of the sales volume considering the time span covered by the plan. The rates used to formulate the forecasts used as part of the impairment tests are consistent with the definitive data from 2012 and with the outlook for the specific market.

The actualization rate applied to future cash flows (WACC) is 10,76%; for the cash flows related to the financial years after the period of explicit forecasts, we hypothesize a long-term growth rate "g" of 1,5%.

The equity in the subsidiary Cutlite Penta S.r.l., of which di El.En holds 93,76%, as a consequence of the losses registered in 2012 was subjected to direct devaluation for about 310 thousand Euros. The residual difference between the amount entered into accounts and the corresponding fraction of the shareholders' equity is basically attributed to the goodwill paid upon acquisition.. The amount of the goodwill is mostly justified by an analysis of the expected profitability of the company made using the DCF method and by the capital gains implicit in the equity held in the subsidiary Penta Chutian Laser (Wuhan) Co. Ltd.

For further information concerning the impairment tests, please consult the explanatory notes attached to the consolidated financial statement.

On December 31st 2012, the value of the equities held in Deka Sarl, Deka Lasertechnologie GmbH, Cutlite Do Brasil and Deka Laser Technologies Inc was adapted to correspond to the fraction of the shareholders' equity on the basis of the results obtained.

The equity in the subsidiary Deka Sarl, which is held 100% by El.En and the value of which was reduced to zero in the preceding financial years,, as a consequence of the losses registered in 2012, was subjected to indirect devaluation with an accrual in the "Reserve for losses by group companies" for about 704 thousand Euros. The fund related to this company amounts to a total of 726 thousand Euros.

The equity in the subsidiary Deka Lasertechnologie GmbH, the value of which was reduced to zero in the preceding financial years,, as a consequence of the losses registered in 2012, was subjected to indirect devaluation with an accrual in the "Reserve for losses by group companies" for about 30 thousand Euros. The fund related to this company amounted to 1,7 million Euros.

The equity in the subsidiary Cutlite Do Brasil the value of which was reduced to zero for the amount of 395 thousand Euros, as a consequence of the losses registered in 2012, was subjected to indirect devaluation with an accrual in the "Reserve for losses by group companies" for about 159 thousand Euros.

The equity in the subsidiary Deka Laser Technologies Inc, of which El.En. S.p.A. holds directly 1'11,78% was subjected to devaluation for an accrual in the "Reserve for losses by group companies" for an amount of 37 thousand Euros. On December 31st 2012 the amount of the fund related to this company was 186 thousand Euros.

Equities in associated companies

| Company Name: | Headquarters | % owned | Value of charge | Equity 31/12/2010 | Result 31/12/2010 | Share of equity | Difference |
|-----------------------------|--------------------|---------|------------------|--------------------|-------------------|-------------------|-------------------|
| Cynosure Inc. | Westford USA | 12,98% | 7.090.124 | 149.694.789 | 8.530.763 | 19.430.384 | 12.340.260 |
| Actis S.r.l. (*) | Calenzano (I) | 12,00% | 1.240 | 106.919 | 1.278 | 12.830 | 11.590 |
| Elesta S.r.l. (ex IALT Srl) | Calenzano (I) | 50,00% | 112.965 | 237.989 | 12.067 | 118.995 | 6.030 |
| Immobiliare Del.Co. S.r.l. | Solbiate Olona (I) | 30,00% | 274.200 | 59.268 | -10.275 | 17.780 | -256.420 |
| S.B.I. SA | Herzele (B) | 50,00% | 252.728 | 505.456 | -107.646 | 252.728 | - |
| Total | | | 7.731.257 | 150.604.421 | 8.426.187 | 19.832.717 | 12.101.460 |

(*) Data as of December 31st 2011

On May 7th 2012 the shareholders' meeting of Elesta S.r.l., an associated company of which El.En. S.p.A. holds 50%, voted to make up the losses registered in the statements for December 31st 2011 and in the financial statement of March 31st 2012 drawn up in conformity with art. 2482-bis c.c., for an amount of 643.602 Euros, by reducing the capital to zero and using the reserves especially created for this purpose last year for an amount of 128.472 and a further payment. They also voted to reconstitute the capital stock in the original amount of 110 thousand Euros: the increase was entirely underwritten by the partners. On December 31st 2012 the value of the equity entered into accounts was aligned with the corresponding fraction of the shareholders' equity.

On November 12th 2012 the subsidiary Cynosure Inc. initiated a public offering of 2,6 million newly issued ordinary shares and, as part of the same operation, El.En. offered for sale 600.000 shares in Cynosure Inc..which they owned. Moreover, Leerink Swann LLC, the bank responsible for placing the offer, exercised their "greenshoe" option for the purchase, thirty days after the closing of the offer of further newly issued Cynosure shares up to a maximum of 240.000 shares from El.En. S.p.A., at the price of the underwriting of the public offering which was 20,50 USD per share less discounts and commissions included in the offer.

On the 21st of November 2012, upon the closing of the operation and on the basis of the sale of the shares as planned in the offering and the greenshoe option, the equity held by El.En. in Cynosure fell below the threshold of 20% to 13%. For this reason the company by-laws which assigned to El.En. control of the Board of Directors of Cynosure through the appointment of four of the seven board members, were no longer in force.

For accounting purposes the methodology of the consolidation of the equities, changed from full consolidation to the shareholders' equity method; in the statement of financial position, for the year 2012 there was a reclassification of the amounts of the payables and receivables from payables and receivables to/from subsidiary companies to payables and receivables to/from associated companies; in the income statement the operations that were implemented up to November were reclassified with the amounts of costs and income from subsidiary companies, and the operations that followed were classified among the amounts of costs and income from associated companies.

The data related to the associated company "Immobiliare Del.Co. S.r.l.", which owns a building that is rented to Quanta System S.p.A., show a difference between the cost of purchase and the corresponding amount of shareholders' equity for the increased value of the lands and buildings that they own, as was evident also during the voluntary re-evaluation of the real estate made by this associated company in conformity with D.L. 185/08.

The equity in the associated company SBI on December 31st 2012 was subjected to direct devaluation for an amount of about 54 thousand Euros, in order to adapt the value of the equity to the corresponding fraction of the shareholders' equity.

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

| | Total Assets | Total liabilities | Net income (Loss) | Revenues and other income | Charges and expenses |
|---------------------------------|--------------|-------------------|-------------------|---------------------------|----------------------|
| Cynosure Inc. | 177.425.700 | 27.730.910 | 8.530.839 | 119.468.638 | 110.937.800 |
| Actis Active Sensors S.r.l. (*) | 172.831 | 65.912 | 1.278 | 131.124 | 129.846 |
| Elesta S.r.l. (ex IALT Srl) | 2.223.747 | 1.985.758 | 12.067 | 2.480.318 | 2.468.251 |
| Immobiliare Del.Co. S.r.l. | 686.988 | 627.720 | -10.275 | 152.862 | 163.137 |
| S.B.I. SA | 690.181 | 184.725 | -107.646 | 278.681 | 386.327 |

(*) Data as of December 31st 2011

Equities in other companies

On January 31st 2012 El.En. sold to a third party their equity in Alfa Laser S.r.l. (19%) for an amount of 1.000 Euros.

On December 31st 2012 the equity in RTM was subjected to direct devaluation for the amount of 37 thousand Euros, in order to adapt the value of the equity to the results for the end of the year.

Composition of equity investments

| Company name: | 31/12/11 | | | | | | 31/12/12 | | |
|-----------------------------------|-------------------|--------------------|---------------------|-------------------|------------------------------------|--------------------|---------------------|--------------------|-------------------|
| | Cost | Reval. (Deval.) | Balance 31/12/10 | Changes | Revaluations (devaluations) | Other movements | Balance 31/12/11 | Reval. (Deval.) | Cost |
| Subsidiary companies:: | | | | | | | | | |
| Deka M.E.L.A. S.r.l. | 880.676 | | 880.676 | 550.000 | | 888 | 1.431.564 | | 1.431.564 |
| Cutlite Penta S.r.l. | 1.031.053 | | 1.031.053 | | -309.746 | 1.636.110 | 2.357.417 | -309.746 | 2.667.163 |
| Esthelogue S.r.l. | 1.574.583 | -1.387.603 | 186.980 | | | | 186.980 | -1.387.603 | 1.574.583 |
| Deka Sarl | 1.341.681 | -1.341.681 | | | | | | -1.341.681 | 1.341.681 |
| Deka Lasertechnologie GmbH | 1.038.456 | -1.038.456 | | | | | | -1.038.456 | 1.038.456 |
| Ot-las S.r.l. | 1.483.890 | | 1.483.890 | 150.000 | | -1.633.890 | | | |
| Lasit S.p.A. | 593.614 | | 593.614 | 450.000 | | | 1.043.614 | | 1.043.614 |
| Quanta System S.p.A. | 2.867.801 | | 2.867.801 | 5.030.000 | | 6.216 | 7.904.017 | | 7.904.017 |
| Deka Laser technologies INC. BRCT | 27.485 | -27.485 | | | | | | -27.485 | 27.485 |
| Asclepion Laser T. GmbH | 652.591 | -652.591 | | | | | | -652.591 | 652.591 |
| Cutlite do Brasil Ltda | 1.025.879 | | 1.025.879 | | | | 1.025.879 | | 1.025.879 |
| Deka Japan Ltd | 440.969 | -440.969 | | 394.883 | -394.883 | | | -835.852 | 835.852 |
| | 42.586 | | 42.586 | | | | 42.586 | | 42.586 |
| Total | 13.001.264 | -4.888.785 | 8.112.479 | 6.574.883 | -704.629 | 9.324 | 13.992.057 | -5.593.414 | 19.585.471 |
| Associated companies: | | | | | | | | | |
| Cynosure Inc. | 9.928.028 | | 9.928.028 | -2.837.904 | | | 7.090.124 | | 7.090.124 |
| Actis S.r.l. | 1.240 | | 1.240 | | | | 1.240 | | 1.240 |
| Elesta S.r.l. (ex IALT srl) | 484.147 | -484.147 | | 257.565 | | -144.600 | 112.965 | -628.747 | 741.712 |
| Immobiliare Del.Co. | 274.200 | | 274.200 | | | | 274.200 | | 274.200 |
| Sbi International | 600.000 | -293.449 | 306.551 | | -53.823 | | 252.728 | -347.272 | 600.000 |
| Total | 11.287.615 | -777.596 | 10.510.019 | -2.580.339 | -53.823 | -144.600 | 7.731.257 | -976.019 | 8.707.276 |
| Other companies: | | | | | | | | | |
| Concept Laser Solutions GmbH | 19.000 | | 19.000 | | | | 19.000 | | 19.000 |
| Alfa Laser S.r.l. | 19.950 | -17.950 | 2.000 | -1.000 | -1.000 | | | -18.950 | 18.950 |
| CALEF | 3.402 | | 3.402 | | | | 3.402 | | 3.402 |
| R&S | 516 | | 516 | | | | 516 | | 516 |
| RTM | 364.686 | -298.474 | 66.212 | | -37.167 | | 29.045 | -335.641 | 364.686 |
| Kymera S.r.l. | | | | 1.500 | | | 1.500 | | 1.500 |
| Total | 407.554 | -316.424 | 91.130 | 500 | -38.167 | 0 | 53.463 | -354.591 | 408.054 |
| Total | 24.696.433 | -5.982.805 | 18.713.628 | 3.995.044 | -796.619 | -135.276 | 21.776.777 | -6.924.024 | 28.700.801 |

Financial charges during this year on amounts entered among the assets

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

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

| <i>Other non current assets</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|---------------------------------|-------------------|-------------------|------------------|---------------|
| Deferred tax assets | 2.318.885 | 1.716.002 | 602.883 | 35,13% |
| Other non current assets | 3.108 | 3.108 | 0 | 0,00% |
| <i>Total</i> | 2.321.993 | 1.719.110 | 602.883 | 35,07% |

For an analysis of the entry “Deferred tax assets”, refer to the chapter on “deferred tax assets and liabilities” .

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory:

| Inventories: | 31/12/12 | 31/12/11 | Variation | Var. % |
|---|-----------------|-----------------|------------------|---------------|
| Raw materials and consumables | 8.621.059 | 9.728.844 | -1.107.785 | -11,39% |
| Work in progress and semi finished products | 5.238.212 | 6.044.952 | -806.740 | -13,35% |
| Finished products and goods for sale | 3.490.962 | 3.456.651 | 34.311 | 0,99% |
| <i>Total</i> | 17.350.233 | 19.230.447 | -1.880.214 | -9,78% |

The comparison between the final inventories shows the decrease in their amount of 10%, which is slightly greater than the decrease in the sales volume for this year.

It should also be pointed out that the values shown in the chart above are net of the devaluation provision as shown in the chart below:

| Inventory: | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|------------------------------|-------------------|-------------------|------------------|---------------|
| Gross amount | 21.182.252 | 23.027.850 | -1.845.598 | -8,01% |
| minus: devaluation provision | -3.832.019 | -3.797.403 | -34.616 | 0,91% |
| <i>Total</i> | 17.350.233 | 19.230.447 | -1.880.214 | -9,78% |

The incidence of the reserve for obsolescence on the gross value of the inventory as of December 31st 2012 was 18,1%, which was an increase with respect to the 16,5% registered on December 31st 2011.

