# Annual Report 2010

El. En. Group

# EL.EN. SpA

## ANNUAL FINANCIAL REPORT AS OF DECEMBER 31ST 2010

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 al n. 03137680488

# INDEX

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

PRESIDENT

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangioli

BOARD MEMBERS

Paolo Blasi

Angelo Ercole Ferrario

Michele Legnaioli

Stefano Modi

Alberto Pecci

## Board of statutory auditors

PRESIDENT

Vincenzo Pilla

STATUTORY AUDITORS

Paolo Caselli

Gino Manfriani

## Manager in charge of preparing the Company’s financial statements in compliance with Law 262/05

Enrico Romagnoli

## Independent auditor

Reconta Ernst & Young S.p.A.

# Director’s Report on Operations 2010

## INTRODUCTION

To our shareholders,

The financial year ending on December 31st 2010 closed with a net income for the Group of 1.268 thousand Euros after taxes amounting to 4.255 thousand Euros.
In 2010 the consolidated sales volume showed significant progress, increasing by 27% and reaching 190 million Euros. Once the most acute stage of the international crisis had been overcome, during 2010 the Group was able to enter into a phase of growth which made it possible to make operations profitable again. In this report we will analyze the ways in which the growth and profitability involved the various activities of the Group in very different ways depending on the different phase of development of some of the businesses and the gravity of the crisis in the various geographical areas and how these influenced the consolidated profits and the tax rates.

## ADOPTION OF INTERNATIONL ACCOUNTING PRINCIPLES

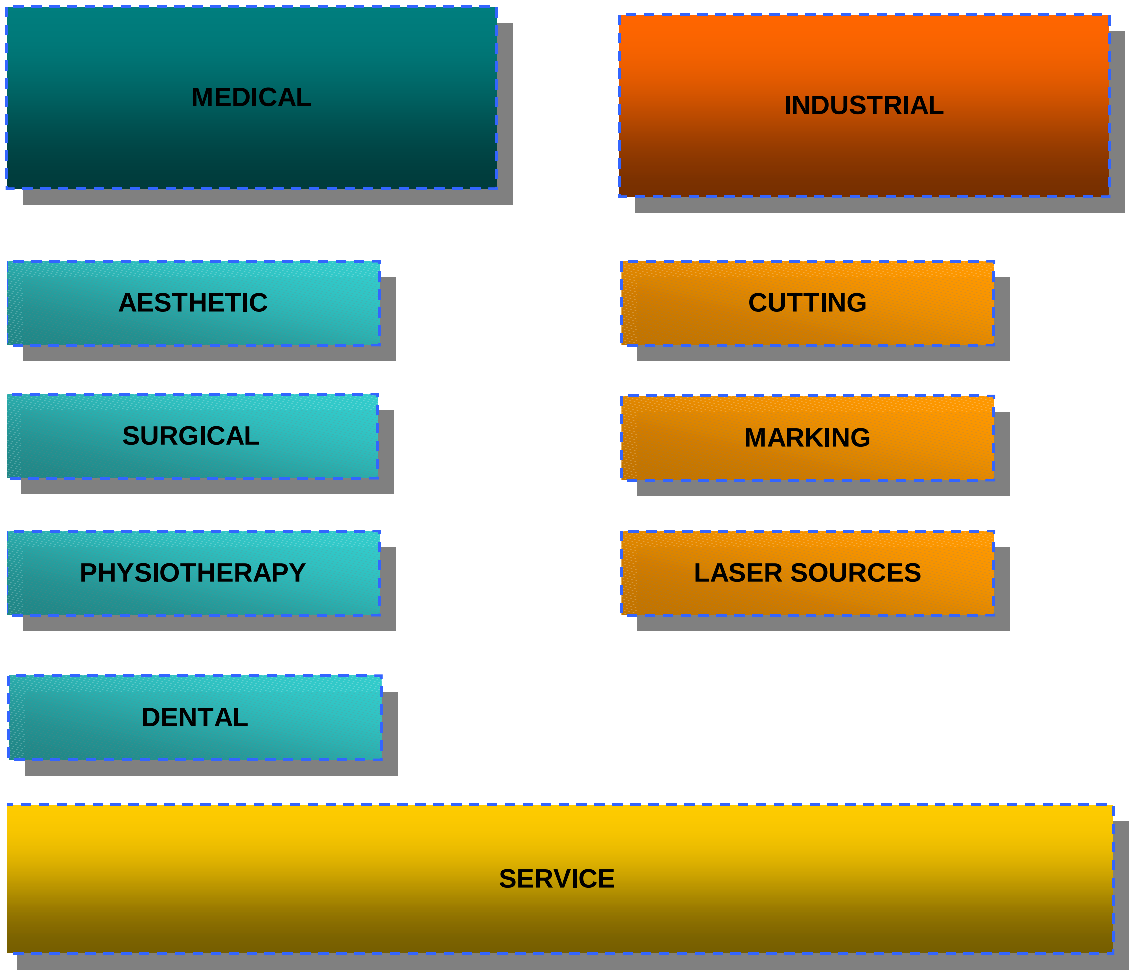
In compliance with European Regulation 1606 of July 19th 2002, the El.En. Group has drawn up their consolidated statement as of December 31st 2010 in conformity with the International Accounting Principles approved by the European Commission.
In conformity with Legislative Decree n. 38/2005, starting with the financial year 2006, the Parent Company El.En. S.p.A. is also required to draw up an individual report in conformity with International Accounting Principles (IFRS); reference will be made to them when the data relative to the Parent Company are displayed.

## 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:

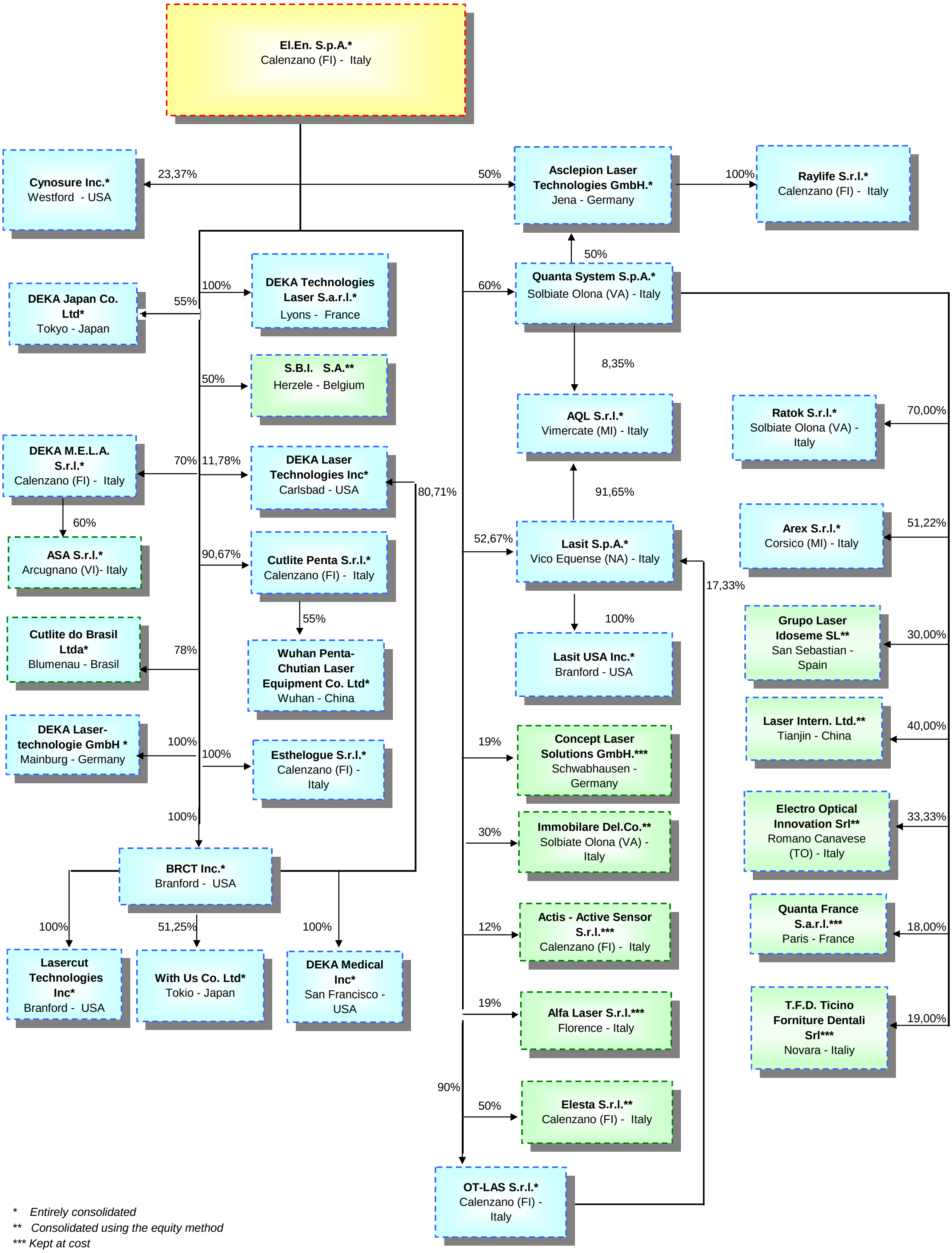



Along with their main activity of selling systems, the Group offers after-sales service which is not only the indispensable support for the installation and maintenance of our laser systems but also a source of revenue from the spare parts, consumables, and technical assistance.

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, 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 to them also by other companies of the Group. Although this strategy makes management more complex, it is chiefly responsible for the growth of the Group which has become one of the most important companies in the field.

## DESCRIPTION OF THE GROUP

As of December 31st 2010 the structure of the Group is as follows:




Cynosure Inc., a company quoted on the American stock market Nasdaq (NASDAQ:CYNO) controls in turn eight companies which distribute their products, and which they own 100% in Germany, France, Great Britain, Japan, China, Mexico, South Korea and Spain.

## PERFORMANCE INDICATORS

In this Director's Report on Operations we have shown some performance indicators for the purpose of facilitating the evaluation of the performance of the economic and financial management. The Group uses the following performance indicators:

- the EBITDA or earnings before interest, income taxes, depreciations and amortizations, which represents an indicator of operating performance which is determined by adding to the earnings before interest and income taxes (EBIT), the heading of "Amortizations, depreciations, accruals and devaluations";
- the EBIT or earnings before interests and income taxes;
- the incidence that the various entries in the statement of income have on the sales volume.

These indicators are shown in the Statement of income chart which is shown below and commented on later in this report.
Moreover, the following performance indicators have been selected for the purpose of supplying additional information concerning the capital, financial and revenue structure of the Group:

| | 31/12/10 | 31/12/09 |
|---|---|---|
| **Profitability ratios (*):** | | |
| ROE<br>(Net income / Own Capital) | 1,4% | -5,5% |
| ROI<br>(EBIT / Total assets) | 2,2% | -5,6% |
| ROS<br>(EBIT/ Revenues) | 2,9% | -8,4% |
| **Structure ratios:** | | |
| Financial flexibility<br>(Current assets / Total assets) | 0,80 | 0,80 |
| Leverage<br>((Stockholders' Equity + Financial liabilities) / Stockholders' Equity) | 1,07 | 1,06 |
| Current Ratio<br>(Current assets / Current liabilities) | 3,04 | 3,64 |
| Acid ratio<br>((Current receivables + Cash and cash equivalents)/ Current liabilities) | 2,20 | 2,62 |
| Quick ratio<br>((Cash and cash equivalents + Investments) / Current liabilities) | 1,30 | 1,61 |
| **Turnover ratios (*):** | | |
| Total assets turnover<br>(Revenues / Total assets) | 0,75 | 0,66 |
| Current assets turnover<br>(Revenues / Current assets) | 0,94 | 0,83 |
| Inventory turnover<br>(COGS / Inventory) | 1,32 | 1,15 |
| Days sales of inventory<br>(Inventory / COGS) *365 | 276 | 319 |
| Days sales outstanding<br>(Account receivables / Revenues)*365 | 90 | 90 |

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
- Cost of goods sold = Purchases ± Change in the inventory

## MAIN ECONOMIC AND FINANCIAL DATA

After having been hit particularly hard by the consequences of the international economic crisis, in the first six months of 2010 the Group resumed the steady growth and profits that had characterized its activities before the crisis. The positive trend of the first half of the year was confirmed and consolidated in the second half and made it possible to show a positive consolidated EBIT and net income, reversing the trend of the previous year.
The results achieved, which were well above those which had been predicted, still remain very distant from the previous profit levels of the Group and the management has set as their goal a return to these levels. Market conditions, in fact, have improved considerably but they still do not have the brilliance and the solidity which would make it possible for the Group to completely overcome the phase of difficulty caused by the crisis.