Trade receivables (note 6)

Receivables are composed as follows:

| Debtors: | 31/12/12 | 31/12/11 | Variazione | Variazione % |
|--------------------|-----------------|-----------------|-------------------|---------------------|
| Trade debtors | 2.940.546 | 3.103.209 | -162.663 | -5,24% |
| Subsidiary debtors | 25.902.356 | 27.714.897 | -1.812.541 | -6,54% |
| Associated debtors | 2.559.869 | 776.656 | 1.783.213 | 229,60% |
| <i>Total</i> | 31.402.771 | 31.594.762 | -191.991 | -0,61% |

| Trade debtors: | 31/12/2012 | 31/12/2011 | Variazione | Variazione % |
|--|-------------------|-------------------|-------------------|---------------------|
| Italy | 2.765.583 | 2.615.585 | 149.998 | 5,73% |
| European Community | 1.208.187 | 1.448.150 | -239.963 | -16,57% |
| Outside of European Community | 780.686 | 788.218 | -7.532 | -0,96% |
| minus: devaluation provision for debtors | -1.813.910 | -1.748.744 | -65.166 | 3,73% |
| <i>Total</i> | 2.940.546 | 3.103.209 | -162.663 | -5,24% |

The trade receivables from subsidiary and associated companies are inherent to the characteristic operations.

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

| <i>Provision for bad debts</i> | 2012 | 2011 |
|---------------------------------------|------------------|------------------|
| At the beginning of the period | 1.748.744 | 1.376.711 |
| Amounts accrued | 180.083 | 372.717 |
| Amounts utilized | -114.917 | -684 |
| At the end of the period | 1.813.910 | 1.748.744 |

The chart below shows the trade receivables from third parties for 2012 divided according to the type of currency.

| <u>Account receivables in:</u> | 31/12/2012 | 31/12/2011 |
|---------------------------------------|-------------------|-------------------|
| Euro | 2.619.890 | 2.711.062 |
| USD | 320.656 | 392.147 |
| Total | 2.940.546 | 3.103.209 |

The amount in Euros shown in the chart of the receivables originally expressed in US dollars or other currencies represents the amount in currency converted at the exchange rate in force on December 31st 2012 and December 31st 2011.

The chart below shows the analysis of the trade receivables from third parties and from subsidiary companies for 2012 and 2011:

| <i>Account receivables vs. third parties:</i> | 31/12/2012 | 31/12/2011 |
|---|-------------------|-------------------|
| To expire | 1.375.515 | 1.306.551 |
| Expired: | | |
| 30 days | 355.690 | 316.636 |
| 60 days | 221.301 | 283.493 |
| 90 days | 54.028 | 167.575 |
| 180 days | 242.689 | 324.265 |
| over 180 days | 691.323 | 704.689 |
| Total | 2.940.546 | 3.103.209 |

| <i>Account receivables from subsidiaries:</i> | 31/12/2012 | 31/12/2011 |
|---|-------------------|-------------------|
| To expire | 5.354.628 | 6.995.624 |
| Expired: | | |
| 30 days | 1.236.402 | 1.231.593 |
| 60 days | 281.891 | 865.124 |
| 90 days | 378.335 | 867.776 |
| 180 days | 1.516.911 | 2.208.632 |
| over 180 days | 17.134.189 | 15.546.148 |
| Total | 25.902.356 | 27.714.897 |

For a detailed analysis of the trade receivables from subsidiary and associate companies, refer to the chapter in the information sheet on related parties.

Tax receivables/Other receivables (note 7)

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

| | 31/12/2012 | 31/12/2011 | Variation | Variation % |
|---------------------------|------------|------------|-----------|-------------|
| <i><u>Tax debtors</u></i> | | | | |
| VAT credits | 822.265 | 1.129.458 | -307.193 | -27,20% |
| Income tax credits | 359.039 | 595.577 | -236.538 | -39,72% |
| <i>Total tax debtors</i> | 1.181.304 | 1.725.035 | -543.731 | -31,52% |

| | | | | |
|---|-----------|-----------|----------|---------|
| <i><u>Financial receivables</u></i> | | | | |
| Financial receivables from third parts | 20.000 | 20.000 | - | 0,00% |
| Financial receivables from subsidiary companies | 3.462.807 | 3.643.057 | -180.250 | -4,95% |
| Financial receivables from associated companies | 13.565 | 13.565 | - | 0,00% |
| <i>Total</i> | 3.496.372 | 3.676.622 | -180.250 | -4,90% |
| <i><u>Other receivables</u></i> | | | | |
| Security deposits | 26.721 | 34.718 | -7.997 | -23,03% |
| Down payments | 155.227 | 153.425 | 1.802 | 1,17% |
| Other credits | 607.868 | 457.510 | 150.358 | 32,86% |
| Other credits from subsidiary companies | 51.000 | 15.000 | 36.000 | 240,00% |
| <i>Total</i> | 840.816 | 660.653 | 180.163 | 27,27% |
| <i>Total financial and other receivables</i> | 4.337.188 | 4.337.275 | -87 | -0,00% |

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

The “income tax credits” mostly refer to the entry of tax credits for the amount of the reimbursement of the excess IRES taxes paid due to the failure to deduct the IRAP related to the expenses for employees and similar in conformity with art. 2, sub-section 1-quater, D.L. 201/2011.

The financial receivables are related to short-term financing issued to subsidiary and associated companies in order to provide for normal operational activities. The main financial receivables issued to subsidiary companies are the following:

| Companies in the Group | amount/(1000) | currency | Annual rate |
|-----------------------------------|---------------|----------|-------------|
| Asclepion Laser Technologies GmbH | 985 | Euro | BCE + 1% |
| Cutlite Penta S.r.l. | 500 | Euro | BCE + 1% |
| Esthelogue S.r.l. | 520 | Euro | BCE + 1% |
| Deka Laser Technologies INC. | 494 | USD | 2,50% |
| BRCT Inc. | 260 | USD | 2,50% |
| Lasit S.p.A. | 119 | Euro | BCE + 1% |
| Quanta System S.p.A | 65 | Euro | BCE + 1% |
| Deka Medical Inc. | 200 | USD | 2,50% |
| Pharmonia S.r.l. | 500 | Euro | BCE + 1% |

For further details on the financial receivables from subsidiaries and associated companies, please see the next chapter, regarding “related parties”.

Securities (note 8)

The company does not hold any securities.

Cash and cash equivalents (note 9)

Cash and cash equivalents is composed as follows:

| <i>Cash and cash Equivalents:</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|-----------------------------------|------------|------------|------------|---------|
| bank and postal current accounts | 22.923.517 | 6.117.597 | 16.805.920 | 274,71% |
| cash in hand | 5.439 | 5.666 | -227 | -4,01% |
| <i>Total</i> | 22.928.956 | 6.123.263 | 16.805.693 | 274,46% |

For an analysis of the variations in cash and cash equivalents, please refer to the cash flow statements; in any case it should be noted that the bank deposits are not binding.

Net financial position as of December 31st 2012

The net financial position as of December 31st 2012 is composed as follows (in thousands of Euros).

| Net financial position | 31/12/2012 | 31/12/2011 |
|--|----------------|----------------|
| Cash and bank | 22.929 | 6.123 |
| Cash and cash equivalents | 22.929 | 6.123 |
| Short term financial receivables | 20 | 20 |
| Bank short term loan | (2.349) | (4.185) |
| Part of financial long term liabilities due within 12 months | (1.300) | (66) |
| Other short term financial liabilities | (400) | 0 |
| Financial short term liabilities | (4.049) | (4.252) |
| Net current financial position | 18.900 | 1.892 |
| Bank long term loan | (5.533) | (2.380) |
| Other long term financial liabilities | (1.825) | 0 |
| Financial long term liabilities | (7.358) | (2.380) |
| Net financial position | 11.542 | (489) |

The net financial position of the company is positive for an amount of about 11,5 million Euros. Besides the operating activities, it should be recalled that, among the operations that had a significant effect on the net financial position, there was the cash generated by the sale of the Cynosure shares for an amount of about 12,8 million Euros. The purchase of 40% of Quanta System and of 10% of Dekamela, made during this year, comported a monetary expense and the entry of a debt for an overall amount of 3,5 million Euros.

In order to obtain the cash necessary for its operations, the company last year and this year obtained the following types of financing:

a) financing granted to El.En. S.p.A. by Mediocredito Italiano S.p.A. for 3,4 million Euros to be paid back in set amounts every six months starting on December 15th 2011 and terminating on June 15th 2016. Of this amount, on 1,7 million Euros the interest rate applied for the first installment was 2,40%; for the remaining 1,7 million the rate applied was 5,70%; for the following periods, the interests will be the same as the Euribor rate at six months, as registered on the second target working day before the expiration date of the preceding interest period, increased by a spread. The spread is 3,90 points on the first 1,7 million Euros reduced to 0,60 on the remaining 1,7 million Euros.

b) financing granted to El.En. S.p.A. by Mediocredito Italiano S.p.A. for a total of 2,8 million Euros, to be repaid in equal installments every six months starting on June 30th 2012 and ending on December 31st 2016. The interest rate applied until June 29th 2012 was 3,95% (the same as Euribor at six months registered the second target working day before the stipulation of the contract increased by 2,90 points); for every six months period that follows the interest rate will be the same as Euribor at six months registered on the second target working day before the expiration date of the preceding six months, increased by 2,90 points.

c) financing granted to El.En. S.p.A. by Mediocredito Italiano S.p.A. for a total of 2,2 million Euros, to be repaid in equal installments every six months starting on June 30th 2012 and ending on December 31st 2016. The interest rate

applied until June 29th 2012 is 3,95% (the same as Euribor at six months registered the second target working day before the stipulation of the contract increased by 2,90 points); for every six months period that follows the interest rate will be the same as Euribor at six months registered on the second target working day before the expiration date of the preceding six months, increased by 2,90 points.

d) financing with SACE warranty granted to El.En. S.p.A. by Banco Popolare s.c.r.l. for a total of 2 million Euros to be repaid in 12 deferred quarterly installments starting on June 30th 2012 and ending on March 31st 2015. The interest rate applied is equal to Euribor at three months registered on the second working day before the end of each solar quarter, increased by 2,50 points.

For the above mentioned financing the mid- to long term quotas are shown among the non-current amounts owed to banks while the short-term quotas are shown in the current amounts owed to banks.

Financial receivables from subsidiary and associated companies for an amount of 3.476 thousand Euros have been excluded from the net financial position because they are related to financial support policies of the companies of the Group (for details, see the information on related parties). In continuation of past policy, we considered it opportune to not include this type of financing in the net financial position shown above.

Information on the Statement of financial position - Liabilities

Share Capital and Reserves

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

Share Capital (note 10)

As of December 31st 2012, the capital stock of El.En. was as follows

| | | |
|----------------------------|-------|-----------|
| Authorized | Euros | 2.591.871 |
| Underwritten and deposited | Euros | 2.508.671 |

Nominal value of each share

0,52

| <i>Categories</i> | 31/12/2011 | Increase. | (Decrease.) | 31/12/2012 |
|------------------------|-------------------|------------------|--------------------|-------------------|
| No. of Ordinary Shares | 4.824.368 | | | 4.824.368 |
| <i>Total</i> | 4.824.368 | | | 4.824.368 |

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

Increases in capital for use in the stock option plan

The special assembly of El.En. SpA held on May 15th 2008 voted to authorize the Board of Directors, in accordance with and by effect of art. 2443 of the Civil Code, for a period of up to five years from the date of the deliberation, to increase the share capital of the Company once or several times upon payment, by a nominal maximum amount of 83.200,00 Euros through the issue of a maximum of 160,000 ordinary shares with a nominal value of euro 0,52 each, with entitlement equal to those of the ordinary company shares at the date of subscription, to be liberated by payment of a price to be determined by the Board of Directors in the respect of the dictates of art. 2441, sub-paragraph VI, civil code. – that is considering the shareholders' equity, also bearing in mind the official prices registered by the shares on the stock market over the last six months – and as a unitary value inclusive of the premium, not less than the greatest of the following: a) the value of each share determined on the basis of the consolidated shareholders' equity of the El.En. Group as of December 31st of the year previous to the issue of the options; b) the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organized and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options; c) the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organized and managed by the Borsa Italiana SpA in the 30 days prior to the assigning of the options.

The Board of Directors of El.En. SpA, with the vote taken on July 15th 2008, implemented the authority of the shareholders meeting of May 15th 2008, to increase the capital stock by 83.200,00 for use in the stock option plan for 2008-2013 and approved the relative regulations. The option rights were assigned, by a vote taken on the same day, exclusively to employees of El.En. S.p.A. and the other companies of the Group which, at the time of assignment, were working in a subordinate position. The stock option plan is divided into two equal portions which can be implemented in conformity with the following terms:

a) up to a maximum amount of 41.600,00 Euros starting on July 15th 2011 until the date of approval of the proposed annual report for 2011 by the Board of Directors.

Subsequently, the rights on the options could/can be exercised as follows:

- if the shareholders' meeting, during the approval of the report for 2011, votes to distribute the profits, from the day that the relative dividends for 2011 become payable up until the date of approval of the company report for 2012 by the Board of Directors;

- otherwise, if the profits are not distributed for the year 2011, from the 15th of May 2012 up until the date of the approval of the proposed annual report for 2012 by the Board of Directors;

- if, during the approval of the report for 2012, the shareholders' meeting votes in favor of the distribution of the profits, from the date, if earlier than the 15th of May 2013, of the maturity of the payments of the dividends for 2012 up until May 15th 2013.

- otherwise, if it is decided to not distribute the profits for the year 2012, the period in which the rights can be exercised will terminate on the date, if earlier than May 15th 2013, of the approval of the proposed annual report for the year 2012 by the Board of Directors, and otherwise on the 15th of May 2013.

Therefore – exclusively for the above mentioned nominal sum of 41.600,00 Euros – the underwriting of the increase in capital approved by the Board of Directors can take place exclusively during the time intervals mentioned above for the exercising of the rights.

b) concerning the residual amount of the increase, equal to the nominal amount of 41.600,00 Euros, starting on July 15th 2012 up until the date of approval of the proposed annual report for the year 2012 by the Board of Directors.

Subsequently, the rights to the options may be exercised as follows:

- if the shareholders' meeting, during the approval of the report for 2012, approves the distribution of profits for the year 2012, from the date in which payment of dividends matures for the dividends for the year 2012 up until the 15th of May 2013;

- otherwise, if it is decided not to distribute the profits for the year 2012, the period for exercising the rights will terminate on the date, if before May 15th 2013, of the approval of proposed annual report for 2012, and otherwise, on May 15th 2013.

Therefore, the underwriting of the increase in capital approved by the Board of Directors for the residual amount of 41.600,00 nominal Euros can take place only during the time intervals indicated above for the exercising of the rights to pick up the options.

At the time of the compilation of this document no rights had been exercised for picking up the options.

Additional paid in capital (note 11)

On December 31st 2012 the share premium reserve amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2011.

Other reserves (note 12)

| <u>Other reserves</u> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|--|------------|------------|-----------|----------|
| Legal reserve | 537.302 | 537.302 | | 0,00% |
| Extraordinary reserve | 35.044.641 | 33.780.537 | 1.264.104 | 3,74% |
| Stock options reserve fund | 1.807.714 | 1.672.730 | 134.984 | 8,07% |
| Reserve for contributions on capital account | 426.657 | 426.657 | | 0,00% |
| Other reserves | -6.785 | 13.392 | -20.177 | -150,66% |
| <i>Total</i> | 37.809.529 | 36.430.618 | 1.378.911 | 3,79% |

On December 31st 2012 the extraordinary reserve amounted to 35.045 thousand Euros; the variations that occur during the year are related to the allocation of profits for the year 2011 in accordance with the vote of the shareholders' meeting that met on May 15th 2012.

The reserve "for stock options" includes the equivalent of the costs determined in accordance with IFRS 2 of the Stock Option Plans assigned by El.En. SpA, for the quota which matured on December 31st 2012. The change of 135 thousand Euros, which took place during the year, is entered in the chart of the shareholders' equity in the "Other operations" column.

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

Treasury stock (note 13)

On March 3rd 2008, the shareholders' meeting of the Parent Company El.En. SpA, voted to authorize the Board of Directors to acquire, in compliance and within the limits established by articles 2357 and following of the Civil Code, within 18 months of that date, treasury stock representing not more than 10% of the capital stock in accordance with the law, at a price which was not less than 20% more nor more than 10% more than the official price for negotiations registered on the day preceding the purchase. With the same vote they authorized the method for disposing of the shares which can be put back into circulation within 3 years of the purchase at a price which is not less than 95% of the average of the official prices for negotiations registered during the five days preceding the sale, all of which must take place respecting the laws in force in this regard.

Consequently, between March and April 2008 the Board of Directors of El. En. SpA proceeded with the purchase of 103.148 shares of the company at an average price of 24,97 Euros for a total of 2.575.611 Euros.

Upon request of the Board of Directors, the Shareholders' Meeting of the Parent Company which met on October 28th 2010 renewed the authorization of the Board to purchase in one or more tranches, on the regular stock market, and therefore according to the conditions described in art. 144 *bis*, sub-section 1, letter b) of the *Regolamento Emittenti Consob*, and following the operative procedures established by the organization and management regulations of the market issued by the Borsa Italiana S.p.A., within 18 months of that date, treasury stock representing a number of ordinary shares which, in any case, considering the number of shares already held in the portfolio, does not exceed one-fifth of the capital stock, respecting the laws and regulations, at a price that is not more than 20% less or over 10% more than the official price for negotiations registered on the day preceding the purchase. The vote of the shareholders' also authorized the Board of Directors to put the shares back into circulation within ten years of the date of purchase, including those already held in the portfolio on December 28th 2010, at a price that is not less than 95% of the average official price for negotiations registered during the five days preceding the sale, all of which must take place respecting the regulations in force.

On October 8th 2012 the Company sold 82.000 ordinary shares of treasury stock to Laserfin S.r.l. as part of the payment due for the acquisition of 10% of the shares of Deka Mela S.r.l. and of 40% of the shares of Quanta System S.p.A., for the amount of 25 Euros per shares.

Moreover, upon request of the Board of Directors the shareholders' meeting which was held on November 14th 2012 authorized the Board to acquire, in one or more blocks, on the regular stock market, and consequently in compliance with art. 144 *bis*, sub-section 1, letter b) of the *Regolamento Emittenti Consob* and according to the operative methods established by the regulations for the organization and management of the market issued by Borsa Italiana S.p.A., within eighteen months of that date, a quantity of shares of treasury stock representing a number of ordinary shares which, in any case, considering the number of shares already held in their portfolio, does not exceed the fifth part of the capital stock, in compliance with the laws and regulations, at a price that is not more than 20% less nor greater than 10% more than the official price for negotiations registered on the day preceding the purchase. The vote of the shareholders, moreover, extended the authorization to the Board of Directors to put the shares back into circulation within ten years of the date of purchase at a price that is not less than 95% of the average of the official sale prices registered for the five days preceding the sale, all in full compliance with the regulations in force at the time.

On account of the sale described above, since there no acquisitions were made in relation to the vote of November 14th 2012, the shares of treasury stock held in the company portfolio as of December 31st 2012 amounts to 21.148 for a total value of 528.062,54 Euros.

Profits/losses brought forward (note 14)

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

Availability and possibility of utilization of the reserves

| <i>NET CAPITAL AND RESERVES:</i> | Balance 31/12/2012 | Possibility of utilization | Portion available | Utilized in the previous two periods for covering losses | Utilized in the previous two periods for other purposes |
|---|-------------------------------|---------------------------------------|------------------------------|---|--|
| Subscribed capital | 2.508.671 | | | | |
| Additional paid in capital | 38.593.618 | ABC | 38.593.618 | | |
| Legal reserve | 537.302 | B | | | |
| Reserve for own shares | | | | | |
| <i>Other reserves:</i> | | | | | |
| Extraordinary reserves | 35.044.641 | ABC | 34.516.578 | | |
| Reserve for contribution on capital account | 426.657 | ABC | 426.657 | | |
| Profits (loss) brought forward | -918.092 | ABC | -918.092 | | |
| Reserve for IRS | -20.180 | | | | |
| Other reserves | 1.821.109 | AB | 13.392 | | |
| | | | 72.632.153 | 0 | 0 |
| Portion not distributable | | | | | |
| Portion distributable | | | 72.632.153 | | |

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

It should be noted that the amount of the extraordinary reserve that is available is net of the treasury stock acquired by the company for an amount of 528 thousand Euros.

Non-current liabilities

Retirement funds and employee benefits (note 15)

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

| Balance 31/12/2011 | Accrual | Utilization | Payment to complementary pension forms, to INPS fund and other movements | Balance 31/12/2012 |
|-------------------------------|----------------|--------------------|---|-------------------------------|
| 926.251 | 463.224 | -18.391 | -436.970 | 934.114 |

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

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

It should be recalled that the company uses the so-called “corridor method” in which the net cumulative value of the actuarial gain and loss is not registered until it exceeds in absolute terms 10% of the current value of the liabilities. On December 31st 2012 the net accumulated value of the actuarial losses not registered was equal to 122 thousand Euros. The present value of the liabilities as of December 31st 2012 was 1.015 thousand Euros.

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

| Financial hypotheses | Year 2011 | Year 2012 |
|---|---|---|
| Annual implementation rate | 4,60% | 2,69% |
| Annual inflation rate | 2,00% | 2,00% |
| Annual increase rate of salaries (including inflation) | Executives 4,00% White collar workers 2,50% Blue collar workers 2,50% | Executives 1,00% White collar workers 0,50% Blue collar workers 0,50% |

The interest rate used for determining the current value of the security is based on the iBoxx 10+ AA rate of 2,69% in conformity with the criteria used.

Analysis of deferred tax assets and liabilities (note 4) (note 16)

Deferred tax assets and liabilities are accrued on the temporary differences between assets and liabilities recognized for fiscal purposes and those entered into accounts.

The analysis is shown on the chart below.

| | Balance 31/12/2011 | Accrual | (Utilization) | Other | Balance 31/12/2012 |
|---|-------------------------------|----------------|----------------------|--------------|-------------------------------|
| Deferred tax assets on inventory devaluations | 1.059.475 | 6.756 | -2.635 | 2 | 1.063.598 |
| Deferred tax assets on warranty reserve | 78.500 | | | | 78.500 |
| Deferred tax assets on bad debt reserve | 581.416 | 550.000 | | 1 | 1.131.417 |
| Deferred tax assets on severance indemnity provision discount | -23.120 | | | | -23.120 |
| Other deferred tax assets | 19.731 | 48.761 | | -2 | 68.490 |
| <i>Total</i> | 1.716.002 | 605.517 | -2.635 | 1 | 2.318.885 |
| Deferred tax liabilities on advanced depreciations | 169.969 | | -11.229 | | 158.740 |
| Deferred tax liabilities for contributions on capital account | 211.718 | 244.226 | | | 455.944 |
| Other deferred tax liabilities | 229.144 | 1.895 | -76.917 | 1 | 154.123 |
| <i>Total</i> | 610.831 | 246.121 | -88.146 | 1 | 768.807 |
| <i>Net amount</i> | 1.105.171 | 359.396 | 85.511 | 0 | 1.550.078 |

Deferred tax assets amounted to 2.319 thousand Euros. Among the main variations which have occurred during this year, attention should be called to the increase in the deferred taxes assets calculated on the devaluation of credits and on the remuneration granted to the Board of Directors as incentive bonuses for 2012 but not yet paid.

Deferred tax liabilities were 769 thousand Euros. The accruals are related to the deferring of taxes on the contributions in capital account entered into accounts this year.

Other accruals (note 17)

The chart below shows the operations made with other accruals.

| | Balance 31/12/2011 | Accrual | (Utilisation) | Other | Balance 31/12/2012 |
|---------------------------------------|-------------------------------|----------------|----------------------|--------------|-------------------------------|
| Reserve for pension costs and similar | 27.846 | 22.093 | | -19.499 | 30.440 |
| <i>Others:</i> | | | | | |
| Warranty reserve on the products | 250.001 | | | | 250.001 |
| Other minor reserves | 1.962.209 | 930.420 | -144.600 | | 2.748.029 |
| <i>Total other reserves</i> | 2.212.210 | 930.420 | -144.600 | - | 2.998.030 |
| <i>Total</i> | 2.240.056 | 952.513 | -144.600 | -19.499 | 3.028.470 |

In the entry “reserve for pension costs and similar” the TFM (severance indemnity fund for the directors) and the indemnity fund for clients’ agents are included.

According to IAS 37, the amount owed to the agents must be calculated using the actualization techniques to estimate as precisely as possible, the overall cost to be sustained for the payment of benefits to the agents after the termination of employment.

The technical evaluations were made on the basis of the hypotheses described below.

| Financial hypotheses | Year 2011 | Year 2012 |
|-------------------------------|-----------|-----------|
| Annual rate of implementation | 4,60% | 4,60% |
| Annual rate of inflation | 2,00% | 2,00% |

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

In relation to the category called “Other minor reserves”, the amount shown in the “accrual” column refers to the accruals for losses by companies in which an equity is held, as described in Note 3 above. The amount shown in the “utilization” column is related to the reversal of the “Reserve for losses by group companies” made as part of the previous loss covering operations of the associated company Elesta srl and also described in note 3 above.

Amounts owed and financial liabilities (note 18)

The chart below shows the breakdown of the amounts owed:

| <i>Financial m/l term debts</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|----------------------------------|------------|------------|-----------|---------|
| Amounts owed to banks | 5.533.333 | 2.380.000 | 3.153.333 | 132,49% |
| Amounts owed to other financiers | 1.825.000 | | 1.825.000 | |
| <i>Total</i> | 7.358.333 | 2.380.000 | 4.978.333 | 209,17% |

The category of “Amounts owed to banks” for about 5,5 million Euros includes the mid- and long-term quotas for the loans obtained by the Company in past and in the current financial year , details of which are given in the comments on the net financial position.