As mentioned in the introduction to this report, some markets present conditions that are more favorable than others. This is particularly true for the industrial sector in which the Group competes by supplying laser cutting and marking systems for manufacturing: thanks mainly to the decision to install production and distribution structures in two markets with very high potential like China and Brazil, the sector showed a growth rate of over 50% and reached a critical mass that was enough to give a substantial contribution to the consolidated income. This result confirms the validity of the strategy of the Group which kept a secondary sector alive in the face of the overwhelming growth occurring in the medical sector. Re-organized in order to serve the greater demand, in 2010 the industrial sector showed the potential which its selling market, which is far greater in size than the medical one, can take further advantage of in the future.

The medical sector also showed a significant increase in sales volume which was close to 25%, but it did so in a way which was very selective from a geographical point of view. The markets of the Far and Near East and also the European ones performed nicely, whereas our main selling markets like the United States and Spain continued to show great uncertainty and maintained a phase of stagnation in the consumption of our products. This situation affected the results of Cynosure, in terms of size the most important of the companies belonging to the Group, whose main market is the domestic one. The substantial stability of sales in the USA kept Cynosure's EBIT in the red which also had serious consequences for the consolidated earnings. The same outcome affected the two companies of the Group operating in the distribution of Deka brand medical laser systems in the USA, which although they are about to reach a size which will let them leave the phase of turnaround or start up which characterizes their activity, showed negative accounting results for this period. Moreover, in Spain, besides showing a sales volume which was less than half of that for 2008, the negative trend of the associated company, GLI made it necessary to enter substantial devaluations in the accounts of Quanta System and in the consolidated statement.

From a more detailed analysis of the factors determining the performance of the Group, it is evident that in the medical aesthetic sector, in which the Group has a position of leadership, the crisis brought about a phase of rethinking in the consumption in those countries in which it had grown the most rapidly, while maintaining a good level of activity in other countries. It is clear that the crisis affected consumption levels for aesthetic applications, both of the "light based" type like we make as well as those with traditional technology, thus temporarily reducing the market. We believe, however, that the increased desire to maintain a youthful appearance and the demographic tendency toward an aging population keep the prospects for this market good, and that the technological and market leadership that the Group holds can be capitalized as soon as there is a slightly more significant increase in demand, especially on the American market which is the most important in the world.
Along with the development of the aesthetic sector, the Group has undertaken a series of initiatives meant to re-enforce their presence in other sectors of laser applications in medicine, in particular in the surgical, dental and physical therapy sectors. With this diversification, by attenuating the prevalence of our main selling market, we intend to open new directions for growth and development in segments with development factors and market characteristics that are very different from those of the medical-aesthetic sector.
As far as the industrial sector is concerned, the areas in which the manufacturing production continue to show the best growth rates are those in countries with the cheapest production factors and the highest GIP growth rate: several years ago the Group undertook operations for a direct presence in China and Brazil, and, as previously mentioned, these decisions in 2010 showed the first important signs of success. The Group is now in a good position to take on a market with extremely high potential, by combining the technologies for laser sources developed in the headquarters in Florence with production structures that are designed to penetrate in the most important markets.

A distinctive characteristic of this phase of the global economic cycle is the scarcity of credit for the investments of our clientele. The acute phase of the "credit crunch" is over, but financing for the purchase of capital goods like our laser systems remains much more selective than it was in the past and effectively limits and slows down the purchasing process and consequently also the demand. In this situation in some markets very long payment terms have become common and even some companies of the Group have been forced to grant more generous terms for payment although some of these conditions are mitigated by the technological quality of the product offered. Sustaining sales by means of longer terms for payment during this period has comported a use of cash in the increase of net working capital.

The chart below shows the breakdown of the sales volume among the sectors of activity of the Group in 2010 compared with the same data for 2009.

| | 31/12/2010 | Inc% | 31/12/2009 | Inc% | Var% |
|---|---|---|---|---|---|
| Industrial systems and lasers | 29.462 | 15,52% | 19.182 | 12,86% | 53,59% |
| Medical and aesthetic lasers | 124.497 | 65,59% | 99.946 | 67,03% | 24,56% |
| Service | 35.838 | 18,88% | 29.982 | 20,11% | 19,53% |
| **Total** | **189.797** | **100,00%** | **149.111** | **100,00%** | **27,29%** |

After the decrease in 2009 the recovery of almost forty million Euros involves all sectors of our activity ; the most brilliant performance is that of the industrial sector which is over 50% and brings the sales volume up close to 30 million Euros. In any case, the increase in the medical sector, close to 25%, and in technical assistance, almost 20% is also significant.

The chart below shows the trend for the sales volume divided according to the geographic area.

| | 31/12/2010 | Inc% | 31/12/2009 | Inc% | Var% |
|---|---|---|---|---|---|
| Italy | 26.942 | 14,20% | 24.437 | 16,39% | 10,25% |
| Europe | 50.367 | 26,54% | 42.859 | 28,74% | 17,52% |
| Rest of the world | 112.488 | 59,27% | 81.815 | 54,87% | 37,49% |
| **Total** | **189.797** | **100,00%** | **149.111** | **100,00%** | **27,29%** |

Growth was registered as a two-digit number in both Italy and Europe, but the non-European countries were the ones that showed the most satisfactory results, in particular the Far East for the medical sector and China and Brazil for the industrial sector.

Within the medical/aesthetic sector, which represents more than 65% of the sales of the Group, the trend in sales in the various segments is shown on the chart below:

| | 31/12/2010 | Inc% | 31/12/2009 | Inc% | Var% |
|---|---|---|---|---|---|
| Surgical CO2 | 11.003 | 8,84% | 10.013 | 10,02% | 9,89% |
| Physiotherapy | 4.798 | 3,85% | 4.447 | 4,45% | 7,89% |
| Aesthetic | 81.721 | 65,64% | 64.709 | 64,74% | 26,29% |
| Dental | 4.594 | 3,69% | 3.866 | 3,87% | 18,85% |
| Other medical lasers | 17.381 | 13,96% | 13.214 | 13,22% | 31,54% |
| Accessories | 4.998 | 4,01% | 3.697 | 3,70% | 35,19% |
| **Total** | **124.497** | **100,00%** | **99.946** | **100,00%** | **24,56%** |

All segments show interesting growth rates, from the minimum but significant amount of 7,9% for the therapy sector to the maximum amount of 35% for accessories.
Growth in the aesthetic segment, which continues to represent 65% of the sales volume in the sector, was also satisfactory. The gradual success of the new products introduced on the market and the first year of operations for

Esthelogue, active in direct distribution in Italy in the sector of professional aesthetics, both contributed significantly to this result. In this regard attention should be called to the introduction by Deka of the Synchro FT platform for hair removal and vascular applications which features a performance, appearance and price that have been extremely well received by the clientele, and the mixed technology systems, ND:Yag and Alexandrite which Deka, Quanta System and Cynosure presented for hair removal. For laser lipolysis applications, a field in which the Group, thanks largely to the patents it holds, is the market leader with Deka's Smartlipo system and Cynosure's Smartlipo MPX, this latter further renovated their range and the position of technological advantage with the Triplex system. The collaboration in the development of products which characterizes the relations between El.En. and Cynosure, in particular for the minimally invasive laser applications used for laser lipolysis, made it possible, at the end of the year, to launch Cellulaze, a revolutionary system for the removal of cellulitis on which the prospects for growth in 2011 largely rely.

The residual sector "Others", besides the coloring and eximer systems for dermatology, includes the sector of surgical applications with laser systems other than $CO_2$: among these attention should be called to the systems for endovascular treatments, and above all the Nd:YAG at 532nm and Tullium DPSS (Diode pumped solid state) for the removal of benign hyperplasia of the prostate, in which Quanta System has reached a high level of sophistication and an appreciation which has brought about a significant growth in sales volume.

The increase in the sales of $CO_2$ systems is directly related to the sales of accessories, including the Hiscan scanners which are used for "DOT therapy" resurfacing applications obtained by applying a scanner to the Smartxide laser; this latter device has also been quite successful in the surgical version for applications in otorhinolaryngoiatry.
In conclusion, good results were also shown by the dental sector thanks to the increase in sales in the American branch, Deka Laser Technologies, which in the second half maintained a good level of sales volume so that it effectively came out of the turnaround phase with a constant growth and went over the breakeven threshold.

The positive trend in the second half which, the only case among the companies of the Group, was driven by a significant growth in the United States, allowed Asa, which covers the physical therapy sector for the Group, to recover the initial drop, show a significant sales volume and maintain an excellent profit level also in 2010.

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

| | 31/12/2010 | Inc% | 31/12/2009 | Inc% | Var% |
|---|---|---|---|---|---|
| Cutting | 19.212 | 65,21% | 11.460 | 59,74% | 67,64% |
| Marking | 8.205 | 27,85% | 5.846 | 30,48% | 40,34% |
| Laser sources | 1.850 | 6,28% | 1.571 | 8,19% | 17,79% |
| Welding, other industrial systems | 196 | 0,66% | 305 | 1,59% | -35,86% |
| **Total** | **29.462** | **100,00%** | **19.182** | **100,00%** | **53,59%** |

The results in the industrial sector show a growth of over 53%, much more than just a rebound from the minimum levels registered during the crisis which had frozen purchases of machine tools in the manufacturing sector; in fact, the success obtained during this period is the result of a new approach to the market with a global positioning created thanks to the manufacturing structures in China and Brazil, which are able to serve directly two of the fastest growing markets which in the future will almost certainly retain a preponderant role in world manufacturing.
The growth in the cutting segment is overwhelming and reflects the excellent trend of the operations in China, but also those in Brazil and of Cutlite Penta, which also showed an increase in sales volume and earnings.
The rebound in the marking segment is also significant, well above 40% over the minimums registered for 2009, so that the companies that operate in this sector, Ot-las for marking on large surfaces and Lasit (with its subsidiaries Lasit USA and AQL) for special marking on small surfaces, have been able to come out of the most critical phase of the crisis.

The restoration sector showed a decrease; this sector is important for us mainly for purposes of image of the Group which makes available its advanced technologies for the restoration of important works of art. Among the masterpieces recently restored are: the bronze Davids by Verrocchio and Donatello, the Cathedral of Santo Stefano in Vienna, some Vatican sites in which the technologies developed by the El.En. Group gave a fundamental contribution to some works of art so that they could be more completely enjoyed.

The charts below show the composition of the sales volume for the sub-consolidated which excludes Cynosure; we are not including the chart with the breakdown of the industrial sector because Cynosure does not operate in this sector.

| | 31/12/2010 | Inc% | 31/12/2009 | Inc% | Var% |
|---|---|---|---|---|---|
| Industrial systems and lasers | 29.462 | 22,22% | 19.182 | 18,85% | 53,59% |
| Medical and aesthetic lasers | 81.765 | 61,68% | 64.477 | 63,36% | 26,81% |
| Service | 21.339 | 16,10% | 18.105 | 17,79% | 17,86% |
| **Total** | **132.566** | **100,00%** | **101.764** | **100,00%** | **30,27%** |

| | 31/12/2010 | Inc% | 31/12/2009 | Inc% | Var% |
|---|---|---|---|---|---|
| Italy | 26.520 | 20,01% | 24.188 | 23,77% | 9,64% |
| Europe | 35.098 | 26,48% | 30.218 | 29,69% | 16,15% |
| Rest of the world | 70.948 | 53,52% | 47.358 | 46,54% | 49,81% |
| **Total** | **132.566** | **100,00%** | **101.764** | **100,00%** | **30,27%** |

| | 31/12/2010 | Inc% | 31/12/2009 | Inc% | Var% |
|---|---|---|---|---|---|
| Surgical CO2 | 9.831 | 12,02% | 8.495 | 13,18% | 15,73% |
| Physiotherapy | 4.798 | 5,87% | 4.447 | 6,90% | 7,89% |
| Aesthetic | 46.728 | 57,15% | 35.900 | 55,68% | 30,16% |
| Dental | 4.594 | 5,62% | 3.866 | 6,00% | 18,85% |
| Other medical lasers | 11.141 | 13,63% | 8.119 | 12,59% | 37,22% |
| Accessories | 4.673 | 5,72% | 3.651 | 5,66% | 27,99% |
| **Total** | **81.765** | **100,00%** | **64.477** | **100,00%** | **26,81%** |

Excluding Cynosure, the geographic importance of the Italian market increases, although the Group retains its global vocation which means that 80% of the income is registered outside Italy.