The “amounts owed to other financiers” on the other hand, represent the mid- to long-term debt owed to Laserfin for the purchase of 10% of the shares of Deka Mela S.r.l. and 40% of the shares of Quanta System S.p.A.. Details of this operation are given in Note 3 of this document.

Current liabilities

Financial debts (note 19)

| <i>Financial short term debts</i> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|---|------------|------------|------------|----------|
| Amounts owed to banks | 2.349.073 | 4.185.372 | -1.836.299 | -43,87% |
| Amounts owed to group companies | 399.615 | | 399.615 | |
| Amount owed for leasing | | 20.573 | -20.573 | -100,00% |
| Liabilities (derivatives on interest and forex rates) | 20.180 | | 20.180 | |
| Amounts owed to other financiers | 1.280.000 | 45.818 | 1.234.182 | 2693,66% |
| <i>Total</i> | 4.048.868 | 4.251.763 | -202.895 | -4,77% |

The entry “amounts owed to banks” refers to the short-term loans granted by Mediocredito Italiano and by the Banco Popolare described in the comments on the net financial position as of December 31st 2012 of this document.

The entry in the category of “Amounts owed to Group companies” refers to the debt toward the subsidiary Cutlite Do Brasil, for the payment will be made by this company to the minority partner from which El.En. acquired a quota of 10% of the Brazilian subsidiary.

The “liabilities” for derivatives” are related to the derivative IRS contract which El.En. activated as a hedge on the interest rate of the SACE financing issued by the Banco Popolare s.c.r.l. (see comments). The contract expires on March 31st 2015. The nominal value on December 31st 2012 was 1.500.000 Euros, and the fair value on December 31st 2012 was -20.180 Euros.

The entry in the category of “Amounts owed to other financiers” represents the short-term debt owed to Laserfin, as described in the preceding paragraph.

The chart below represents a summary which also shows the due dates for payment of the capital amounts of the debt.

| | Expiration | Rate | Balance | Amount within 1 year | Amount within 5 years | Amount beyond 5 years |
|---|------------|-----------------------|------------|----------------------|-----------------------|-----------------------|
| Mediocredito loan | (*) | (**) | 6.382.406 | 1.682.406 | 4.700.000 | |
| Banco Popolare loan | 31/03/2015 | Euribor 3 mesi +2,50% | 1.500.000 | 666.667 | 833.333 | |
| Liabilities (forward contracts) | | | 20.180 | 20.180 | | |
| Liabilities for equity investments purchase | | | 3.504.615 | 1.679.615 | 1.825.000 | |
| <i>Total</i> | | | 11.407.201 | 4.048.868 | 7.358.333 | 0 |

For the Mediocredito loan for 2.382.406 the expiration date is June 16th, 2016; for the Mediocredito loan of 4.000.000 the expiration date is December 31st 2016

For the Mediocredito loan for 2.382.406 the rate is Euribor 6 months + 2,25% ; for the Mediocredito loan for 4.000.000 the rate is Euribor 6 months + 2,90%

Mid- and Long term financial operations

During this financial year the following mid/long-term financial movements occurred. The balances include the short term capital amounts and the quota for interests which have matured but not yet been paid.

| | Balance 31/12/2011 | Increase | Reimbursement | Other | Balance 31/12/2012 |
|---|--------------------|------------|---------------|--------|--------------------|
| MPS TRL 01 Loan | 45.818 | | -45.818 | | |
| Mediocredito Loan | 3.065.372 | 5.000.000 | -1.680.000 | -2.966 | 6.382.406 |
| Banco Popolare loan | | 2.000.000 | -500.000 | | 1.500.000 |
| Liabilities for equity investments purchase | | 3.504.615 | | | 3.504.615 |
| Leasing | 20.573 | | -20.573 | | |
| <i>Total</i> | 3.131.763 | 10.504.615 | -2.246.391 | -2.966 | 11.387.021 |

Trade Payable (note 20)

| <i>Trade debts:</i> | 31/12/2012 | 31/12/2011 | Variazione | Variazione % |
|--|------------|------------|------------|--------------|
| Trade accounts payable | 5.903.192 | 6.360.294 | -457.102 | -7,19% |
| Trade accounts payable with subsidiary companies | 1.290.229 | 1.415.192 | -124.963 | -8,83% |
| Trade accounts payable with associated companies | 24.745 | 45.980 | -21.235 | -46,18% |
| <i>Total</i> | 7.218.166 | 7.821.466 | -603.300 | -7,71% |

For a detailed analysis of the trade payables to the subsidiary and associated companies, refer to the chapter with the information sheet relative to related parties. The reduction in the amounts owed for supplies reflects, among other things, the decrease in the amount of purchases with respect to last year.

The chart below shows a detailed breakdown of the trade debts to third parties divided according to the type of currency.

| <u>Account payables in:</u> | 31/12/2012 | 31/12/2011 |
|-----------------------------|------------|------------|
| Euro | 5.580.629 | 6.110.828 |
| USD | 276.160 | 194.217 |
| Other currencies | 46.403 | 55.249 |
| Total | 5.903.192 | 6.360.294 |

On the chart, the value in Euros of the debts originally expressed in US dollars or other currencies represents the amount of currency converted at the exchange rate in force on December 31st 2012 and on December 31st 2011.

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

The breakdown of the other short term debts is the following:

| | 31/12/2012 | 31/12/2011 | Variazione | Variazione % |
|--|------------|------------|------------|--------------|
| <i><u>Social security debts</u></i> | | | | |
| Debts owed to INPS | 686.081 | 651.161 | 34.920 | 5,36% |
| Debts owed to INAIL | 58.343 | 63.743 | - 5.400 | -8,47% |
| Debts owed to other Social Security Institutions | 91.608 | 85.234 | 6.374 | 7,48% |
| <i>Total</i> | 836.032 | 800.138 | 35.894 | 4,49% |
| <i><u>Other debts</u></i> | | | | |
| Debts owed to tax administration for VAT | 809 | 3.173 | - 2.364 | -74,50% |
| Debts owed to tax administration for deductions | 518.861 | 473.413 | 45.448 | 9,60% |
| Owed to staff for wages and salaries | 962.024 | 1.076.718 | - 114.694 | -10,65% |
| Down payments | 326.268 | 160.099 | 166.169 | 103,79% |
| Amounts towards subsidiary companies | 381.719 | 382.523 | - 804 | -0,21% |
| Amounts towards associated companies | 1.381 | | 1.381 | |
| Other debts | 459.481 | 419.358 | 40.123 | 9,57% |
| <i>Total</i> | 2.650.543 | 2.515.284 | 135.259 | 5,38% |
| <i>Total Social security debts and other debts</i> | 3.486.575 | 3.315.422 | 171.153 | 5,16% |

The “Debts owed to staff for wages and salaries” includes, among other things, the debts for deferred salaries matured by employees as of December 31st 2012.

The entry of “Down payments” refers to down payments received from clients and from ARTEA on behalf of the Region of Tuscany for co-financed research projects. For further details on these projects, see the note below (23).

The entry “other amounts owed to subsidiaries” is related to the charges derived from the recognition in favor of the subsidiary companies adhering with El.En to the national fiscal consolidated (procedure in compliance with art. 117 and

following of the TU 917786 and D.M. in force since June 9th 2004), of the compensation sum calculated according to the tax aliquots of the companies (IRES) in force at the time to which the use refers, in accordance with the agreements stipulated by the parties. The option, valid from 2011 through 2013, was made with the subsidiaries Ot-Las Srl (later incorporated into Cutlite Penta Srl) and Esthelogue Srl., while during this year the option was selected also for the subsidiary Cutlite Penta S. r.l., with validity from 2012 to 2014.

Analysis of debts according to due date

| | 31/12/2012 | | | 31/12/2011 | | |
|--|--------------|---------------|--------------|--------------|---------------|--------------|
| | Entro 1 anno | Da 1 a 5 anni | Oltre 5 anni | Entro 1 anno | Da 1 a 5 anni | Oltre 5 anni |
| Amounts owed to banks | 2.349.073 | 5.533.333 | | 4.185.372 | 2.380.000 | |
| Amounts owed to leasing company | | | | 20.573 | | |
| Liabilities (forward exchange contracts) | 20.180 | | | | | |
| Amounts owed to other financiers | 1.280.000 | 1.825.000 | | 45.818 | | |
| Amounts owed to suppliers | 5.903.192 | | | 6.360.294 | | |
| Amounts owed to subsidiary companies | 2.071.563 | | | 1.797.715 | | |
| Amounts owed to associated companies | 26.126 | | | 45.980 | | |
| Income taxes debts | 33.218 | | | | | |
| Amounts owed to social security institutions | 836.032 | | | 800.138 | | |
| Other liabilities | 2.267.443 | | | 2.132.761 | | |
| <i>Total</i> | 14.786.827 | 7.358.333 | 0 | 15.388.651 | 2.380.000 | 0 |

Information on the Income Statement

Revenue (note 22)

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|-----------------------------------|------------|------------|------------|---------|
| Sales of industrial laser systems | 5.919.200 | 8.135.966 | -2.216.766 | -27,25% |
| Sales of medical laser systems | 29.158.123 | 29.253.343 | -95.220 | -0,33% |
| Service and sales of spare parts | 7.091.717 | 7.383.320 | -291.603 | -3,95% |
| <i>Total</i> | 42.169.040 | 44.772.629 | -2.603.589 | -5,82% |

During 2012 the Company registered a decrease in sales volume on account of the difficulties that their clients are facing on the market, in particular, the companies of the Group that operate in the sector of industrial applications. In fact, while the sales volume in the medical sector remains constant, it drops in the sector of systems and sources for industrial applications. The sales volume for customer service also fell which demonstrates the critical phase of the markets on which the company gives direct service (Italy) and those that buy consumables and spare parts.

Subdivision of revenue by geographical area

| | 31/12/12 | 31/12/11 | Variation | Var. % |
|--------------------------|------------|------------|------------|---------|
| Sales in Italy | 26.404.618 | 26.000.720 | 403.898 | 1,55% |
| Sales other EC countries | 4.864.168 | 6.515.060 | -1.650.892 | -25,34% |
| Sales outside EC | 10.900.254 | 12.256.849 | -1.356.595 | -11,07% |
| <i>Total</i> | 42.169.040 | 44.772.629 | -2.603.589 | -5,82% |

The Italian market showed a slight improvement with respect to 2011 and was mainly made up of the Italian companies of the Group. This market remains the prevalent one although it should be pointed out that a large part of the production invoiced to the companies of the Group is destined for export; on the other hand, both the CEE exports and the non-CEE exports decreased.

Other revenue and income (note 23)

Analysis of the other income is as follows:

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|---|------------|------------|-----------|---------|
| Recovery for accidents and insurance reimbursements | 1.398 | 8.047 | -6.649 | -82,63% |
| Expense recovery | 50.357 | 64.340 | -13.983 | -21,73% |
| Capital gains on disposal of fixed assets | 16.404 | 83.906 | -67.502 | -80,45% |
| Other income | 1.767.427 | 862.187 | 905.240 | 104,99% |
| <i>Total</i> | 1.835.586 | 1.018.480 | 817.106 | 80,23% |

In the category of "Other income" we have entered income for an amount of about 1.391 thousand Euros for a grant received for financing, in particular, on the following co-financed research projects:

- TROPHOS project – Tissue Regeneration Outcomes by Proteomics after High-Tech Optronic System Stimulation – admitted by the Region of Tuscany for financing as a grant with Decree 5084 of October 2nd 2009, on the basis of the "Bando Unico Ricerca e Sviluppo 2008" for the support of company research and development – Activity sectors A-B-C as per Directive Decree *Decreto Dirigenziale* n. 6744 of December 31st 2008 approved by the region of Tuscany – General Office for Economic Development.

-TRAP project – Innovative technologies and methods for Ablative Percutaneous Treatments by means of laser guided by ecographic imaging - admitted by the Region of Tuscany for financing as a grant with Decree 5084 of October 2nd 2009, on the basis of the "Bando Unico Ricerca e Sviluppo 2008" for the support of company research and development – Activity sectors A-B-C as per Directive Decree *Decreto Dirigenziale* n. 6744 of December 31st 2008 approved by the region of Tuscany – General Office for Economic Development.

-TEMART project – Advanced techniques for material studies and the conservation of historic works of art – admitted by the Region of Tuscany for financing as a grant with Decree 4181 of August 27th 2009, on the basis of the “Bando Regionale 2008 supporting research projects conducted jointly by groups of companies and research institutions related to social, economic and human sciences” as per decree n. 5673 of November 21st 2008 approved by the Region of Tuscany – Office of formative policies, and cultural patrimony and activities.

-MILoRDS project – promotion of industrial research, of the transfer of technology, of pre-competitive development, exploitation of research and innovation; admitted to the financing plan of the Region of Tuscany for a grant for the amount of 70% (while for the remaining 30% they are admitted to the facilitated financing) as per Decree come n. 3064 of June 16th 2010 subsequently modified by Decree n. 3375 of July 6th 2010, for strategic research and development projects related to ICT and advanced mechanics.