For the medical sector, the growth rate is slightly higher than that registered with Cynosure, and therefore by Cynosure, and shows how the rest of the Group recovered better since it depends less on the American market. In the division of the merchandise segments which are part of the medical sector, the best result in the $CO_2$ and accessory sector demonstrates the complete success of the sale of these technologies by the other companies of the Group, in particular Deka; for the same reasons, the greater growth rate in the main segment reflects a better trend by Deka, Quanta System and Asclepion with respect to that of Cynosure.

## CONSOLIDATED STATEMENT OF INCOME AS OF DECEMBER 31st 2010

The chart below shows the reclassified consolidated Statement of income for the year ending on December 31st 2010 compared with that for 2009.

| Statement of income | 31/12/10 | Inc.% | 31/12/09 | Inc.% | Var.% |
|---|---|---|---|---|---|
| Revenues | 189.797 | 100,0% | 149.111 | 100,0% | 27,3% |
| Change in inventory of finished goods and WIP | (397) | -0,2% | (2.237) | -1,5% | -82,2% |
| Other revenues and income | 2.206 | 1,2% | 1.829 | 1,2% | 20,6% |
| **Value of production** | **191.606** | **101,0%** | **148.703** | **99,7%** | **28,9%** |
| Purchase of raw materials | 77.118 | 40,6% | 52.097 | 34,9% | 48,0% |
| Change in inventory of raw material | (4.036) | -2,1% | 3.561 | 2,4% | |
| Other direct services | 18.075 | 9,5% | 13.757 | 9,2% | 31,4% |
| **Gross margin** | **100.448** | **52,9%** | **79.287** | **53,2%** | **26,7%** |
| Other operating services and charges | 41.326 | 21,8% | 41.287 | 27,7% | 0,1% |
| **Added value** | **59.122** | **31,2%** | **38.001** | **25,5%** | **55,6%** |
| For staff costs | 44.825 | 23,6% | 42.027 | 28,2% | 6,7% |
| **EBITDA** | **14.297** | **7,5%** | **(4.026)** | **-2,7%** | |
| Depreciation, amortization and other accruals | 8.875 | 4,7% | 8.571 | 5,7% | 3,5% |
| **EBIT** | **5.422** | **2,9%** | **(12.598)** | **-8,4%** | |
| Net financial income (charges) | 48 | 0,0% | 947 | 0,6% | -94,9% |
| Share of profit of associated companies | (320) | -0,2% | (278) | -0,2% | 15,4% |
| Other net income (expense) | (461) | -0,2% | (402) | -0,3% | 14,6% |
| **Income before taxes** | **4.689** | **2,5%** | **(12.331)** | **-8,3%** | |
| Income taxes | 4.255 | 2,2% | 4.060 | 2,7% | 4,8% |
| **Income for the financial period** | **434** | **0,2%** | **(16.391)** | **-11,0%** | |
| Minority interest | (834) | -0,4% | (11.133) | -7,5% | -92,5% |
| **Net income** | **1.268** | **0,7%** | **(5.258)** | **-3,5%** | |

Thanks to the increase in the sales volume and a substantially unchanged sales margin, the gross margin was registered at 100.448 thousand Euros, an increase of 26,7%with respect to the 79.287 thousand Euros on December 31st 2009.

It should be noted that also in 2010, 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 conformity with IAS/IFRS principles, as revenue from multi-year rentals; in any case the phenomenon had a limited effect on the statement for the year.

Costs for operating services and charges were 41.326 thousand Euros and are approximately the same as those registered on December 31st 2009, with an incidence on the sales volume which decreases from 27,7% in 2009 to 21,8% on December 31st 2010, which indicates a recovery in productivity.
The recovery in productivity represents one of the decisive aspects which determined the recovery of the Group to profitability and it reveals the attention which the Group focused on this problem; it should also be recalled that in 2009 there were some non-recurring expenses which had to be met, like those sustained by Cynosure in their law suit related to the defense of their patent for the Smartlipo applications, or the loss on some receivables shown by Deka on account of the opening of e preventive agreements procedure of one of its most important clients.

Staff expenses amounted to 44.825 thousand Euros, which was an increase of 6,7%, with respect to the 42.027 thousand Euros for the same period last year, but a significant increase in productivity which decreased, in its incidence on the sales volume, from 28,2% on December 31st 2009 to 23,6% on December 31st 2010. Part of the staff expenses is represented by the figurative costs for the stock options assigned to staff members. On December 31st 2009 these costs were 3.007 thousand Euros, whereas on December 31st 2010 they had dropped to 2.034 thousand Euros; these costs are mainly related to the stock options issued by the subsidiary Cynosure Inc.

As of December 31st 2010 the employees of the Group were 969 with respect to the 874 on December 31st 2009. This increase is related almost entirely to the rise in the number of employees hired by the Chinese company Wuhan Penta Chutian, now in rapid expansion.
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. These grants make it possible to amplify the range of research activity since they limit their economic impact. As of December 31st 2010 the grants entered into accounts amounted to 1.018 thousand Euros, while the amount for the same period in 2009 was 1.138 thousand Euros, which represents an important contribution toward sustaining an activity which is vital for the development of the Group.

On account of the trends described above the EBITDA was positive in the amount of 14.297 thousand Euros, with respect to the result of -4.026 thousand Euros on December 31st 2009.

Costs for amortizations, depreciations and accruals amounted to 8.875 thousand Euros, an increase of 3,5% with respect to December 31st 2009 but a decrease in the incidence on the sales volume which fell from 5,7% to 4,7%. Under this heading we have also entered the accruals for product guarantees and for devaluation of receivables.

The EBIT therefore showed a positive result of 5.422 thousand Euros, with respect to the -12.598 thousand Euros shown on December 31st 2009.

Results of the financial management showed 48 thousand Euros as opposed to the 947 thousand Eros for the same period last year and was influenced, among other things, by the reduction in the amount of interest paid on bank deposits and the variations in the currency exchange rates.

The negative result of the associated companies is mostly due to Elesta Srl, which continues in its phase of initial investment for the perfecting of surgical equipment, and the Spanish company GLI whose situation remains difficult on account of the severity of the crisis which, as is known, is more serious in Spain than in the rest of Europe.

The other net income and charges were -461 thousand Euros and are mostly related to the devaluation of the residual goodwill included in the value of the equity in the associated company GLI.

Earnings before taxes therefore showed a positive amount of 4.689 thousand Euros, with respect to the -12.331 thousand Euros registered on December 31st 2009.

The costs for current and deferred taxes this year was 4.255 thousand Euros. The fiscal load increased on account of the return to profits of several companies belonging to the Group with a tax rate for the period which was also burdened by some non-deductible income components present in the accounts of some of the Group companies, like the devaluation of equities, besides the fact that for some companies in the red (in particular Cynosure) for cautionary purposes it was decided to not enter deferred tax assets in consideration of the fact that the conditions for entering them did not yet exist. It should also be recalled that the fiscal load for last year was seriously influenced by the devaluation for an amount of about 7 million dollars operated by Cynosure Inc. on some deferred tax assets which earlier had been entered into accounts on the basis of the expectation of non-recovery of the receivables in the next two financial years.

The net income for the Group is 1.268 thousand Euros, with respect to the result of -5.258 thousand Euros on December 31st 2009.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL POSITION AS OF DECEMBER 31st 2010

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

| | 31/12/2010 | 31/12/2009 | Var. |
|---|---|---|---|
| **Statement of financial position** | | | |
| Intangible assets | 6.992 | 6.975 | 17 |
| Tangible assets | 29.076 | 29.845 | -769 |
| Equity investments | 694 | 1.289 | -596 |
| Deferred tax assets | 5.521 | 4.431 | 1.090 |
| Other non current assets | 7.643 | 3.665 | 3.978 |
| **Total non current assets** | **49.925** | **46.205** | **3.720** |
| Inventories | 55.650 | 50.531 | 5.119 |
| Accounts receivables | 46.714 | 36.573 | 10.142 |
| Tax receivables | 7.051 | 8.040 | -988 |
| Other receivables | 6.618 | 4.980 | 1.638 |
| Financial instruments | 44.676 | 29.803 | 14.873 |
| Cash and cash equivalents | 41.515 | 49.573 | -8.058 |
| **Total current assets** | **202.225** | **179.499** | **22.726** |
| **TOTAL ASSETS** | **252.150** | **225.704** | **26.446** |
| Common stock | 2.509 | 2.509 | |
| Additional paid in capital | 38.594 | 38.594 | |
| Other reserves | 34.897 | 32.426 | 2.471 |
| Treasury stock | -2.576 | -2.576 | |
| Retained earnings / (deficit) | 19.448 | 24.552 | -5.104 |
| Net income / (loss) | 1.268 | -5.258 | 6.525 |
| **Group stockholders' equity** | **94.139** | **90.247** | **3.892** |
| Minority interests in consolidated subsidiaries | 77.585 | 73.117 | 4.468 |
| **Total equity** | **171.724** | **163.364** | **8.361** |
| Severance indemnity | 2.702 | 2.607 | 94 |
| Deferred tax liabilities | 667 | 417 | 250 |
| Other accruals | 5.627 | 5.143 | 484 |
| Financial liabilities | 4.882 | 4.927 | -45 |
| **Non current liabilities** | **13.877** | **13.094** | **783** |
| Financial liabilities | 6.460 | 5.613 | 847 |
| Accounts payables | 35.138 | 25.136 | 10.001 |
| Income tax payables | 2.144 | 450 | 1.693 |
| Other payables | 22.807 | 18.047 | 4.761 |
| **Current liabilities** | **66.548** | **49.246** | **17.302** |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | **252.150** | **225.704** | **26.446** |

| **Net financial position** | | |
|---|---|---|
| | **31/12/2010** | **31/12/2009** |
| Cash and bank | 41.515 | 49.573 |
| Financial instruments | 44.676 | 29.803 |
| **Cash and cash equivalents** | **86.191** | **79.376** |
| **Short term financial receivables** | **50** | **55** |
| Bank short term loan | (5.290) | (4.450) |
| Part of financial long term liabilities due within 12 months | (1.169) | (1.163) |
| **Financial short term liabilities** | **(6.460)** | **(5.613)** |
| **Net current financial position** | **79.782** | **73.818** |
| Bank long term loan | (2.164) | (2.044) |
| Bonds | (784) | 0 |
| Other long term financial liabilities | (1.934) | (2.883) |
| **Financial long term liabilities** | **(4.882)** | **(4.927)** |
| **Net financial position** | **74.900** | **68.891** |

For the comments on the net consolidated financial position, see the specific paragraph included in the explanatory notes.

## CONSOLIDATED STATEMENT OF INCOME AND NET FINANCIAL POSITION AS OF DECEMBER 31st 2010 (excluding Cynosure from the area of consolidation)

The chart below shows the statement of income and net financial position of the Group for the year, excluding the subsidiary Cynosure from the area of consolidation.

| Statement of income | 31/12/10 | Inc.% | 31/12/09 | Inc.% | Var.% |
|---|---|---|---|---|---|
| Revenues | 132.566 | 100,0% | 101.764 | 100,0% | 30,3% |
| Change in inventory of finished goods and WIP | 4.551 | 3,4% | (84) | -0,1% | |
| Other revenues and income | 1.884 | 1,4% | 1.631 | 1,6% | 15,5% |
| **Value of production** | **139.001** | **104,9%** | **103.311** | **101,5%** | **34,5%** |
| Purchase of raw materials | 61.603 | 46,5% | 42.890 | 42,1% | 43,6% |
| Change in inventory of raw material | (1.730) | -1,3% | 1.580 | 1,6% | |
| Other direct services | 12.053 | 9,1% | 8.517 | 8,4% | 41,5% |
| **Gross margin** | **67.076** | **50,6%** | **50.325** | **49,5%** | **33,3%** |
| Other operating services and charges | 25.411 | 19,2% | 22.939 | 22,5% | 10,8% |
| **Added value** | **41.665** | **31,4%** | **27.386** | **26,9%** | **52,1%** |
| For staff costs | 28.338 | 21,4% | 25.104 | 24,7% | 12,9% |
| **EBITDA** | **13.327** | **10,1%** | **2.282** | **2,2%** | **484,1%** |
| Depreciation, amortization and other accruals | 4.966 | 3,7% | 3.736 | 3,7% | 32,9% |
| **EBIT** | **8.361** | **6,3%** | **(1.454)** | **-1,4%** | |
| Net financial income (charges) | 113 | 0,1% | 90 | 0,1% | 25,7% |
| Share of profit of associated companies | (320) | -0,2% | (278) | -0,3% | 15,4% |
| Other net income (expense) | (457) | -0,3% | (374) | -0,4% | 22,2% |
| **Income before taxes** | **7.697** | **5,8%** | **(2.016)** | **-2,0%** | |
| Income taxes | 3.745 | 2,8% | 872 | 0,9% | 329,5% |
| **Income for the financial period** | **3.951** | **3,0%** | **(2.888)** | **-2,8%** | |
| Minority interest | 1.751 | 1,3% | 183 | 0,2% | 857,3% |
| **Net income** | **2.200** | **1,7%** | **(3.071)** | **-3,0%** | |

| Net financial position | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Cash and bank | 20.983 | 18.477 |
| Financial instruments | 220 | 537 |
| **Cash and cash equivalents** | **21.204** | **19.013** |
| **Short term financial receivables** | **50** | **55** |
| Bank short term loan | (5.284) | (4.445) |
| Part of financial long term liabilities due within 12 months | (1.076) | (985) |
| **Financial short term liabilities** | **(6.360)** | **(5.430)** |
| **Net current financial position** | **14.893** | **13.639** |
| Bank long term loan | (2.151) | (2.028) |
| Bonds | (784) | 0 |
| Other long term financial liabilities | (1.916) | (2.780) |
| **Financial long term liabilities** | **(4.852)** | **(4.809)** |
| **Net financial position** | **10.042** | **8.830** |

As far as the subconsolidated excluding Cynosure is concerned, the increase in sales volume is greater (+30,3%) and shows a decreased incidence on overhead; as a result the EBIT is 6,3% of the sales volume with respect to the 2,9% registered for the consolidated.

The gross margin was about 67.076 thousand Euros, showing an increase of 33,3% with respect to the 50.325 thousand Euros for December 31st 2009, with an incidence on the sales volume which increased slightly from 49,5% last year to 50,6 % for this year. This increase in the profits on sales reflects the greater incidence of direct distribution as opposed to sales through distributors, for which the average price is higher; the distributors, in fact, are granted a discount for the costs of promotion, marketing and sales which they must sustain whereas these costs are sustained by the branches for direct sales themselves and registered mostly under the gross margin among the operating charges.

The other categories of cost show a decrease in the incidence on sales volume to the benefit of the EBITDA which is registered for the amount of 13,3 million Euros (equal to about 10,1% of the sales volume) and the EBIT which is about 8,4 million Euros.

The associated companies which registered a negative result involve only the sub-consolidated without Cynosure, for which a loss of 320 thousand Euros equal to 0,2% of the sales volume is registered. Other net charges and income are essentially related to the devaluation made on the equity of the associated company GLI with a loss equal to 0,3% of the consolidated sales volume.

The fiscal load for this period shows an overall total of 3,7 million Euros, due to the return to profitability on behalf of most of the companies in the Group; the average tax rate is 49%. The extent of the tax load is due to the presence of income components which are not deductible, like the devaluation of the equities which involve only the sub-consolidated without Cynosure, besides the fact that for some companies showing a loss, it was not possible to proceed with the entering into accounts of deferred tax assets since we do not believe that the conditions yet exist for doing so.

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

| | **Statement of income 31/12/2010** | **Capital and reserves 31/12/2010** | **Statement of income 31/12/2009** | **Capital and reserves 31/12/2009** |
|---|---|---|---|---|
| **Balance as for parent company** | **1.061.672** | **74.802.587** | **360.422** | **73.555.983** |
| Elimination of investments in subsidiary companies: | | | | |
| - share of profit (loss) of subsidiaries company | 559.578 | | -6.667.346 | |
| - other (charge) income | 828.306 | | 648.068 | |
| Total contribution of subsidiary companies | **1.387.884** | **23.476.919** | **-6.019.278** | **19.789.157** |
| Elimination of investments companies consolidated with the stockholders' equity method | -320.384 | -646.942 | -277.822 | -326.558 |
| Elimination of dividends | -140.007 | | -217.003 | |
| Elimination of intercompany profits on inventory (*) | -745.098 | -3.340.590 | 903.549 | -2.595.492 |
| Elimination of intercompany profits from sales of fixed assets (*) | 23.480 | -152.671 | -7.534 | -176.151 |
| **Balance as per consolidated statement – Group quota** | **1.267.547** | **94.139.303** | **-5.257.666** | **90.246.939** |
| **Balance as per consolidated statement – Third party quota** | **-834.000** | **77.585.072** | **-11.133.074** | **73.116.715** |
| **Balance as per consolidated statement** | **433.547** | **171.724.375** | **-16.390.740** | **163.363.654** |

(*) net of related tax effects

# RESULTS OF THE PARENT COMPANY EL.EN. SpA

## Main economic and financial data

As head of a complex group of companies, El.En. SpA, besides being the Parent Company, 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 accessory services like after-sales assistance, supplying of spare parts and consulting.
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.
The importance of this coordinating activity continues to be very evident, since most of the sales volume of the company is absorbed by the companies of the Group, while the financial management of the equities, with the allocation of the resources acquired with the IPO on the New Market in 2000 and with the cash flows generated by the manufacturing activities, assumes particular significance both in the use of managerial resources and in the impact on the economic and financial results of the company.

As in earlier years, the activities of El.En. SpA, takes 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.

| | 31/12/2010 | Inc% | 31/12/2009 | Inc% | Var% |
|---|---|---|---|---|---|
| Industrial systems and lasers | 8.432 | 18,51% | 4.842 | 13,42% | 74,13% |
| Medical and aesthetic lasers | 30.623 | 67,23% | 25.819 | 71,54% | 18,61% |
| Service | 6.492 | 14,25% | 5.431 | 15,05% | 19,54% |
| **Totale fatturato** | **45.547** | **100,00%** | **36.092** | **100,00%** | **26,20%** |

After having been particularly hard hit by the international crisis of 2009, the sales volume in 2010 showed an important recovery, registering an amount of about 45 million Euros; it is still far from the maximum amounts registered in 2008, but it has reached a level which has made the operating activity interesting also for the income generated.

Particularly noteworthy is the sales volume generated in the industrial sector, which showed a leap of 74%. The factors which brought about such a brilliant result are to be found first in the improved international situation and the return to a climate of increased certainty on the manufacturing markets, but the real driver in the growth was mainly the end of the start up phase of the two manufacturing structures created through the subsidiary companies in China and Brazil; in 2010 the production volume of systems manufactured by the two companies reached a significant volume and absorbed a growing number of laser sources, in particular those with fast axial flow and high power made in our factory in Calenzano. The growth in the sales volume for mid-power sources which are particularly suitable for marking applications is also noteworthy. For these sources the new configuration of the source with radio frequency excitation has constituted an important innovation which completes and improves this range of products.

In the medical sector which is the most important sector in the company, recovery came close to 20% . Within this sector the excellent positive trend of the subsidiary Deka M.E.L.A., our main client, is of interest. The company absorbed increasing volumes thanks to the success of sales particularly in the Far Eastern and South American markets. Sales on the American market, in particular in the aesthetic sector, remained below historic levels and the potential of these markets.

The sales volume for technical assistance and spare parts also resumed the normal growth that one can expect for this segment; in fact, the gradual increase in the number of systems installed almost automatically comports an increase in the use of consumables necessary for their functioning. In market conditions and therefore with normal use, this area of business can grow constantly.

In conclusion, it should be mentioned that the income inherent to the activity of research and development has been entered, as usual, under the heading of "other revenue and income" for an amount of about 652 thousand Euros in view of the grants received in relation to research projects.

## Statement of income of El.En. SpA as of December 31st 2010

| Statement of income | 31/12/10 | Inc.% | 31/12/09 | Inc.% | Var.% |
|---|---|---|---|---|---|
| Revenues | 45.547 | 100,0% | 36.092 | 100,0% | 26,2% |
| Change in inventory of finished goods and WIP | 694 | 1,5% | (1.115) | -3,1% | |
| Other revenues and income | 1.170 | 2,6% | 1.241 | 3,4% | -5,7% |
| **Value of production** | **47.411** | **104,1%** | **36.219** | **100,4%** | **30,9%** |
| Purchase of raw materials | 24.419 | 53,6% | 13.824 | 38,3% | 76,6% |
| Change in inventory of raw material | (845) | -1,9% | 2.894 | 8,0% | |
| Other direct services | 3.800 | 8,3% | 2.740 | 7,6% | 38,7% |
| **Gross margin** | **20.037** | **44,0%** | **16.761** | **46,4%** | **19,5%** |
| Other operating services and charges | 5.673 | 12,5% | 5.015 | 13,9% | 13,1% |
| **Added value** | **14.364** | **31,5%** | **11.746** | **32,5%** | **22,3%** |
| For staff costs | 9.410 | 20,7% | 8.759 | 24,3% | 7,4% |
| **EBITDA** | **4.955** | **10,9%** | **2.987** | **8,3%** | **65,9%** |
| Depreciation, amortization and other accruals | 1.076 | 2,4% | 1.277 | 3,5% | -15,7% |
| **EBIT** | **3.879** | **8,5%** | **1.710** | **4,7%** | **126,8%** |
| Net financial income (charges) | 526 | 1,2% | 463 | 1,3% | 13,7% |
| Other net income (expense) | (1.402) | -3,1% | (850) | -2,4% | 65,0% |
| **Income before taxes** | **3.003** | **6,6%** | **1.323** | **3,7%** | **126,9%** |
| Income taxes | 1.941 | 4,3% | 963 | 2,7% | 101,6% |
| **Income for the financial period** | **1.062** | **2,3%** | **360** | **1,0%** | **194,6%** |

The gross margin is 20.037 thousand Euros , an increase of 19,5% with respect to the 16.761 thousand Euros for the same period last year, and with an incidence on the sales volume which decreased from 46,4% on December 31st 2009 to 44% on December 31st 2010. The drop in the profit on sales is due to the change in the mixture of sales: most of the sales volume in fact was registered in industrial laser sources and of these most were destined for high quantity production in China and Brazil which have slightly smaller margins. The significant increase in the sales volumes however compensates for the reduction of the margin percentage which reaches an overall margin of an entity sufficient to determine a significant improvement of the EBIT.

Costs for operating services and charges amounted to 5.673 thousand Euros and show an increase of 13,1% with respect to December 31st 2009; on account of the greater increase in the sales volume their incidence decreased to 12,5% from the 13,9% registered on December 31st 2009.

The costs for staff amounted to 9.410 thousand Euros (an increase of 7,4% over last year) and shows a significant recovery in productivity with an incidence on the sales volume which dropped from 24,3% in 2009 to 20,7% for this year. As of December 31st 2010 the number of people employed by the company was 177 as opposed to the 173 on December 31st 2009.

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. These grants make it possible to amplify the range of research activity since they limit their economic impact. As of December 31st 2010 the grants entered into accounts amounted to 652 thousand Euros, while the amount for the same period in 2009 was 790 thousand Euros.

The EBITDA amounted to  4.955 thousand Euros, a significant increase in comparison to the 2.987 thousand Euros for last year and with an incidence on the sales volume which rose from 8,3% last year to 10,9% for 2010.

The costs for amortizations, depreciations and accruals decreased from 1.277 thousand Euros in 2009 to 1.076 thousand Euros for this year, with an incidence of 2,4% on the sales volume. This reduction is chiefly due to the smaller amount of accruals made during the year for credit risks.