Costs for the purchase of goods (note 24)

The analysis of these purchase is shown on the chart below.

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|---|------------|------------|------------|---------|
| Purchase of raw materials and finished products | 18.097.574 | 22.003.666 | -3.906.092 | -17,75% |
| Purchase of packaging | 231.481 | 296.153 | -64.672 | -21,84% |
| Shipment charges on purchases | 150.436 | 252.415 | -101.979 | -40,40% |
| Other purchase expenses | 169.108 | 150.995 | 18.113 | 12,00% |
| Other purchases | 9.195 | 36.992 | -27.797 | -75,14% |
| <i>Total</i> | 18.657.794 | 22.740.221 | -4.082.427 | -17,95% |

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

Breakdown of this category is shown on the chart below:

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|--|------------|------------|-----------|---------|
| <i>Direct services</i> | | | | |
| Assemblies outsourcing to third parties | 2.306.918 | 3.015.270 | -708.352 | -23,49% |
| Technical services | 78.649 | 343.256 | -264.607 | -77,09% |
| Shipment charges on sales | 213.092 | 213.916 | -824 | -0,39% |
| Commissions | 247.162 | 132.130 | 115.032 | 87,06% |
| Travel expenses | 137.857 | 141.503 | -3.646 | -2,58% |
| Other direct services | 108.119 | 84.553 | 23.566 | 27,87% |
| <i>Total</i> | 3.091.797 | 3.930.628 | -838.831 | -21,34% |
| <i>Operating services and charges</i> | | | | |
| Maintenance and technical assistance on equipments | 116.266 | 142.728 | -26.462 | -18,54% |
| Services and commercial consulting | 178.246 | 224.727 | -46.481 | -20,68% |
| Legal and administrative services | 294.216 | 301.524 | -7.308 | -2,42% |
| Auditing fees and charges | 67.674 | 95.232 | -27.558 | -28,94% |
| Insurances | 165.550 | 159.239 | 6.311 | 3,96% |
| Travel and overnight expenses | 419.253 | 367.417 | 51.836 | 14,11% |
| Promotional and advertising expenses | 390.448 | 435.019 | -44.571 | -10,25% |
| Building charges | 616.790 | 581.920 | 34.870 | 5,99% |
| Other taxes | 49.771 | 40.549 | 9.222 | 22,74% |
| Expenses for vehicles | 245.048 | 225.847 | 19.201 | 8,50% |
| Office supplies | 45.986 | 43.537 | 2.449 | 5,63% |
| Hardware and Software assistance | 128.012 | 124.217 | 3.795 | 3,06% |
| Bank charges | 34.035 | 26.663 | 7.372 | 27,65% |
| Rent | 61.149 | 109.728 | -48.579 | -44,27% |
| Other operating services and charges | 2.019.728 | 2.364.550 | -344.822 | -14,58% |
| <i>Total</i> | 4.832.172 | 5.242.897 | -410.725 | -7,83% |

The most significant change in the category of “Other direct services” which shows a decrease of 839 thousand Euros with respect to last year, reflects a decrease in the amount of outsourcing of some of the manufacturing stages and also a decrease in costs for technical services.

The single most important entries in the category of “other operating services and charges” are represented by the salaries paid to members of Board of Directors and the statutory Board of Auditors for an amount of about 565 thousand Euros; costs of technical and scientific consulting and studies and research amounted to about 466 thousand Euros and costs for trade show for an amount of 245 thousand Euros. For the costs and activities of research and development, please refer to the description given in the consolidated director’s report on operations.

Future commitments for use of goods belonging to others

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

| <u>Operating lease commitments:</u> | 31/12/2012 | 31/12/2011 |
|--|-------------------|-------------------|
| Within one year | 168.028 | 163.885 |
| After 1 year but not more than 5 years | 133.843 | 148.079 |
| More than five years | 5.326 | |
| Total | 307.197 | 311.964 |

These costs are mostly related to leasing contracts for company vehicles.

Employee costs (note 26)

The chart below shows the costs for staff:

| <u>For staff costs</u> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|----------------------------------|-------------------|-------------------|------------------|---------------|
| Wages and salaries | 7.130.045 | 6.975.473 | 154.572 | 2,22% |
| Social security costs | 2.236.175 | 2.191.987 | 44.188 | 2,02% |
| Accruals for severance indemnity | 426.614 | 422.768 | 3.846 | 0,91% |
| Stock options | 125.660 | 166.273 | -40.613 | -24,43% |
| Other costs | 31.436 | 33.497 | -2.061 | -6,15% |
| Total | 9.949.930 | 9.789.998 | 159.932 | 1,63% |

Depreciation, amortization and other accruals (note 27)

The table below shows the breakdown for this category:

| <u>Depreciations, amortizations, and other accruals</u> | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|--|-------------------|-------------------|------------------|---------------|
| Amortization of intangible assets | 13.941 | 14.916 | -975 | -6,54% |
| Depreciation of tangible assets | 1.002.611 | 1.023.218 | -20.607 | -2,01% |
| Accrual for risk on receivables | 2.180.083 | 1.172.718 | 1.007.365 | 85,90% |
| Other accruals for risks and charges | | -20.000 | 20.000 | -100,00% |
| Total | 3.196.635 | 2.190.852 | 1.005.783 | 45,91% |

The main increases in this category refer to the accrual for credit risks which is related, among other things, to overdue receivables from subsidiary companies.

Financial incomes and charges (note 28)

The breakdown of the category is as follows:

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|---|------------|------------|-----------|----------|
| Financial incomes: | | | | |
| Interests from banks | 159.864 | 56.157 | 103.707 | 184,67% |
| Dividends | 246.668 | 245.000 | 1.668 | 0,68% |
| Interests from subsidiary company | 71.290 | 82.098 | -10.808 | -13,16% |
| Foreign exchange gain | 235.521 | 632.859 | -397.338 | -62,78% |
| Other financial incomes | 72.884 | 46.343 | 26.541 | 57,27% |
| <i>Total</i> | 786.227 | 1.062.457 | -276.230 | -26,00% |
| Financial charges: | | | | |
| Interest on bank debts for account overdraft | -53.512 | -137.715 | 84.203 | -61,14% |
| Interest on bank debts for medium and long - term loans | -278.205 | -24.858 | -253.347 | 1019,18% |
| Foreign exchange loss | -687.663 | -249.115 | -438.548 | 176,04% |
| other financial charges | -142.145 | -38.352 | -103.793 | 270,63% |
| <i>Total</i> | -1.161.525 | -450.040 | -711.485 | 158,09% |

During this year dividends from subsidiaries were entered into accounts for an amount of 247 thousand Euros ,distributed by the subsidiary company Deka M.E.L.A. Srl. for the amount of 240 thousand Euro and by Concept Laser Solutions for about 7 thousand Euros.

The entry “other financial charges” includes the entering into accounts of interest charges derived from the application of accounting principal IAS 19 to the severance indemnity for an amount of about 37 thousand Euros, the withholding tax on financing and the commissions as warranties on financing for an amount of about 21 thousand Euros and the costs for the derivatives for 84 thousand Euros, related to option contracts on currency that El.En stipulated with the CRF bank of Florence in order to hedge the risks related to exchange rates for a quota of flows in currency.

Other net income and charges (note 29)

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|---------------------------------------|-------------------|-------------------|-------------------|---------------|
| <u>Other charges</u> | | | | |
| Accrual for losses in group companies | -930.420 | -201.662 | -728.758 | 361,38% |
| Devaluation of equity investments | -796.618 | -1.185.172 | 388.554 | -32,78% |
| <i>Total</i> | -1.727.038 | -1.386.834 | -340.204 | 24,53% |
| <u>Other income</u> | | | | |
| Capital gains on equity investments | 10.038.401 | | 10.038.401 | |
| <i>Total</i> | 10.038.401 | | 10.038.401 | |

The entry of “Accruals for losses in Group companies” includes the relative cost of an indirect devaluation with accrual in the” Reserve for losses by Group companies” related, for the amount of 30 thousand Euros to Deka Lasertechnologie GmbH, for 704 thousand Euros to Deka Sarl, for 37 thousand Euros to Deka Laser Technologies Inc. and for 159 thousand Euros to Cutlite do Brasil.

The entry under “Devaluations of equity investments” is related to the devaluation made on the value of the equities held in Cutlite do Brasil for 395 thousand Euros, in SBI for 54 thousand Euros, in Cutlite Penta S.r.l. for 310 thousand Euros and in RTM for 37 thousand Euros.

The category of “Capital gains on equity investments” for the amount of 10.038 thousand Euros is related to the capital gains earned on the sale of the shares of the American company Cynosure Inc., details of which are given in Note 3 of this report.

Income taxes (note 30)

| Description: | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|--|----------------|------------------|-----------------|----------------|
| IRES | 838.532 | 705.718 | 132.814 | 18,82% |
| IRAP | 425.303 | 400.756 | 24.547 | 6,13% |
| IRES Deferred (Advanced) | -446.814 | -78.877 | -367.937 | 466,47% |
| IRAP Deferred (Advanced) | 1.907 | 9.471 | -7.564 | -79,86% |
| Receivable for income tax | | -280.130 | 280.130 | -100,00% |
| Cost/(Revenue)for IRES consolidated taxation | 301.136 | 381.142 | -80.006 | -20,99% |
| Taxes related to the previous years | -314.483 | -1.570 | -312.913 | 19930,76% |
| <i>Total income taxes</i> | 805.581 | 1.136.510 | -330.929 | -29,12% |

The tax expenditures for this year were 806 thousand Euros as opposed to 1.137 thousand Euros for last year. Because the controlling company adhered to the procedure in compliance with art. 117 and following of the TU of the income taxes and of the Ministerial Decree implemented on June 9th 2004 (National fiscal consolidated), the cost for the year includes, for the amount of about 301 thousand Euros, the charges derived from the recognition in favor of the subsidiaries that adhered, of the compensation sum equal to the transformation of the losses used in the procedure on the basis of the tax aliquot for companies (IRES) in force for the period for which the use refers, as per the agreements stipulated between the parties. The option is valid for the three year period 2011-2013 for the subsidiary Esthelogue S.r.l. and for the three year period 2012-2014 for the subsidiary Cutlite Penta S.r.l..

The category of "Taxes related to previous years" includes the entry of the tax credit of the quota of reimbursement of the excess IRES taxes paid for the failure to deduct the IRAP related to the expenses for employees in conformity with. 2, sub-section 1-quater, D.L. 201/2011.

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

| | 2012 | 2011 |
|---|-------------|-----------|
| Profit/loss before taxes | 10.610.492 | 2.400.613 |
| Theoretical IRES Aliquot | 27,50% | 27,50% |
| Theoretical IRES | 2.917.885 | 660.169 |
| One time income tax charges | (314.483) | |
| Tax credit | | (280.130) |
| Higher (lower) fiscal incidence with respect to the theoretical aliquot | (2.225.031) | 626.374 |
| Actual IRES | 378.371 | 1.006.413 |
| Actual IRES aliquot | 3,57% | 41,92% |

The fiscal cost for this year is, among other things, particularly influenced by the PEX exemption which benefits most of the capital gains earned by the sale of the Cynosure shares, as previously mentioned.

The break-down of the deferred tax assets and liabilities is shown in the chart for the preceding note (16). The amount of Income taxes includes the balance related to this financial year.

Dividends distributed (note 31)

The shareholders' meeting of El.En. Spa which met on May 13th 2011 voted to distribute a dividend of 0,20 Euros per share in circulation on the maturity date. The dividend paid amounted to 944.244,00 Euros.

The shareholders' meeting held on May 15th 2012 voted to not distribute any dividends and to allocate all of the net income for the year to an extraordinary reserve in the amount of 1.264.103,00 Euros.

Non-recurring significant, atypical or unusual events and operations (note 32)

In 2012, the only non-recurring significant event was the partial sale of the equity held in Cynosure Inc. It should be recalled that for the same period last year no significant non-recurring operations were conducted..

| | Shareholders' equity | | Income (loss) for the period | | Net financial position | | Cash flows (*) | |
|---|----------------------|-----|------------------------------|------|------------------------|------|---------------------|-----|
| | Euros | % | Euros | % | Euros | % | Euros | % |
| Book value (A) | 87.270.574 | | 9.804.911 | | 11.541.755 | | 16.805.693 | |
| Income/assets arising from the sale of equity in Cynosure Inc. | (10.038.401) | 12% | (10.038.401) | 102% | (12.876.305) | 112% | (12.876.305) | 77% |
| Total operations (B) | (10.038.401) | 12% | (10.038.401) | 102% | (12.876.305) | 112% | (12.876.305) | 77% |
| | | | | | | | | |
| Gross figurative value (A + B) | 77.232.173 | | (233.490) | | (1.334.550) | | 3.929.388 | |
| (*) Cash flows refer to the increase (or decrease) in the period of the cash and cash equivalents | | | | | | | | |

Information about related parties (note 33)

In accordance with the IAS 24 the following subjects are considered related parties of El.En. SpA:

- the subsidiary and associated companies;
- the members of the Board of Directors and Board of Statutory Auditors and the other key management personnel;
- the individuals holding shares in El. En. S.p.A;
- the legal bodies of which a significant number of shares is owned by one of the main shareholders of El.En SpA, by a member of the Board of Directors, by a member of the Board of Statutory Auditors, by any other of the key management personnel.

One of the Executive Board Members, majority shareholder of the Parent Company, holds a quota of 25% of the property without usufruct of Immobiliare del Ciliegio Srl, which is also a partner of the Parent Company.

All the transactions with related parties took place at ordinary market conditions.

In particular the following should be noted:

Subsidiary and associated companies

El. En. SpA controls a Group of companies which operate in the same macro-sector of lasers, to each of which is reserved a special field of application and a particular function on the market.

The integration of different products and services offered by the Group generates frequent commercial transactions between the various companies belonging to the Group. Most of the inter-Group commercial transactions involve the production by El. En. SpA of mid- and high-powered CO₂ laser sources which constitute a fundamental component in the products manufactured by Cutlite Penta Srl, and Lasit SpA. Medical laser equipment manufactured by El. En. SpA is also involved in inter-Group commercial transactions which are, in part, sold to Cynosure, to Dekamela M.E.L.A. Srl, to Esthelogue Srl, to Dekamela Srl, to Dekamela Lasertechnologie GmbH, to ASA Srl and to Asclepion Laser Technologies GmbH, which organize their distribution.

The prices for the transfer of goods are established on the basis of what normally occurs on the market. The intercompany transactions therefore reflect market trends, from which they may differ slightly in accordance with the commercial policies of the company.

It should be mentioned that in October of 2002 El. En. SpA acquired, free of charge, from Dekamela Srl a license for the use of the same brand name for marketing the laser equipment produced by El. En. for the dental-medical and aesthetic sector in some European and non-European countries.

The tables below show an analysis of the transactions which have taken place with the subsidiary and associated companies both for sales and commercial and financial payables and receivables.

| Subsidiary companies: | Financial receivables | | Other receivables | | Commercial receivables | |
|-------------------------------------|-----------------------|----------|-------------------|----------|------------------------|----------|
| | < 1 year | > 1 year | < 1 year | > 1 year | < 1 year | > 1 year |
| Asclepion Laser Technologies GmbH | 984.966 | | | | 822.510 | |
| Dekamela MELA Srl | | | | | 3.854.614 | |
| Cutlite Penta Srl | 500.000 | | | | 7.173.899 | |
| Esthelogue Srl | 520.000 | | | | 1.756.844 | |
| Dekamela Srl | | | | | 1.989.983 | |
| Dekamela Lasertechnologie GmbH | | | | | 2.235.064 | |
| Dekamela Laser Technologies INC | 374.217 | | | | 1.188.740 | |
| BRCT Inc. | 197.060 | | | | 20.388 | |
| Lasit Spa | 119.040 | | | | 104.031 | |
| Quanta System SpA | 65.000 | | | | 75.876 | |
| AQL Srl | | | | | 1.920 | |
| ASA Srl | | | | | 213.540 | |
| Lasercut Technologies Inc. | 50.940 | | | | 275.681 | |
| Cutlite do Brasil Ltda | | | | | 3.127.151 | |
| Penta-Chutian Laser (Wuhan) Co. Ltd | | | | | 3.178.495 | |
| With Us Co Ltd | | | | | 10.245 | |
| Dekamela Medical Inc | 151.584 | | | | 2.680.026 | |
| Pharmonia Srl | 500.000 | | | | 44.349 | |
| - Bad debt reserve | | | | | -2.800.000 | |
| <i>Total</i> | 3.462.807 | 0 | 0 | 0 | 25.953.356 | 0 |

| Associated companies: | Financial receivables | | Commercial receivables | |
|-------------------------|-----------------------|----------|------------------------|----------|
| | < 1 year | > 1 year | < 1 year | > 1 year |
| Cynosure, Inc. | | | 1.742.739 | |
| SBI SA | | | 11.000 | |
| Actis Srl | | | 2.904 | |
| Immobiliare Del.Co. Srl | 13.565 | | | |
| Elesta Srl | | | 803.226 | |
| <i>Total</i> | 13.565 | - | 2.559.869 | - |

| Subsidiary companies: | Financial payables | | Other payables | | Commercial payables | |
|-------------------------------------|--------------------|----------|----------------|----------|---------------------|----------|
| | < 1 year | > 1 year | < 1 year | > 1 year | < 1 year | > 1 year |
| Deka MELA Srl | | | | | 292.770 | |
| Cutlite Penta Srl | | | 380.775 | | 93.375 | |
| Esthelogue Srl | | | 944 | | 8.082 | |
| Deka Lasertechnologie GmbH | | | | | 15.475 | |
| Lasit Spa | | | | | 52.483 | |
| Quanta System SpA | | | | | 731.903 | |
| ASA Srl | | | | | 30.250 | |
| Cutlite do Brasil Ltda | 399.615 | | | | 11.308 | |
| Lasercut Technologies Inc. | | | | | 3.676 | |
| Deka Medical Inc | | | | | 32.551 | |
| Penta-Chutian Laser (Wuhan) Co. Ltd | | | | | 18.356 | |
| <i>Total</i> | 399.615 | - | 381.719 | - | 1.290.229 | - |

| Associated companies: | Financial payables | | Other payables | | Commercial payables | |
|-----------------------|--------------------|----------|----------------|----------|---------------------|----------|
| | < 1 year | > 1 year | < 1 year | > 1 year | < 1 year | > 1 year |
| Cynosure | | | 1.381 | | 2.725 | |
| Actis Srl | | | | | 19.360 | |
| SBI SA | | | | | 2.660 | |
| <i>Total</i> | - | - | 1.381 | - | 24.745 | - |

| Subsidiary companies: | Purchase raw materials | Services | Other | Total |
|-------------------------------------|------------------------|----------|-------|-----------|
| Cynosure | 2.939 | | | 2.939 |
| Deka MELA Srl | 340.003 | 21.994 | | 361.997 |
| Cutlite Penta Srl | 112.451 | 19.026 | 390 | 131.867 |
| Esthelogue Srl | 4.000 | 7.006 | | 11.006 |
| Deka Sarl | 40.047 | 17.851 | | 57.898 |
| Deka Lasertechnologie GmbH | 15.475 | | | 15.475 |
| Lasit Spa | 252.215 | | | 252.215 |
| Quanta System SpA | 2.118.888 | 153.535 | | 2.272.423 |
| Asclepion Laser Technologies GmbH | 308.843 | 19 | | 308.862 |
| ASA Srl | | 25.000 | | 25.000 |
| Deka Medical Inc. | | 50.023 | | 50.023 |
| Cutlite do Brasil Ltda | 1.500 | | | 1.500 |
| Penta-Chutian Laser (Wuhan) Co. Ltd | 18.356 | | | 18.356 |
| Lasercut Technologies Inc. | 3.774 | | | 3.774 |
| <i>Total</i> | 3.218.491 | 294.454 | 390 | 3.513.335 |

| Associated companies: | Purchase of raw materials | Services | Other | Total |
|------------------------------|----------------------------------|-----------------|--------------|--------------|
| Actis Srl | | 16.000 | | 16.000 |
| SBI S.A. | 2.660 | | | 2.660 |
| <i>Total</i> | 2.660 | 16.000 | - | 18.660 |

| Subsidiary companies: | Sales | Services | Total |
|-------------------------------------|--------------|-----------------|--------------|
| Cynosure | 3.948.350 | | 3.948.350 |
| Deka MELA Srl | 18.288.063 | 697.079 | 18.985.142 |
| Cutlite Penta Srl | 2.010.431 | 501.684 | 2.512.115 |
| Esthelogue Srl | 199.430 | 166.211 | 365.641 |
| Deka Sarl | 1.102.930 | 26.055 | 1.128.985 |
| Deka Lasertechnologie GmbH | 56.585 | 20.776 | 77.361 |
| Lasit Spa | 121.792 | 7.254 | 129.046 |
| Deka Laser Technologies INC | 420.585 | | 420.585 |
| Asclepion Laser Technologies GmbH | 1.037.198 | 172.115 | 1.209.313 |
| Quanta System SpA | 82.622 | 250 | 82.872 |
| ASA Srl | 808.382 | 1.117 | 809.499 |
| Penta-Chutian Laser (Wuhan) Co. Ltd | 2.066.262 | 4.414 | 2.070.676 |
| Cutlite do Brasil Ltda | 198.467 | | 198.467 |
| With Us Co Ltd | 10.245 | | 10.245 |
| Deka Medical Inc. | 749.830 | 809 | 750.639 |
| Raylife Srl | 7.867 | 6.800 | 14.667 |
| Lasercut Technologies Inc. | 35.143 | | 35.143 |
| <i>Total</i> | 31.144.182 | 1.604.564 | 32.748.746 |

| Associated companies: | Sales | Service | Total |
|------------------------------|--------------|----------------|--------------|
| Cynosure Inc. | 245.472 | | 245.472 |
| SBI S.A. | 22.000 | | 22.000 |
| Elesta Srl | 315.356 | 3.460 | 318.816 |
| <i>Total</i> | 582.828 | 3.460 | 586.288 |

| Subsidiary companies: | Other revenues |
|-------------------------------------|-----------------------|
| Cynosure | 1.506 |
| Deka MELA Srl | 102.448 |
| Cutlite Penta Srl | 119.522 |
| Esthelogue Srl | 1.305 |
| Lasit Spa | 105.540 |
| Deka Laser Technologies Inc | 5.817 |
| Quanta System SpA | 280 |
| Asclepion Laser Technologies GmbH | 24.427 |
| ASA Srl | 1.075 |
| Penta-Chutian Laser (Wuhan) Co. Ltd | 2.747 |
| Raylife srl | 914 |
| Deka Medical Inc. | 5.626 |
| Lasercut Technologies Inc. | 684 |
| <i>Total</i> | 371.891 |

| Associated companies: | Other revenues |
|-----------------------|----------------|
| Elesta Srl | 1.343 |
| Actis Srl | 2.400 |
| <i>Total</i> | 3.743 |

The amounts shown on the charts above refer to operations which are inherent to the characteristic activity of the company.

The other revenue refers, among other things to the rents charged to Deka M.E.L.A. Srl and to Cutlite Penta Srl for the portions of the buildings in Calenzano which they occupy and to Lasit Spa for the factory at Torre Annunziata.

Moreover, we have entered into accounts approx. 71 thousand Euros in interest earned on the financing granted to subsidiary companies.

Among the “Income taxes” we have entered charges from fiscal consolidation for an amount of 2 thousand Euros for Esthelogue Srl and about 300 thousand Euros for Cutlite Penta S.r.l..

Members of the Board of Directors, the Board of Statutory Auditors and other key management executives

Members of the Board of Directors and the Board of Statutory Auditors receive the salaries indicated in the chart below.

| Name | Position | Term duration | Fees in: | Fees | Remuneration for participation on committees | Bonus and other incentives | Non monetary benefits | Other rewards | Total | Indemnity for termination of mandate or employment |
|--------------------|------------------------------------|---|---------------------------------------|------------------|--|----------------------------|-----------------------|---------------|-------------------|--|
| Gabriele Clementi | Chairman of the Board of Directors | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 90.794 14.636 | | 72.890 | 2.362 | | 166.046 14.636 | 6.500 |
| Barbara Bazzocchi | Managing Director | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 90.794 12.000 | | 30.305 | 2.362 | | 123.461 12.000 | 6.500 |
| Andrea Cangioli | Managing Director | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 91.151 14.636 | | 36.445 | 2.005 | | 129.601 14.636 | 6.500 |
| Michele Legnaioli | Director | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 12.000 | | | | | 12.000 | |
| Paolo Blasi | Director | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 12.000 | | | | | 12.000 | |
| Angelo E. Ferrario | Director | Up to August 27th 2012 | El.En. SpA Subsidiaries/associates | 8.000 90.116 | | | | | 8.000 90.116 | |
| Alberto Pecci | Director | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 12.000 | | | | | 12.000 | |
| Stefano Modi | Director | Approval of the financials for 31.12.2014 | El.En. SpA Subsidiaries/associates | 99.250 | | 23.505 | 11.599 | 23.608 | 157.962 | |

| | | | | | | | | | |
|-------------------|--|---|-------------------------|--------|--|--|-------|--|--------|
| Vincenzo Pilla | President of the Board of Statutory Auditors | Approval of the financials for 31.12.2012 | El.En. SpA | 31.200 | | | | | 31.200 |
| | | | Subsidiaries/associates | 34.978 | | | | | 34.978 |
| Gino Manfriani | Statutory Auditor | Approval of the financials for 31.12.2012 | El.En. SpA | 20.800 | | | | | 20.800 |
| | | | Subsidiaries/associates | 17.613 | | | | | 17.613 |
| Paolo Caselli | Statutory Auditor | Approval of the financials for 31.12.2012 | El.En. SpA | 20.800 | | | 8.320 | | 29.120 |
| | | | Subsidiaries/associates | 30.768 | | | | | 30.768 |
| Manfredi Bufalini | Supplementary Auditor | Approval of the financials for 31.12.2012 | El.En. SpA | | | | | | |
| | | | Subsidiaries/associates | 6.240 | | | | | 6.240 |

Note: the salaries shown on the chart are determined on the accrual basis.