The EBIT rose from 1.710 thousand Euros in 2009 to 3.879 thousand Euros in 2010, an increase of 126,8%, with an incidence of 8,5% on the sales volume, and has now returned to an acceptable level.

The result of the financial management is in the black for an amount of 526 thousand Euros as opposed to the 463 thousand Euros registered on December 31st 2009. The incidence decreased slightly from 1,3% on December 31st 2009 to 1,2%  on December 31st 2010; interest earned and, above all, earnings from the difference in the exchange rate are the components.

Having completed the analysis of the ordinary management which has now resumed a more normal and satisfactory situation, this report continues with the analysis of the extraordinary sums which mostly reflect the results of some of the subsidiary companies, and show a more critical condition, with a negative balance of 1.402 thousand Euros due to the devaluation made on the value of the equities held in Esthelogue Srl, Elesta Srl, SBI SA, Deka Laser Technologies Inc. and BRCT Inc. and for a further accrual for losses by companies in which equities are held which can be referred to Deka Lasertechnologie GmbH, Deka Laser Technologies Inc and Elesta.

Earnings before taxes showed a significant increase, registering an amount of  3.003 thousand Euros, with respect to the 1.323 thousand Euros for last year.

The fiscal costs for this year amounted to 1.941 thousand Euros as opposed to the 963 thousand Euros for last year. Although the tax rate decreased from 72,78% for  2009 to 64,64% for this year, it still remains very high and is effected in particular by the non-deductibility of the costs for devaluation and accruals related to companies in which equities are held. These are, however, investments that are indispensable for the marketing of the company’s products in geographical and marketing areas of great interest, and it is necessary to overcome the start up phase in order to reach the sales volumes that are necessary for the subsidiaries to attain a stable level of revenue.

## STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL POSITION AS OF DECEMBER 31st 2010 OF EL.EN. SPA

| | 31/12/2010 | 31/12/2009 | Var. |
|---|---|---|---|
| **Statement of financial position** | | | |
| Intangible assets | 14 | 14 | - |
| Tangible assets | 13.858 | 14.237 | -379 |
| Equity investments | 17.892 | 18.329 | -436 |
| Deferred tax assets | 1.476 | 1.317 | 159 |
| Other non current assets | 158 | 550 | -393 |
| **Total non current assets** | **33.398** | **34.447** | **-1.049** |
| Inventories | 18.232 | 16.879 | 1.354 |
| Accounts receivables | 30.315 | 22.528 | 7.786 |
| Tax receivables | 2.300 | 2.169 | 131 |
| Other receivables | 4.021 | 3.882 | 140 |
| Cash and cash equivalents | 4.919 | 7.618 | -2.700 |
| **Total current assets** | **59.787** | **53.076** | **6.711** |
| **TOTAL ASSETS** | **93.186** | **87.524** | **5.662** |
| Common stock | 2.509 | 2.509 | |
| Additional paid in capital | 38.594 | 38.594 | |
| Other reserves | 36.135 | 35.589 | 545 |
| Treasury stock | -2.576 | -2.576 | |
| Retained earnings / (deficit) | -921 | -921 | |
| Net income / (loss) | 1.062 | 360 | 701 |
| **Total equity** | **74.803** | **73.556** | **1.247** |
| Severance indemnity | 935 | 968 | -33 |
| Deferred tax liabilities | 441 | 267 | 173 |
| Other accruals | 2.196 | 2.144 | 52 |
| Financial liabilities | 66 | 136 | -70 |
| **Non current liabilities** | **3.637** | **3.515** | **123** |
| Financial liabilities | 96 | 89 | 8 |
| Accounts payables | 10.755 | 7.876 | 2.878 |
| Income tax payables | 565 | | 565 |
| Other payables | 3.330 | 2.488 | 841 |
| **Current liabilities** | **14.746** | **10.453** | **4.293** |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | **93.186** | **87.524** | **5.662** |

| **Net financial position** | | |
|---|---|---|
| | **31/12/2010** | **31/12/2009** |
| Cash and bank | 4.919 | 7.618 |
| **Cash and cash equivalents** | **4.919** | **7.618** |
| **Short term financial receivables** | **20** | **20** |
| Part of financial long term liabilities due within 12 months | (96) | (89) |
| **Financial short term liabilities** | **(96)** | **(89)** |
| **Net current financial position** | **4.842** | **7.550** |
| Other long term financial liabilities | (66) | (136) |
| **Financial long term liabilities** | **(66)** | **(136)** |
| **Net financial position** | **4.776** | **7.414** |

For the comments on the net financial position, please refer to the specific paragraph in the Notes related to the separate statement for El.En. SpA.

## RESULTS OF THE SUBSIDIARY COMPANIES

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 2010.

| | **Revenues 31-dic-10** | **Revenues 31-dic-09** | **Var. %** | **EBIT 31-dic-10** | **EBIT 31-dic-09** | **Net income 31-dic-10** | **Net income 31-dic-09** |
|---|---|---|---|---|---|---|---|
| Cynosure (*) | 61.465 | 52.002 | 18,20% | -2.728 | -12.863 | -3.373 | -14.705 |
| Deka Mela Srl | 24.139 | 18.947 | 27,40% | 1.693 | 142 | 1.283 | 99 |
| Cutlite Penta Srl | 8.418 | 6.932 | 21,44% | 357 | -648 | 191 | -488 |
| Esthelogue Srl | 5.680 | 319 | 1678,95% | -557 | -353 | -472 | -264 |
| Deka Technologies Laser Sarl | 3.308 | 2.641 | 25,26% | 106 | 260 | 107 | 262 |
| Deka Lasertechnologie GmbH | 699 | 586 | 19,41% | -131 | -343 | -136 | -355 |
| Deka Laser Technologies Inc. | 2.814 | 2.173 | 29,50% | -243 | -1.194 | -256 | -1.198 |
| Deka Medical Inc. | 2.191 | 126 | 1640,15% | -692 | -328 | -701 | -329 |
| Quanta System SpA | 20.668 | 15.025 | 37,56% | 756 | -102 | -426 | -658 |
| Asclepion Laser Technologies GmbH | 18.398 | 17.983 | 2,31% | 544 | -140 | 22 | -226 |
| Asa Srl | 5.226 | 4.937 | 5,84% | 928 | 872 | 605 | 624 |
| Arex Srl | 879 | 1.019 | -13,79% | 25 | 27 | 0 | -11 |
| AQL Srl | 289 | 423 | -31,71% | -1 | 12 | -4 | 5 |
| Ot-Las Srl | 3.475 | 1.751 | 98,44% | -69 | -478 | -72 | -468 |
| Lasit Spa | 4.852 | 4.260 | 13,91% | 330 | 103 | 138 | -124 |
| Lasercut Technologies Inc. | 496 | 175 | 183,91% | -81 | -93 | -85 | -100 |
| BRCT Inc. | 0 | 0 | | 1 | 2 | -261 | 5 |
| With Us Co LTD | 17.219 | 13.758 | 25,15% | 656 | 336 | 102 | 210 |
| Deka Japan Co LTD | 3.755 | 8 | 46510,15% | 646 | -21 | 393 | -22 |
| Wuhan Penta Chutian Laser Equipment Co LTD | 10.989 | 4.279 | 156,82% | 977 | 162 | 1.100 | 61 |
| Lasit Usa INC | 1.027 | 347 | 195,50% | -8 | -132 | -9 | -132 |
| Cutlite do Brasil Ltda | 4.495 | 2.463 | 82,50% | 336 | -298 | 502 | -80 |
| Raylife Srl | 2.166 | 1.662 | 30,38% | -241 | -129 | -187 | -115 |
| Ratok Srl | 2 | 5 | -58,22% | -2 | -1 | -2 | -1 |

(*) consolidated figures

**Cynosure Inc.**
This company, listed on Nasdaq (CYNO), operates in the field of design, manufacture and sales of laser systems for medical and aesthetic applications, and in the last few years has been concentrating on laser applications for aesthetics, with excellent results which, in 2008, established it as the largest company in this sector in terms of sales volume. These results have been achieved thanks to the superior performance and the high quality of its products, in particular the alexandrite laser for hair removal and the Smartlipo System for laser-lipolysis.
After a period of rapid growth and euphoria which culminated in the Summer of 2008, the company was hit by a crisis which was both sudden and severe, with a drop in sales volume last year of 50% which left it in the red in 2009 notwithstanding the immediate efforts to reduce staff and costs. The crisis was particularly serious on the American market, which is the main marketplace for Cynosure. Thanks to the introduction and sales of the Elite MPX, flagship system for hair removal, and the good level maintained by the international markets, in 2010 Cynosure was able to register a recovery in its sales volume and a reduction of its losses. The financial management was particularly effective and made it so that the stagnation of the markets did not cut into the substantial financial reserves held by the company.

The research activity continued to be conducted intensely and an important joint project with the multinational Unilever was undertaken, for the development of a laser system for aesthetic purposes destined for the end user and the development of Cellulaze, a revolutionary platform for the treatment of cellulitis which was developed jointly with El.En. was completed.
Cynosure organizes the commercial and marketing activities for its products directly on the American and international markets, using its own subsidiaries in France, Great Britain, Germany, Spain, Japan, Korea, Mexico and China, and a network of distributors for countries which are not covered directly. The distribution network in the United States is

particularly important and efficient and is the main driver in the rapid growth of the company. Manufacture, research and development are conducted in Westford, Massachusetts.

The financial situation of the company is completely reassuring and the net financial position which amounts to 86 million dollars is unchanged since 2009 thanks mainly to the careful management of the net working capital notwithstanding net investments for 5 million dollars in long-term securities. This situation makes it possible to look ahead and plan the strategies for growth and investment, in particular, in research and development.
The quotation of the Cynosure stock fell from the maximum level of 45 dollars in 2007 to the minimum of 6 dollars, corresponding to a stock market capitalization which was less than the amount of cash held by the company, and it hovered for a long time between ten and thirteen dollars, dropped again below ten dollars in August of 2010 and later recovered again. In mid-2009 the company announced a buy-back plan for an overall amount of 10 million dollars, but up to now this has occurred only to a minimal degree.

**Deka M.E.L.A. Srl**
Deka was the original nucleus for the distribution of medical laser systems of the Group and the main channel for the distribution of the range of medical laser systems developed in the factory in Florence. It was the first channel in chronological order and has gradually consolidated its market positions, first in Italy and later in other countries, and has now achieved a recognized position of leadership in many areas. Deka operates in the field of dermatology, aesthetics, surgery and uses a network of agents for direct distribution in Italy and, for export, highly qualified distributors. In the physical therapy segment, DEKA has turned the management of the sector over to ASA Srl company of which it controls 60% and has obtained good results both in terms of sales volume and revenue. For the dental sector in Italy, Deka now uses a system of internal distribution of their own after breaking off an earlier agreement with an outside distributor.
The company has recovered rapidly after a year of difficulties characterized also by extraordinary events which caused a drop in sales volume and a sharp decrease in revenue. Deka registered a significant increase (+27%) in sales volume and a net result of over 5% of the sales volume, compensating for the decrease in margins imposed by the pressure of the competition with a substantial increase in the volumes; these results demonstrate the success of the Deka products in many countries thanks to the opportune positioning both of the distribution and the range offered.

**Cutlite Penta Srl**
This company 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.
The selling markets of the company which consist of manufacturing firms, during 2010 showed some signs of recovery from the state of depression in which they were stagnating in 2009, thanks to the purchase incentive policy (“Legge Tremonti”) but above all thanks to their capacity to renovate their range of products to adapt them to the requirements of the more substantial markets like those for metal cutting. On the other hand, the precision engineering of the systems has also comported a reduction in the variable costs and a consequent improvement in the margins, from which the results have greatly benefited. The sales volume, which reached its highest level ever during the second quarter, slowed slightly during the first half in part due to the failure to sustain it by the above mentioned “Legge Tremonti”, and in any case showed an increase of 21,4% over 2009, which made it possible to achieve a positive EBIT and net income; this was an excellent result and a complete turnaround compared to the heavy losses sustained in 2009 in the middle of the crisis.
The manufacturing activity also benefited from the rapid growth of the sales volume of the subsidiary Wuhan Penta Chutian, the structure of which is now able to effectively serve the growing demand of the local market and also able to supply high quality semi-finished products to the other companies in the Group. Cutlite Penta also supplies a series of critical components to Wuhan Penta Chutian, and have benefited from their increased volume of business.
The excellent result, with a net income of 191 thousand Euros which represents 2,3% of the sales volume, would seem to confirm that the crisis is over and, thanks to the structural factors which made it possible, present a very optimistic out look for the next few years.

**Wuhan Penta Chutian**
This Joint Venture was initiated in 2007 by Cutlite Penta together with Wuhan Chutian Group of Wuhan, in the Hubei region of central China, in order to develop the production of laser cutting systems for the local market using the systems technology of Cutlite Penta, laser sources of El.En. and the experience of the local partner for the manufacturing and distribution.
In 2010 the company registered the most significant growth of all the companies of the Group, with an increase of 157% in sales volume, an impressive EBIT of 8,9% of its sales volume and a net income which was even better (10% of its sales volume) thanks to the contribution of its financial management and the reduced tax load. The re-enforcement of the Yuan in fact reduced the debts in currency towards the other companies of the Group and the “start-up” benefited from the reduced direct taxes during the first years of activity.

The favorable market phase, but above all, the manufacturing processes working at full capacity, made it possible for the company to rapidly increase their sales volume and achieve a substantial position on the market so that in 2010 and with a view to the future, it became the most significant company in the Group in the industrial sector.
The improved market conditions and the company's growing credibility with the clientele also made it possible to slightly improve the sales conditions, thus facilitating a limitation in the growth of net working capital and consequently of financial needs which, in 2009, were sustained by bank debts and with an increase in capital stock underwritten by both partners.

**Quanta System Spa**
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. Since 2007 the medical/ aesthetic sector has represented the main driver of growth for this company, partially overshadowing the scientific sector, in which the company was born, and the industrial sector; starting in 2008 Quanta System started to operate in the surgical sector and in particular in the urological and endovascular fields opening new prospects which allowed it to brilliantly overcome the crisis and, in 2010, register a record sales volume and EBIT: 20,6 million Euros in sales volume (+ 38% over 2009) and 756 thousand Euros as EBIT. The excellent operating results, the best ever achieved by the company, however, were obscured by the extraordinary charges incurred by the totally negative out come of their associated GLI. In relation to this company Quanta System had to enter accruals for devaluations of receivables for an amount of 300 thousand Euros, the total devaluation of the goodwill for 460 thousand Euros as well as their quota for the losses incurred this year for an amount of 210 thousand Euros, with an overall result which brought their annual results in to the red.
The quality of the range of products offered, both in the aesthetic and surgical sectors and the capacity of the company to adapt rapidly to the requests of the market, leave good hope for a continuation of the positive EBIT.

**Asclepion Laser Technologies GmbH**
This company, located in Jena, was acquired from Carl Zeiss Meditec and represents one of the main activities of the Group; thanks to its geographical location in 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 and constantly grown.
Again in 2010 the company registered a slight growth, which together with a reduction in costs has determined a return to a positive EBIT (544 thousand Euros as opposed to a loss of 140 thousand Euros in 2009), and demonstrate the improved market conditions.
The efforts continued to enlarge and renew the range of products both for surgical applications (thanks also to the support given by the Turingia region to this segment) as well as the aesthetic sector. In this sector the systems produced under the Raylife brand become increasingly important for the company, thanks also to the important distribution network that the Group has made available by launching the activity of Esthelogue in Italy.

**With Us**
This company represents the bastion for the distribution of Deka products, including the specific versions, on the Japanese market. With Us constitutes a point of reference for "light based" technologies in the field of aesthetics in Japan, thanks to its substantial base of installations and its capacity to renovate the offer by acquiring further orders for new installations.
The numerous installations create a continual flow of revenue from maintenance contracts with supplies of consumable goods which increased by 19% this year. The number of sales of systems increased by 40% and brought about an overall rise in revenue of about 25% and an excellent EBIT which was, unfortunately, penalized as far as the net income (in any case positive), were concerned by the financial management, and in particular, by the losses for the coverage on exchange rates.
The recent events which have devastated Japan will cause a drop in consumption by the end users and consequently a reduction in the sales volume for 2011. The Group will try to compensate for this by introducing new technologies for the purpose of, in any case, confirming their leadership on the market which we fervently hope will soon recover along with the trust of the Japanese consumers.

**ASA Srl**
This company, located in Vicenza, is a subsidiary of Deka M.E.L.A. Srl, and operates in the field of physical therapy. After having succeeded in increasing their sales volume in 2009, ASA confirmed its results in 2010 by registering a further growth of 6%, which is among the best aggregate results shown in the last two years by the companies of the Group operating in the medical sector.
This confirms the technological decisions and the leadership in high-powered laser systems for physical therapy (HILT) along with the approach to the American market which gave excellent results in 2010 and, even in a period of stagnation of that market, created the foundations for further growth in the USA. The EBIT and net income continue to be interesting as are those of the preceding year.

**Other companies in the medical sector**

**Deka Technologies Laser Sarl** distributes the range of Deka laser systems in France. For the French branch 2010 was the year of greatest growth, with a sales volume of over 3,3 million Euros. The market position is now among the leaders in this sector with a vast network of installations which make it one of the most important distributing structures of the parent company. **Deka Lasertechnologie GmbH,** is a company which has the same activity as the French Deka, but operates on the German market. In 2010 it started to work according to a new formula supporting a local distributor and suffering the consequences of some costs which were derived from the preceding management; it remained far from the volumes required for breaking even which, hopefully, will be reached during 2011.
**Deka Japan** is now in its first year of activity and is dedicated to the distribution of medical systems in Japan. The company achieved excellent results both for sales volume and revenue thanks to its capacity to quickly identify the categories of clientele that were able to appreciate in the medical sector the quality of Deka products which were already popular in Japan in the aesthetic field.

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. The former company is now in the turnaround phase and the latter in start up; both have suffered from the crisis on the American market. The former company it would seem, was able to establish a stable level of revenue in 2010 with a sales volume sufficient to register a positive result in the second half of the year, and confirm that it is now leaving the phase of turnaround. The medical sector was particularly hard hit by the crisis and is particularly crowded with competitors in difficulty due to the reduction of the American market, is still in a phase of stabilization. The EBIT registered for the fourth quarter which is seasonally the most favourable, cannot in this case be considered as the beginning of a phase of stabilization of the company for which we will have to wait still for several quarters before seeing a constant level of breaking even.

At the end of 2009 the Group entered the segment of professional aesthetics with the creation of **Esthelogue Srl**, for the direct distribution of its products after the crisis of its original distributor in this sector. During 2010 the company rapidly acquired portions of the market thanks to the quality of the range of products offered and to the innovative solutions of marketing and formation that complete the technological offering to the client. In order to overcome the rigid policies of the credit institutions in relation to the financing conditions for our clientele, the company in certain cases adopted a policy of extending credit for the purpose of facilitating a more rapid penetration of the market. The losses sustained during the year were foreseen in advance and were covered by the parent company El.En. which has in Esthelogue an important selling channel for its own products. Esthelogue also distributes Raylife brand aesthetic systems. **Raylife Srl**, is a subsidiary of the German company Asclepion, and during this year its type of activity was modified because it stopped distributing in the aesthetic sector and showed a loss as a consequence of the accruals for the devaluation of some of the receivables with long-term payment conditions.

The medical center **Arex Srl**, specialized in the treatment of psoriasis and vitiligo continued its activity satisfactorily while the operations of **Ratok Srl** in effect were never begun and the company was liquidated in January of 2011.

**Other companies, industrial sector**

**Ot-Las Srl** designs and manufactures special laser systems for $CO_2$ laser marking for the decoration of large surfaces and is present on the market with advanced technological solutions thanks also to its close technological cooperation with the parent company El.En. for the creation of strategic components. In 2009 the company was particularly hard hit in the volume of its operations. The recovery of sales volume in 2010 which doubled that for 2009 was substantial and definitely satisfactory. Market conditions, however, did not allow for a return to the highest margins which, in preceding years, had allowed Ot-las to register brilliant results. The result is a statement showing a slight loss which, while unsatisfactory in absolute terms, is satisfactory in terms of a recovery over the critical situation registered in 2009.

**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 company went through a crisis of reorganization after a technological leap of the market which made some of the work processes in the factory superfluous and this situation was further aggravated by the international crisis. Once the overhead costs had been stabilized and income derived from the work of the mechanical workshop started flowing in, Lasit in 2010 was able to achieve a positive result.
The American branch, Lasit Usa in 2010 was also able to develop a sufficient volume of business to cover their relatively modest overhead costs.

**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. The statement of financial position of BRCT for 2010 reflects the loss in value of the subsidiaries Lasercut Technologies, Deka Medical and Deka laser Technologies, totally devaluated.

**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. 2010 was an important year also for this company which began to produce at full capacity and is now able to effectively manufacture high-tech laser cutting systems, and for the creation of local demand, one of the most interesting in the world in terms of growth potential. The sales volume increased by 82% and the net result was 11% of the sales volume. These are two results of great significance, which in any case are expected to improve in the future.

## RESEARCH AND DEVELOPMENT ACTIVITIES

During 2010 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.
The Group increased the investments in R&D to face the economic crisis which required even more attractive items for the market through the presentation of new products and applications.
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-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 in laser systems related, on the one hand, to its generation and level of power and, on the other, its management over time and in the shape of the ray.
The research which is aimed at obtaining mid-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.
The 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.

<u>Systems and applications for lasers in medicine</u>
Through a major effort involving massive use of both personnel and resources, the parent company, El.En. has developed a new family of equipment and sub-systems for of the SMARTXIDE[2] family of $CO_2$ 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, odontostomatolgy, laparoscopic surgery, aesthetic surgery, with scansion heads that are able to emit on to the patient's skin radio frequency electromagnetic energy for DOT and RF (radiofrequency) treatments for skin rejuvenation and the attenuation of scars, particularly on the face.
Research continued clinical trials on a new micro-manipulator for uses in otorhinolaryngology of the $CO_2$ laser and clinical trials for validating its application in otorhinolaryngology were begun; initial results on patients were considered excellent by the doctors who are collaborating with us.

Development is now in progress for a new (Alex+ Nd:YAG+IPL) platform: 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 sand conditioning fluids, ergonomic mechanical support, management of the various integrated systems.
We have just concluded clinical trials and are creating instruction courses for the use of TRIACTIVE PLUS system equipped with various active peripherals generating laser energy, using radio frequency and ultrasound with two bands of frequency, for aesthetic medical treatments.
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) for uses in physical therapy, dermatology (cutaneous ulcers), orthopedics, with experiments also conducted in the USA in collaboration with Washington State University using animal models, horse, and we have also continued our collaboration for the programming of new experimental

research on treatments for arthrosis in patients with the Istituti Rizzoli of Bologna which have been our partners now for several years.
We have continued trials on the effects of photo-mechanical stimulation of condrocites.
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 initiated a collaboration with the university clinics of Pisa and Florence; we are now conducting research for the creation of interaction laser tissue models for programming ablation operations; activities were 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 continued activities for the development of laser equipment and devices for the treatment of cutaneous ulcers (TROPHOS project). This project like the above mentioned TRAP, are conducted with grants from the European Union issued through the Department of Economic Development of the Region of Tuscany.
We continued research in a public/private laboratory in Naples for the development of innovative technologies for minimally invasive medicine. As part of this project, in collaboration with the University of Lecce, research for uses of non-particles with interaction with laser light to create images for identifying tumors is now in progress.
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: odonto-stomatology 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 El.En. he have conducted research for new medical applications in the recently created PHOTOBIOLAB for the study of the interaction between light and biological tissue.
The collaboration of El.En.'s Research and Development department for medical laser devices continued with Cynosure for the development of new laser equipment for the treatment of adipose layers.
At Cynosure they continued the completion of experiments in laser lipoysis on new instruments which have innovative characteristics in terms of the power levels and control of their output with recto-activated systems using information from temperature sensors working on more than one wave length.
We have completed the planning of a new research project, MILoRDS, presented to the Region of Tuscany, on surgical operations using laser with the auxiliary of a robot in the fields of opthamonolgy, urology and cutaneous ulcers.