Fixed salaries:

- The amounts paid to the directors of the Parent Company for their roles in other companies included in the area of consolidation are as follows: Barbara Bazzocchi, as chairman of the Board of Directors of Cutlite Penta Srl received a salary of 12.000 Euros; Gabriele Clementi as member of the Board of Directors of With Us received a salary of 1.500 thousand yen from that company; Andrea Cangioli as member of the Board of Directors of With Us received a salary of 1.500 thousand yen from that company; Angelo E. Ferrario, as president of the Board of Directors of Quanta System SpA until he resigned, received a salary of 90.116 Euros from that company.

- With reference to the board member Stefano Modi the heading of “fixed fees” also includes a salary of 87.250 Euros as payment for his work as an employee.

- The salaries of members of the Board of Statutory Auditors for carrying out their functions in other companies included within the area of consolidation are as follows: Vincenzo Pilla as President of the Board of Statutory Auditors of Deka Mela Srl and Lasit SpA and acting Auditor of Cutlite Penta Srl received from these companies a total salary of 34.978 Euros; Gino Manfriani, as acting Auditor of Deka Mela Srl and Cutlite Penta Srl received a total salary of 17.613 Euros for the period in which he worked for these companies; Paolo Caselli as President of the Board of Statutory Auditors of Cutlite Penta Srl and acting Auditor of Deka Mela Srl and Lasit SpA received from these companies a total salary of 30.768 Euros; Manfredi Bufalini in his role as acting auditor of Quanta System SpA received from the company the amount of 6.240 Euros.

Bonuses and other incentives:

In this column the chart shows the amounts received by some of the members of the Board of Directors as an incentive bonus for achieving certain goals which were set by the Board in accordance with the vote of the Shareholders’ meeting held on May 15th 2012, which, when determining the amount of remuneration of the Board of Directors, had established at the maximum amount 1 million Euros the variable part of the overall bonuses to be assigned and to assign to the managing directors, including the president with powers of attorney, and the board members with special positions as described in art. 21 of the by-laws and art.. 2389,sub-section 3 Civil Code. These bonuses will be paid in 2013.

Non-monetary benefits:

- The heading “Non-monetary benefits” refers to a fringe benefit paid to the President of the Board of Directors and the executive directors in accordance with the vote of the shareholders’ meeting held on May 15th 2012.

- For the Board Member Stefano Modi it refers to the fringe benefit he receives as an employee like the other managers.

Other rewards:

- With reference to the Board Member Stefano Modi la voce “Other bonuses” refers to transfers and one-off payments.

- The acting auditor Dott. Paolo Caselli received a bonus of 8.320 Euros as a member of the Controlling body of El.En. S.p.A., in compliance with in ex D.Lgs. 231/01.

Indemnity for termination of mandate or employment:

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

Prof. Leonardo Masotti, President of the Scientific Committee, received a fixed remuneration of 8.400 Euros, besides an incentive bonus of 26.505 Euros. Moreover, as President of the Board of Directors of Deka M.E.L.A. Srl he received a salary of 15.000 Euros and as a member of the Board of Directors of With Us he received 1.500 thousand Yen from that company.

The Parent Company does not have a general director.

Physical persons possessing an equity in El.En. SpA

Besides the members of the Board of Directors, the Board of Statutory Auditors and the President of the Technical-Scientific Committee, partner Carlo Raffini whom the Parent Company El.En. for a specific professional task for the entire year, received a salary of 32.000 Euros; moreover, for a similar task carried out for the subsidiaries Deka M.E.L.A. Srl and Cutlite Penta Srl he received 20.000 Euros.

The tables below show the incidence which the operations with related parties had on the financial and economic situation of the company.

| Impact of related party transactions | Total | related parties | % |
|---|------------|-----------------|--------|
| a) Impact of related party transactions on the statement of financial position | | | |
| Equity investments | 21.776.777 | 21.723.314 | 99,75% |
| Other non current assets | | | |
| Accounts receivables | 31.402.771 | 28.462.225 | 90,64% |
| Other receivables | 4.337.188 | 3.527.372 | 81,33% |
| Non current financial liabilities | 7.358.333 | | 0,00% |
| Current financial liabilities | 4.048.868 | 399.615 | 9,87% |
| Accounts payables | 7.218.166 | 1.314.974 | 18,22% |
| Other payables | 3.486.575 | 383.100 | 10,99% |
| b) Impact of related party transactions on the income statement | | | |
| Revenues | 42.169.040 | 33.335.034 | 79,05% |
| Other revenues and income | 1.835.586 | 375.634 | 20,46% |
| Purchases of raw materials | 18.657.794 | 3.221.151 | 17,26% |
| Other direct services | 3.091.797 | 186.368 | 6,03% |
| Other operating services and charges | 4.832.172 | 124.476 | 2,58% |
| Financial charges | 1.161.525 | | 0,00% |
| Financial income | 786.227 | 71.290 | 9,07% |
| Income taxes | 805.581 | 301.136 | 37,38% |

Risk factors and Procedures for the management of financial risks (note 34)

Operating risks

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

The main financial instruments of the Company include checking accounts and short-term deposits, short and long-term financial liabilities.

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

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

Currency risks

The company is exposed to the risks of oscillations in the exchange rate of the currencies in which some of the commercial and financial transactions are expressed. These risks are monitored by the management which takes all the

necessary measures to reduce this type of risks. During this year the company implemented operations in derivatives which were intended to reduce the currency risks.

These operations were conducted for the purpose of hedging the currency risks on the amount that had been received for the payment of the sale of Cynosure shares which is described above. And they are evaluated in the statements at fair value on the basis of the Euro/US dollar exchange rate on December 31st 2012.

| <i>Operation</i> | <i>Exchange rates</i> | | | |
|------------------|-----------------------|-------------|-------------------|-----------------|
| | <i>Notional value</i> | | <i>Fair value</i> | |
| | | | <i>Positive</i> | <i>Negative</i> |
| PUT option | \$5.000.000 | € 3.846.154 | 72.144 | - |
| <i>Total</i> | \$5.000.000 | € 3.846.154 | 72.144 | - |

Upon the maturity of the financial instrument (January 30th 2013), the operation was closed at the Exchange rate of 1,30 when the current rate was 1,3541 and there was no loss of potential fair value. For this reason it was decided not to conduct a sensitivity analysis on December 31st 2012.

Credit risks

As far as the commercial transactions are concerned, the company operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance.

The devaluation provision which is accrued at the end of the year represents about 38% of the total trade receivables from third parties. For an analysis of receivables overdue from third parties, see the description in note (6) of the Financial Statement.

As far as financial receivables are concerned, they refer mostly to financing granted to subsidiaries and associated companies. For these financings no devaluation has been necessary.

In relation to guarantees granted to third parties, it should be recalled that the Company El.En. in 2009 underwrote along with a minority partner, a bank guarantee for a maximum of one million Euros as a guarantee for the loan of the subsidiary Quanta System owed to the Banca Popolare di Milano for facilitated financing for a total amount of 900 thousand Euros, for which the reimbursement installments expire up to 84 months from the date of issuance, which occurred in the second half of 2009. Moreover, after the acquisition of the entire equity from the minority shareholder on October 8th 2012, El.En. was committed to make sure that the partner was free of any financial obligation toward the Banca Popolare di Milano

During 2010 the company also underwrote:

- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 763 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the "TROPHOS" research project which has been included in the grant issued by the *Bando Unico* R&S in the year 2008 and approved by the Region of Tuscany with Directive Decree 6744 on December 31st 2008 which expired in April 2012 and was extended until April 2013.
- a bank guarantee, jointly with the companies which participate in the ATS constituted for this purpose for a maximum of 1.434 thousand Euros as a guarantee for the payback of the amount granted as down payment on the "TEMART" research project which has been included in the grant issued by the *Bando Regionale* 2008 and approved by the Region of Tuscany with Directive Decree 5673 on November 21st 2008 which expires in July 2013.
- a bank guarantee for a maximum of 751 thousand Euros as a guarantee for the payment of the sum required as a reimbursement for the VAT related to the tax period 2008 which expires in November 2013;

And during 2011:

- a bank guarantee jointly with the companies which are participating in the ATS constituted for this purpose, for a maximum of 3.074 thousand Euros as a guarantee for the pay back of the amount granted as down payment on the research project "MILORD", which has been included in the grant issued by *Bando Regionale* 2010 approved by the Region of Tuscany with Directive Decree n. 670 of February 25th 2011, which expires in September 2014.

Cash and interest rate risks

The cash risk represents the risk that the financial resources available might be inadequate to cover the debts coming due. At this time the Company believes that the cash that is held, especially on account of the cash generated by the sale of the Cynosure shares, is adequate to cover existing debts with a net financial position that is positive for the amount of 11,6 million Euros.

The exposure to the risk of variations in the interest rates of the market is connected to the mid- to long-term financing operations with a variable interest rate. The company concludes operations for collecting funds at a variable rate and then evaluates whether they should cover the risk of the interest rate by converting the variable rate to a fixed rate.

The Company El.En. underwrote IRS contracts with major credit institutions in order to cover the interest rate on financing that had already been granted. The hedge was made by neutralizing the potential losses of the instrument (financing) with the profits registered from another element (the derivative). IAS 39 refers to several types of *Hedge Accounting* one of which, the *Cash Flow Hedge* is the type that was used in this case.

The purpose of the *Cash Flow Hedge* is to cover the exposure to variations in the future attributed to particular risks associated with the entries in the financial statements.

In this case, the variations in fair value of the derivative are reported in the shareholders' equity for the effective amount of coverage, and in the income statement only when, with reference to the amount covered, the variation in the amount of cash flow to be compensated appears. If the hedge is not effective the variation in the fair value of the hedge contract must be registered in the income statement.

| Operation | Notional value | Fair value | |
|-----------|----------------|------------|----------|
| | | Positive | Negative |
| IRS | € 1.500.000 | | (20.180) |

In evaluating the potential impact derived from changes in the interest rates, it should be noted that, since the financing is for an insignificant amount, any changes in the interest rate would not have an impact on the capital and reserves.

Management of the capital

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

Financial Instruments (note 35)

Fair value

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

| | Book value | Book value | Fair value | Fair value |
|--|------------|------------|------------|------------|
| | 31/12/2012 | 31/12/2011 | 31/12/2012 | 31/12/2011 |
| Financial assets | | | | |
| Financial receivables within 12 months | 3.496.372 | 3.676.622 | 3.496.372 | 3.676.622 |
| Cash and cash equivalents | 22.928.956 | 6.123.263 | 22.928.956 | 6.123.263 |
| Financial liabilities | | | | |
| Financial mid and long term debts | 7.358.333 | 2.380.000 | 7.358.333 | 2.380.000 |
| Financial liabilities due within 12 months | 4.048.868 | 4.251.763 | 4.048.868 | 4.251.763 |

Other information (note 36)

Remuneration of directors and statutory auditors

| | 31/12/2012 | 31/12/2011 | Variation | Var. % |
|------------------------------------|------------|------------|-----------|--------|
| Remuneration of directors | 491.885 | 363.828 | 128.057 | 35,20% |
| Remuneration of statutory auditors | 72.800 | 72.800 | - | 0,00% |
| <i>Total</i> | 564.685 | 436.628 | 128.057 | 29,33% |

Information supplied in compliance with art. 149-duodecies of the *Regolamento Emittenti Consob*

In compliance with article 149-duodecies of the *Regolamento Emittenti Consob*, the chart below shows the amounts for the year 2012 related to auditing services and for those other than the ones conducted by Deloitte & Touche

| | Company providing the service | Receiver | note | 2012 fees (Euros) |
|----------------|-------------------------------|---------------|------|-------------------|
| Audit | Deloitte & Touche S.p.A. | El.En. S.p.A. | | 43.683 |
| Other services | Deloitte network | El.En. S.p.A. | (1) | 10.000 |
| | | | | 53.683 |

(1) Activities supporting the control and up-dating of the system of evaluation and control of risks related to financial information reports

The honorariums shown are net of reimbursements for the expenses sustained and the contributions for supervision of the Consob.

Average number of employees divided by category

| | Average 2012 | 31/12/2012 | Average 2011 | 31/12/2011 | Variation | Var. % |
|--------------|-----------------|------------|-----------------|------------|-----------|--------|
| Executives | 11,0 | 11 | 11,0 | 11 | 0 | 0,00% |
| Management | 11,0 | 12 | 9,5 | 10 | 2 | 20,00% |
| White collar | 92,5 | 93 | 91,5 | 92 | 1 | 1,09% |
| Blue collar | 66,5 | 66 | 66,5 | 67 | -1 | -1,49% |
| <i>Total</i> | 181,0 | 182 | 178,5 | 180 | 2 | 1,11% |

For the Board of Directors

The Managing Director – Ing. Andrea Cangioli

Declaration of the separate financial statement in conformity with art. 81-ter CONSOB regulation n. 11971 of May 14th 1999 and later modifications and additions

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

- the conformity in relation to the characteristics of the company and
- the actual application of the administrative and accounting procedures used in drawing up the separate financial statement, during 2012.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the separate statement dated December 31st 2012:

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

3.2 the director's report on operations contains a reliable analysis of the trends and results of the activity as well as the situation of the issuing company and the group of companies included in the area of consolidation, together with a description of the principal risks and uncertainties which they are exposed.