Quanta System continued the development of two types of lasers, one with emissions in green and the other with Tullium infrared, for the therapy for the treatment of benign prostate hypertrophy and of a fiber laser with augmented performance with respect to the state of the art, with contributions derived from financing for a European Union project. We 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, Turingia, for the development and experimentation of lasers for surgery; the activity of research and development of equipment for applications in urology and the related clinical trials are now in progress.

Laser systems and applications for industry

At El.En. we continued feasibility studies for the adaptation of galvanometers to the characteristics necessary for mounting on satellites in space.

We have completed experimental trials and started activities for the integration into our products of groups of innovative electronic subsystems based on a system in Digital Electron ics (VOYAGER) which was developed inside the company, for the control and management of equipment for marking recently created at OT-LAS.
For cutting applications on metallic materials we have developed a capacitive sensor for controlling the position of the focal zone of the laser ray with respect to the material; experimental activities were concluded.
As part of the strategy for the development sustaining restoration methods in Tuscany a project (TEMART) was approved and El.En. is responsible for the development of the laser equipment used for certain special types of conservation work.
We continued experimentation work on new diagnostic systems for paper in antique books using lasers; this system has recently been patented.

We are developing laser systems to be used for cutting and sealing plastic materials in equipment for packaging foods and chemicals for various uses.
We have developed new testing methods for mirrors for marking devices of different dimensions on the basis of the high speed scansion in machines performing laser decoration on large surfaces.
We have developed and are now experimenting new catalyst systems for Compact power lasers.

Cutlite Penta is a company that operates in a market of high technological intensity and maintains its competitive position by amplifying its range both by offering newly designed systems as well as renovating technical solutions in systems that are already being manufactured.
Their research is supported by their own resources and, in some cases by grants derived from research contracts stipulated with the specific institutions. They completed verification trials on structural and functional innovations developed on sealed $CO_2$ sources manufactured by El.En. 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, and have continued the applicative study for the identification of new cutting solutions, in particular those for cutting sheet metal.
They are developing systems to eliminate most of the optical routes of the $CO_2$ laser ray with solutions that include the direct assembly of the new sources with Radiofrequency pumping on the mobile portal of the machine. They are now about to complete the development of the software for the execution using raster scansion for marking metal and other kinds of surfaces on the cutting machine.

Quanta System has completed a research program on the use of laser based working technologies on components for exploiting solar energy; financing for the project has been approved by the special commissions of the European Union.

At Ot-las they are completing the development of a new generation machine for continual decorating rolls of fabric over large areas and they have developed the specific software for using VOYAGER boards on this machine (MX). For this same machine, they have completed the preliminary study for the 2800 mm version. In accordance with the mid- and long-term plans they have developed the software for the remote monitoring of the new RF333 radio-frequency sources now in progress at El.En.
They have continued work on perfecting the algorithms, calculus programs and hardware structures for artificial vision systems to be used in the automation of surface decoration using laser markers, on leather and other materials and for the cutting and marking of other objects which are laid out flat on the work surface; moreover, we have completed the development of the software to apply offset algorithms to closed edges and to reorganize execution files.

| *thousands of euros* | **31/12/2010** | **31/12/2009** |
|---|---|---|
| Costs for staff and general expenses | 9.717 | 8.673 |
| Equipment | 149 | 168 |
| Costs for testing and prototypes | 1.184 | 1.464 |
| Consultancy fees | 551 | 656 |
| Other services | 733 | 420 |
| ***Total*** | **12.333** | **11.381** |

As was the case for both the sales volume and profits, the contribution of Cynosure is highly significant also for the research and development expenses considering the intense activity the company conducts in this sector. The amount of expenses sustained by Cynosure during this period for research and development was approx. 7,2 million dollars.

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 corresponds to 6% of the consolidated sales volume of the Group. The amount related to Cynosure, as stated above, is 7,2 million dollars which represents about 9% of its sales volume; the rest of the expenses were sustained mostly by El.En. SpA and represents 8% 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 residua 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 and financial instruments.
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 2010, most, approx. 60% of consolidated sales were made in markets outside of the European Union; most of the transactions were conducted in US dollars. It should be pointed out that the presence of stable structures in the United States, in particular Cynosure, make it possible to have a partial coverage of these risks since both the costs and the revenue are in the same kind of currency.
The Japanese subsidiary With Us moreover has initiated hedging operations to cover exchange 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 11% 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, has underwritten a bank guarantee for a maximum of 1 million Euros to guarantee the bonds 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.
During this year the company has also underwritten:
- 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.
- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 1-203 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the "TRAP" 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
-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 Unico R&S in the year 2008 and approved by the Region of Tuscany with Directive Decree 5673 on November 21st 2008.
- 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.

The subsidiary Quanta System has issued bank guarantees in favor of some credit institutions of the associated company Grupo Laser Idoseme for a residual total of 550 thousand Euros which came due on February 28th 2011 and was renewed for an amount of 350 thousand Euros up until February 27th 2012 and for an amount of 100 thousand Euros up until May 27th 2011.

*Cash and interest rate risks*

As far as the exposure of the Group to risks related to cash and interest rates is concerned, it should be pointed out that cash held by the Group has been maintained at a high level also during this financial year in such a way as to cover existing debts and obtain a net financial position which is extremely positive. For this reason we believe that these risks are sufficiently covered.

**Management of capital**
The primary objective of the management of the capital of the Group is to guarantee that a low level of indebtedness is maintained. Considering the substantial amount of cash held by the Group, the net financial position is extremely positive and is such as to guarantee a good ratio between capital and reserves and debts.

## EQUITY INVESTMENTS HELD BY DIRECTORS, AUDITORS AND GENERAL DIRECTORS

In compliance with Art. 79 of the Consob regulations adopted with vote no.11971of May 14th 1999, the chart below shows the equities held in the company or in its subsidiaries by directors and auditors or by their relatives, also through subsidiary companies.

(

| *Name* | *Company* | *No. of shares on 31/12/2009* | *No. of shares acquired* | *No. of shares sold* | *No. of shares on 31/12/2010* |
|---|---|---|---|---|---|
| Andrea Cangioli | El.En. S.p.A. | 647.672 | | | 647.672 |
| Barbara Bazzocchi | El.En. S.p.A. | 504.824 | | | 504.824 |
| Gabriele Clementi | El.En. S.p.A. | 534.704 | | | 534.704 |
| Immobiliare del Ciliegio Srl (*) | El.En. S.p.A. | 362.412 | | | 362.412 |
| Lucia Roselli | El.En. S.p.A. | 350 | | | 350 |
| Paolo Caselli | El.En. S.p.A. | 300 | | | 300 |
| Vincenzo Pilla | El.En. S.p.A. | 300 | | | 300 |
| Michele Legnaioli | El.En. S.p.A. | 160 | | | 160 |
| Stefano Modi | El.En. S.p.A. | 2.200 | | | 2.200 |
| Stefano Modi | Cynosure Inc. | 3.000 | | | 3.000 |
| Angelo Ercole Ferrario | El.En. S.p.A. | 3.394 | | | 3.394 |
| Laserfin Srl (**) | El.En. S.p.A. | 14.974 | | | 14.974 |
| Paola Salvadori | El.En. S.p.A. | 300 | | | 300 |
| Alberto Pecci | El.En. S.p.A. | 413.114 | | | 413.114 |

(*) Immobiliare del Ciliegio Srl is a company with headquarters in Prato, with a capital stock of 2.553.776 Euros. Andrea Cangioli is the outright owner with a quota of 25% of the capital stock.
(**) Laserfin is a company with headquarters in Milan and a capital stock of 10.500 Euros. Angelo Ercole Ferrario holds an equity in the company of 21,78%.

The ordinary shares in circulation on December 31st 2010 were 4.721.220. Par value of each share is 0,52 Euros.

## 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' assembly 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' assembly, 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' assembly 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' assembly, 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.

## STAFF

As mentioned earlier, staff members of the Group increased from 874 on December 31st 2009 to 969 people on December 31st 2010.
Staff members divided by Group company are shown on the chart below:

| Company | 2010 Average | 31-dic-10 | 31-dic-09 | Var. | Var.% |
|---|---|---|---|---|---|
| El.En. S.p.A. | 175,00 | 177 | 173 | 4 | 2,31% |
| Cutlite Penta Srl | 23,00 | 23 | 23 | 0 | 0,00% |
| Esthelogue Srl | 5,00 | 7 | 3 | 4 | 133,33% |
| Deka M.E.L.A. Srl | 15,00 | 15 | 15 | 0 | 0,00% |
| Ot-las Srl | 13,50 | 14 | 13 | 1 | 7,69% |
| Raylife Srl | 1,50 | 0 | 3 | -3 | -100,00% |
| Quanta System SpA | 69,50 | 72 | 67 | 5 | 7,46% |
| AQL Srl | 1,00 | 1 | 1 | 0 | 0,00% |
| Arex Srl | 6,00 | 5 | 7 | -2 | -28,57% |
| Lasit SpA | 40,50 | 40 | 41 | -1 | -2,44% |
| Asa Srl | 26,00 | 26 | 26 | 0 | 0,00% |
| Deka Technologies Laser Sarl | 8,50 | 9 | 8 | 1 | 12,50% |
| Deka Lasertechnologie GmbH | 1,00 | 0 | 2 | -2 | -100,00% |
| Deka Medical INC | 5,00 | 5 | 5 | 0 | 0,00% |
| Asclepion Laser T. GmbH | 73,00 | 73 | 73 | 0 | 0,00% |
| Lasercut Technologies Inc | 1,50 | 2 | 1 | 1 | 100,00% |
| Cynosure | 257,00 | 259 | 255 | 4 | 1,57% |
| Deka Laser technologies INC | 7,50 | 7 | 8 | -1 | -12,50% |
| With Us Co Ltd | 25,00 | 25 | 25 | 0 | 0,00% |
| Wuhan Penta Chutian Laser Equipment Co Ltd | 144,00 | 184 | 104 | 80 | 76,92% |
| Lasit Usa Inc | 1,00 | 1 | 1 | 0 | 0,00% |
| BRCT | 0,00 | 0 | 0 | 0 | 0,00% |
| Cutlite do Brasil Ltda | 19,00 | 21 | 17 | 4 | 23,53% |
| Ratok Srl | 0,00 | 0 | 0 | 0 | 0,00% |
| Deka Japan Ltd | 3,00 | 3 | 3 | 0 | 0,00% |
| **Total** | **921,50** | **969** | **874** | **95** | **10,87%** |

## 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 Director’s Report on Operations. 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 atipica 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 2010 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

In conformity with present legislation in this regard, the company declares that they have updated the Safety Program Document (*Documento Programmatico sulla Sicurezza*), which was previously adopted.

### 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 Uinon and of significant importance in relation to the consolidated financial statement, we declare that:

- On December 31st 2010 the companies controlled by El.En. SpA to which these rules are applicable are the following: Cynosure Inc. (NASDAQ:CYNO), With Us Co. Ltd and Whuan Penta Chutian Laser Equipment Co. Ltd.
- Adequate procedures have been adopted to assure complete compliance to the regulations.

## SIGNIFICANT EVENTS WHICH OCCURRED DURING THE FINANCIAL YEAR 2010

On February 9th 2010 El.En. SpA, which holds US patent n. 6.206.873 (also known as patent 873) which deals with the technique of laser-lipolysis, for the removal of subcutaneous fat by means of a laser, and which constitutes the fundamental point of reference for the application performed with the device which is sold under the brand name of Smartlipo™, announced along with its subsidiary and sole licensee for the above mentioned patent, Cynosure Inc., the conclusion of its suit for the violation of the patent rights initiated against CoolTouch Inc. and based on the violation of the intellectual property rights belonging to El.En. by CoolTouch through the selling of the device they called 1320 nm CoolLipo™.