Calenzano, March 13th 2013

Managing Director

Ing. Andrea Cangioli

Executive officer responsible for the
preparation of the financial statements

Dott. Enrico Romagnoli

El. En. S.p.A.

Legal Headquarters: Via Baldanzese 17 Calenzano (Florence, Italy)
Registro Imprese Firenze n. 03137680488

Report of the Board of Statutory Auditors to the Stockholders' Meeting on the financial statement as of December 31st 2012 in conformity with art. 2429 c.c. and art. 153 of D. Lgs. n. 58 / 1998.

To our shareholders,
the Board of Directors of El.En. S.p.A. herewith presents to the Assembly of the company the proposed company report as of December 31st 2012 which was consigned to the Board of Statutory Auditors on March 13th 2013.

During the financial year 2012 the Board of Statutory Auditors conducted its activity in compliance with the regulations of the "*Testo Unico delle disposizioni in materia di intermediazione finanziaria*" (rules for financial intermediaries) D. Lgs. February 24th 1998 n. 58, D.Lgs. January 27th 2010 n. 39 and in conformity with the operating principles of the Board of Statutory Auditors recommended by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (National Council of Business Administrators and Accountants) for the companies quoted on the stock market and with Consob Communication of April 6th 2001, modified and integrated with communication DEM/ 3021582 of April 4th 2003 and subsequently with communication DEM/6031329 of April 7th 2006.

In compliance with D.Lgs. n.58 of February 24th 1998 and D. Lgs. Of January 27th 2010 no. 39, it should be noted that the activity of auditing of the accounts and the financials is the responsibility of the Independent auditor Deloitte & Touche S.p.A . which was confirmed for the auditing of the financials for 2012 – 2020, by the stockholders' meeting which met on May 15th 2012, subject to the approval of the Board of Statutory Auditors.

For the financials as of December 31st 2012, the Independent auditor found no faults and declared that the statement was in conformity with the rules that govern the criteria for drawing up financial statements, that it is was clearly stated and that it represented in a true and correct manner the economic and financial situation, the earnings and the cash flow of El.En. S.p.A.. The Independent auditor also found that the information contained in the director's report on operations and the report on corporate governance was consistent with the statement.

The financial statement as of December 31st 2012 was drawn up in conformity with the International Accounting Principles (IFRS).

In conformity with the recommendations given by Consob, with their communication of April 6th 2001, we declare that the Board of Statutory Auditors:

- Supervised the respect of the law and the certificate of incorporation.
- Obtained from the directors, at least once every quarter, information on the activity conducted and on the operations of major economic and financial significance made by the Company (and by its subsidiaries) and can reasonably affirm that the activities voted and carried out are in conformity with the law and with the company by-laws and are not manifestly imprudent, risky or in potential conflict of interest or in contrast with the decisions made by the Assembly or of a nature to compromise the stockholders' equity. In this regard the following should be noted: (I) the sale of a block of 840 thousand shares out of a total of 2,9 million shares in Cynosure Inc. which comported a capital gains of 10,038 million Euros as well as the exit of this latter company from the area of full consolidation because the conditions for control no longer exist; (II) the acquisition of a minority quota in Quanta

System S.p.a. of Solbiate Olona (Varese) which brought the equity of El.En in that company to one hundred percent.

- They have been informed about and have supervised, within the limits of their competency, the adequacy of the organizational structure of the Company, of the respect of the principles of correct administration, and the adequacy of the instructions given by the company to the subsidiaries in conformity with art. 114, sub-section 2 of D.Lgs. 58/98, through the gathering of information from the persons responsible for the organizational functions. As far as the inter-group operations are concerned, the directors, in the explanatory notes, illustrate and describe the relations between the Company and the companies of the Group, stating that the operations took place under normal market conditions. These operations are consistent with and respond to the interests of the company.
- They have initiated an exchange of information with the Independent auditors, by meeting with their staff in conformity with art. 150, sub-section 2, D.Lgs. 58/98, and from these meetings no information emerged that needed to be mentioned in this report. From this exchange of information it emerged that the Independent auditor found no irregularities or errors in reference to the regular bookkeeping and the correct reporting of facts related to the management in the entries in the accounts which required notification to the competent authorities.
- They have initiated an exchange of information with the corresponding bodies of the Italian subsidiary companies concerning the administration and control and the general trend of the activities.
- They have evaluated and supervised the adequacy of the internal controls system and the administrative and accounting system as well as its reliability in correctly representing management events by (i) obtaining information from the managers of the respective functions, (ii) inspecting the company documents and the analysis of the results of the work conducted by the Independent auditor, (iii) supervising the activity of the provosts for internal controls and (iv) participating in the activity conducted by the Internal Control Committees of the Board of Directors instituted by the Company in compliance with the *Codice di Autodisciplina* for companies quoted on the stock market. In relation to this no particular observations were reported. The Board of Statutory Auditors, moreover has taken note of the contents of the communication from the manager in charge of preparing the company's financial statements regarding the fulfilling of his duties and the declarations made by him and by the managing director in conformity with the law.
- From the Supervising Body, instituted in conformity with D.Lgs 231/2001, of which the statutory auditor Paolo Caselli is an acting member, they have received information concerning the activities conducted by this body. From this information no anomalies or reprehensible facts emerged.
- They reported that from the information received from the directors and from the conversations had with representatives of the Independent auditing company, the existence of atypical or unusual operations conducted with companies of the Group, related or third parties during 2012 or after the closure of the financial year, did not emerge.
- On the basis of the findings communicated by the Independent auditing company concerning their separate report, they did not report any critical points or errors in information.
- The Board of Statutory Auditors has not received any reports of violations of ex art. 2408 of the Civil Code nor other protests from third parties.

- They have taken note of the fact that the Company has substantially adhered to the *Codice di Autodisciplina* set up by the Commission for corporate governance of companies quoted on the stock market. The Board of Directors has appointed two independent directors and has instituted the following commissions: Nominations Committee, Remuneration Committee, and Control and Risk Committee. Concerning the activities conducted and the state of implementation of the regulations contained in the above mentioned code, the Board of Directors has provided ample information in the annual report on corporate governance (*Annuale Report on Corporate governance*).
- They have taken note of the approval of the Board of Directors of the ethics code for operations made on financial instruments by the El.En. Group (*Codice di "Comportamento per operazioni compiute su strumenti finanziari del Gruppo El.En. da persone rilevanti"*) in effect starting on January 1st 2003, in compliance with the stock market regulations (*"Regolamento dei mercati organizzati e gestiti da Borsa Italiana S.p.A."*) approved on July 9th 2002.
- In compliance with art. 4 sub-section 6 of the Consob regulation (*Regolamento Consob*) containing provisions related to operations with related parties (adopted after vote 17221 of March 12nd 2010 and subsequently modified by vote 17389 of June 23rd 2010), they supervised the compliance of the procedures adopted by the company through the approval of the specific regulation (which was last modified during the meeting held on November 12nd 2010), to the principles indicated in the *Regolamento Consob* mentioned above as well as to the application of these same principles.

In conformity with art.19 first sub-section letter d) of D.Lgs. 39/2010, they supervised the independence of the legal auditors, in particular in relation to the performance of non-auditing services and in compliance with art.17 sub-section 9 D.Lgs 39/2010, the legal auditing company gave written confirmation of their independence and also communicated the following non-auditing services performed for the company, also by the network to which it belongs:

- Methodological support for the internal task force created by the company for starting the process of control and up-dating of the existing system now operating and evaluation of the risks connected to the financial information report in conformity with law 262/2005 for a remuneration of 30 thousand Euros.
- In compliance with art. 17 of D.Lgs n. 39/2010, they discussed with the Independent auditors the risks related to the independence of the company as well as the measures that had been taken to limit these risks.
- In compliance with art. 19 of D.Lgs n. 39/2010, in their role as Commission for Internal Controls and auditors, they supervised the process of financial information, on the effectiveness of the internal controls system, of internal auditing and risk management.
- In compliance with art. 19 of D.Lgs n. 39/2010, they supervised the auditing of the annual accounts and the consolidated accounts by obtaining from the legal auditors a report on the fundamental questions which emerged during the legal auditing from which no significant faults emerged regarding to the internal controls system in relation to the process of financial information.
- The Board of Statutory Auditors did not find any critical aspects in relation to the independence of the Independent auditing company.

During the supervising activity conducted and, on the basis of information obtained from the Independent auditors, no omissions or reprehensible facts emerged of a nature that would require them to be reported to the controlling bodies or mentioned in this report.

Upon the appointment by the Board of Directors of the executive officer responsible for the preparation of the Company's financial statements, the Board of Statutory Auditors expressed their favorable opinion in conformity with art. 154-bis D. Lgs. 58/98.

The Board of Statutory Auditors issued opinions related to the salaries as per ex art. 2389 n. 3 c.c.. and to the purchase of treasury stock as per art. 2357 c.c.

On March 13th 2013 the Board of Directors approved the report on remuneration in compliance with art. 123 ter TUF.

The Board of Statutory Auditors believes that the internal procedure adopted by the Company in order to comply with art. 36 of the stock market regulations (*Regolamento Mercati*) approved by Consob with vote 16191/2007 concerning information and suitability of the systems of transmission of data by the subsidiary companies governed by countries not belonging to the European Union, is adequate.

The supervising activity described above was conducted in six meetings of the Board of Statutory Auditors, attending six meetings of the Board of Directors and two of the stockholders' meeting and participating in the activities of the Committee for controls and risks.

The Board of Statutory Auditors has verified the correct application by the Board of Directors of the criteria and of the procedures adopted to evaluate the independence of the independent directors in conformity with art. 3.C.5 of the *Codice di Autodisciplina*. The Board of Statutory Auditors has also verified the compliance with the criteria for independence of its own members both in the phase of appointment and afterwards, in conformity with art. 10.C.2 of the *Codice di Autodisciplina*.

The Board of Statutory Auditors, in consideration of the results of the verifications conducted and the positive opinion of the Independent auditors, expresses their favorable opinion for the approval of the financial statement as it has been presented by the Board of Directors, and of the proposal by the same body in relation to the destination of the net income for the financial year.

Florence, March 27th 2013.

Board of Statutory Auditors

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

Dott. Paolo Caselli, Statutory auditor.

Dott. Gino Manfriani, Statutory auditor.

The list below shows the various positions held by the members of the controlling body with the companies in conformity with *libro V, Titolo V, Capi V-VI-VII of the c.c.* on the date of issue of this report.

Vincenzo Pilla: *El.En. S.p.A. President of the Board of Statutory Auditors (2012); KME Italy S.p.A. President of the Board of Statutory Auditors (2012); Dekamela S.r.l. President of the Board of Statutory Auditors (2012); Lasit S.p.A. President of the Board of Statutory Auditors (2012); Cutlite Penta S.r.l. Statutory auditor (2012); Elba Assicurazioni S.p.a. Statutory auditor*

(2013) SAIF s.r.l. Statutory auditor (2013); number of positions held in listed companies 1; overall number of positions held 7.

Paolo Caselli: El.En. S.p.A. statutory auditor (2012); Dekamela S.r.l. statutory auditor (2012); Lasit S.p.A. statutory auditor (2012); Cutlite Penta S.r.l. President of the Board of Statutory auditors (2012); US Borgo a Buggiano s.r.l. Statutory auditor (2013); Betamotor S.p.A. Statutory Auditor (2010); Biagioni Gas S.r.l. Statutory Auditor (2010); UNISER S.cons.r.l. (2014); Sebia Italia S.r.l., sole auditor (2014); number of positions held in listed companies 1; overall number of positions held 9.

Gino Manfriani: El.En. S.p.A. statutory auditor (2012); Dekamela S.r.l. statutory auditor (2012); Cutlite Penta s.r.l. statutory auditor (2012); Vetreria etrusca S.r.l. President of the board of Statutory Auditors (2014); Albini e Pitigliani S.p.A statutory auditor (2014); Banca di Credito Cooperativo di Cambiano (2012); number of positions held in listed companies 1; overall number of positions held 6.

**AUDITORS' REPORT ON THE STATUTORY FINANCIAL STATEMENTS
PURSUANT TO ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39
OF JANUARY 27, 2010**

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

1. We have audited the financial statements of El.En. S.p.A. (the "Company"), which comprise the statement of financial position as of December 31, 2012, and the income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the prior year's financial statements, whose data are presented for comparative purposes, reference should be made to the auditors' report issued by other auditors on March 30, 2012.

3. In our opinion, the financial statements give a true and fair view of the financial position of El.En. S.p.A. as of December 31, 2012, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.
4. The Directors of El.En. S.p.A. are responsible for the preparation of the report on operations and the annual report on corporate governance in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative

Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on corporate governance, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the annual report on corporate governance are consistent with the financial statements of El.En. S.p.A. as of December 31, 2012.

DELOITTE & TOUCHE S.p.A.

Signed by

Gianni Massini

Partner

Florence, Italy

March 27, 2013

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