On the basis of the settlement which was reached, CoolTouch will pay a royalty of 9% on the CoolLipo systems sold before the settlement and will reimburse Cynosure Inc. a part of the legal expenses which they incurred. CoolTouch, moreover, will be obliged to pay a royalty of 10% on all the systems which can be used exclusively for lipolysis and 7,5% for the systems which it will sell which can be used for lipolysis and at least one other aesthetic application. CoolTouch ha s also accepted to recognize in front of a judge their violation of patent 873 and that this patent is completely valid. CoolTouch moreover granted El.En. and Cynosure free of charge the license for patents already obtained and for patents pending which belong to CoolTouch and that are used for the treatment of body fat and/or cellulites.
On the basis of the agreement which regulates the license for the patent granted to Cynosure by El.En., as accessory to the existing distribution contracts for license Smartlipo™, when Cynosure has received the total reimbursement of the legal expenses they sustained for this suit, the sums received from the royalties paid by CoolTouch will be split between El.En. and Cynosure in the proportion of 40% for the former and 60% for the latter.
With the success of this transaction, the El.En. Group has confirmed their technological and market leadership in the segment of laser-lipolysis , in which the standard reference is represented by the Smartlipo™ system distributed in Italy by DEKA M.E.L.A. and in the United States by Cynosure.

On January 28th 2010 the assembly of Elesta Srl, a company in which the Parent Company El.En. Spa holds an equity of 50%, voted to pay off the losses suffered in the year 2009 by reducing the capital stock to zero and a further payment by the shareholders for the residual amount. The assembly also voted to reconstitute the capital stock to the original amount of 110 thousand Euros, and this amount was completely underwritten by the shareholders;

On April 26th 2010, the shareholders' assembly of Esthelogue Srl voted to completely cover the losses registered in the statement closed on December 31st 2009 (for an amount of 263.619,04 Euros) by using the payment of 300 thousand Euros which had previously been deposited by El.En. S.p.A. and using the residual amount as a deposit in capital account;

On April 28th 2010 the shareholders' assembly of Electro Optical Innovation Srl, a company in which Quanta System Spa holds a 33,33% equity, voted to dissolve and liquidate the company.

## SIGNIFICANT EVENTS WHICH OCCURRED AFTER THE CLOSING OF THE FINANCIAL YEAR

No significant events occurred after the closing of the financial year 2010.

## CURRENT OUTLOOK

The financial year 2010 closed with a significant growth; the consolidated statement to which we refer for the sales and revenue forecasts, that drawn up excluding Cynosure, with a growth of 30% and an EBIT of more than 8 million (6,3% of the sales volume), registered sales volumes and EBIT that were well above expectations. For 2011 our goal will be to maintain the high growth rate in the industrial sector and to maintain the market positions achieved in the medical sector so as to register an overall growth of about 10%. These forecasts reflect the fall in demand that we expect from the Japanese market, while from the industrial sector we expect a contribution to the EBIT which is analogous to that of the medical sector. For this reason we expect to improve the EBIT.

## DESTINATION OF THE NET INCOME

To our shareholders,
we herewith request that you approve the separate financial statement of El.En. SpA as of December 31st 2010, and we propose that the profits for this year, for an amount of 1.061.672,00 Euros, be distributed as follows:
- 117.428,00 Euros for the extraordinary reserve;
- to distribute, for the stock now in circulation on the due date for payment of coupon 10 on May 23rd 2011, in compliance with art. 2357ter, second paragraph of the Civil Code, a dividend of 0,20 Euros for each share in circulation for an overall amount, as of today's date, of 944.244,00 Euros and establishing that that the residual dividend destined for treasury stock held by the company on the date of payment be accrued in a special reserve of retained earnings.

***For the Board of Directors***
The Managing Director – 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 15th 2011

Financial year 2010

## GLOSSARY

**"Code":** *Codice di Autodisciplina*: the self-disciplining code for the companies quoted on the stock market approved in March 2006 by the Commission for Corporate Governance and promoted by the Borsa Italiana S.p.A. and later added to and modified;

**"c.c."**: the Civil Code;

**"Board"**: the Board of Directors of El.En. s.p.a.

**"El. En."/ "the Company"**: the company issuing these documents.

**"Financial year"**: the financial period closed on December 31st 2010 which is referred to in the report

**"Regolamento Emittenti Consob"**: the Regulations issued by Consob after vote n. 11971 in 1999 (and later modified) concerning companies issuing financial statements;

**"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. SPA

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 the current edition of March 2006, 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 managing 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 in compliance with Art. 155 TUF by a company that is enrolled in the special CONSOB professional register.

During the assembly held on October28th 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 April 30th 2009 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 2009, 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.
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:

a) *Nominations Committee for the appointment of the director,* which currently has the task of nominating candidates, receiving proposed nominations from the shareholders, and verifying that the procedure for the selection of candidates respects the company by-laws;
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;
c) *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 auditing company.

With the vote cast on November 12th 2010 the Board integrated the functions of the internal controls committee in light of the role attributed to the independent administrators by article 4, sub-section 3 of the Consob Regulations on Related Parties and the new company regulations concerning operations with related parties which was approved on the same date.

The above mentioned committees are governed in their composition, role and function by a special set of rules, the first version of which was approved on September 5th 2000, revised in December 2003, and further revised by the Board of Directors on March 30th 2007. As mentioned above further additions were made to the rules for the internal controls commission in 2010.
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 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.
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 expectation at the level of primary source of the obligatory presence of the so-called independent board members, the Company has proceeded with the insertion of this into the by-laws, as part of the rules on appointment to and composition of the Board; this requirement, in any case, is in conformity with the discipline of the Code, and has been a regular policy since 2000, the year when 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 for three financial years and therefore until the assembly called for the approval of the financials for 2012.

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.

## Auditing of Accounts

Auditing of accounts (in conformity with Art. 155 and following TUF which were in force at the time and are now replaced by the regulations introduced by **D. Lgs. 39/2010)** for auditing firms enrolled in the Consob professional register is entrusted to an auditing company: the assembly held on May 9th 2006 conferred the task of auditing the annual report and the consolidated annual report of the company for the financial years 2006-2011, in conformity art. 159 TUF in force at the time the appointment was conferred, to RECONTA ERNST & YOUNG SpA.

## 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 2010)

***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' assembly on May 15th 2008 for use in the employee incentive plan 2008-2013 as described in the Management Report which accompanied the Financial Statement for 2010, 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)***

According to the information and data available as of December 31st 2010, significant equities (over 2%) of the capital stock of the El.En. Group are held by the shareholders' listed in Table 1.

**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)***

None.

***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 Management Report for 2010, the section titled "*Stock options offered to directors and employees*".

In relation to treasury stock, on March 3rd 2008, the shareholders assembly, 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.
The authorization expired on December 31st 2009 and the Company possessed at this time 103.148 shares of treasury stock.

Upon request of the Board of Directors, the shareholders' assembly 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..

**l) Management and coordinating activities (ex. art. 2497 and ss. C.C.)**

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) 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) *("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 present version of March 2006.

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 subsidiary CYNOSURE Inc. is the company the stock of which was admitted for trading on the NASDAQ and is therefore subject to the relative US regulations, also in relation to their corporate governance. The corporate governance of El.En. is not influenced by it.

* * *

## 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 as modified by the extraordinary shareholders' assembly held on May 15th 2007 in compliance with art. 147-*ter* comma 1 TUF and the *Regolamento Emittenti* 11971/1999, and 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.

*"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 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' assembly. 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.*
For the purpose of guaranteeing the greatest transparency during the election of the Board presently serving, 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 if 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.

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

***<u>Current members of the Board of Directors</u>***

The current Board which will be in office until the approval of the annual report for the year which ends on December 31st 2011, is composed of the following eight members as determined by the assembly which elected them:
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;
8) Angelo Ercole Ferrario – board member.

The Board was elected with 56,96% of the voting capital by the shareholders assembly held on April 30th 2009 and, after the vote of the Board of Directors on May 15th 2009, 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 fifteen 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., Pio Burlamacchi, Carlo Raffini and Autilio Pini.

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.

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 a member of the board of Directors of KME, 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 to1991.
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* confered 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.

Since the date of approval of this report no variations have been made in the composition of the Board.

***Number of Board Members***
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 1.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 eight 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 five (Blasi, Legnaioli, Ferrario, Pecci, Modi) are formally non-executive.
In relation to the board member Modi, please refer to the preceding paragraph.
(2.P.2 and 2.P.3) As far as the non-executive members are concerned, in theory the recommendation contained in principle 2.P.2 related to those cases where the contribution of specific and expert qualifications of the board members are required and that, contained in principle 2.P.3 which, instead, requires a certain availability of time to dedicate to the acquisition of a significant role in the discussions of the board of El.En. would appear to be a contradiction; instead, it is evident that the more qualified these people are the more experience they are gaining now and have gained in the past in contexts that are analogous or more complex.
All things considered, the board members of El.En., notwithstanding the fact that they are outstanding and experienced individuals, still dedicate enough time and thought to their activity as board members to be continually active in the meetings and discussions of the commissions of which they are part. This is particularly true in the case of the two independent directors and of the board member Pecci.
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 | • Sole director of Valmarina s.r.l.<br>• Board member of Parcheggi Peretola s.r.l. | 0 |
| Paolo Blasi | • Executive advisor of the Banca d'Italia<br>• Board member of the Ente Cassa di Risparmio di Firenze | 2 |
| Angelo Ercole Ferrario | • President and executive board member of LASERFIN s.r.l.. | 0 |
| Alberto Pecci | • President of the Pecci textile Group<br>• Board member of KME, a company quoted on the stock market | 1 |

**Maximum number of positions which can be held in other companies**

During the board meeting held on May 15th 2008, for which the duly transcribed minutes exist, the board expressed their intent 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' assembly, 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.

**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. b).
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, 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 (1.C.1.lett.b). 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 2010 the Board of Directors met six times on the following dates.

1. February 12nd
2. March 31st
3. May 14th (Ferrario absent)
4. August 27th (Blasi and Ferrario absent)
5. September 23rd
6. November 12th

During the financial year 2011 the Board of Directors of El.En. met on the following dates:

1. March 15th

And, on November 12th established the following calendar of meetings in compliance with the company regulations:

2. May 13th – Intermediate management Report – First Quarter 2011
3. August 29th – Half yearly Financial Report
4. November 14th – Intermediate management Report – Third Quarter 2011

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 non-executive 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.

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

- establishing the general direction to be taken by the management and overseeing the general trend

of the management with particular reference to situations of conflict of interest;
- the study and approval of the strategic, industrial and financial plans of the company and of the structure of the Group of which it is the leader (1.C.1. lett.a);
- 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 (1.C.1. lett. c), 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 (1.C.1. lett. d);
- 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. (5.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. b);
- 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, the Board of Directors, during the meetings held on March 31st and on August 28th, established by sectors (activities pertaining to L.262/05: means with which the administrative office implements some of the new fiscal laws; legal area) the adequacy of the organizational, administrative and general accounting structures set up by the executive board members, with particular reference to the system of internal controls and the management of conflicts of interest (Applicative criteria 1.C.1., lett. b).

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 conflicts of interest (Applicative criteria 1.C.1., lett. b) as part of the activity of the internal controls commission for 2009, El.En. has identified and has confirmed for the year 2010, 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.

On April 30th 2009, during the elections of the present Board of Directors, the shareholders' assembly established an annual remuneration of 12.000,00 Euros (twelve thousand Euros) each for all of the members of the Board and set aside a total amount of 234.000,00 (two-hundred and thirty-four thousand Euros) for the president and the executive board members, which were divided in equal parts by the Board when the attributions of the powers were made to the president and to the two executive members during the meeting held on May 15th 2009 (Applicative criteria 1.C.1., lett. d). Moreover, on the same day, for the year 2009 the administrative body conferred the mandate to the remuneration committee to prepare an incentive remuneration for the president, the executive board members and the other board member who, as director of medical research and developments is to be considered executive in compliance with art. 2 of the Code, which was later approved during the meeting held on June 10th 2009.

During the Board meeting held on March 31st 2010, on the basis of the recommendations of the remuneration committee, the members approved the incentive remuneration plan for 2010 while the various members directly involved absented themselves from the meeting.

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 it subsidiaries in which one or more of the directors have an interest either for themselves or for a third party (Applicative criteria 1.C.1., lett. f).
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. (Applicative criteria 1.C.1., lett. f ).
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 annual meeting for the approval of the financial, the Board makes a qualitative evaluation of the presence of the requisites for independence of the independent board members which are held to be sufficient also in quantitative terms according to the terms of the Code and the law.
As far as the concurrent 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' assembly, 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.

## 4.4. MANAGING DIRECTORS

### Executive directors

The Board of Directors now serving, elected by the shareholders' assembly held on April 30th 2009, with the vote cast on May 15th 2009, 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 art. 2381, sub-section 3, c.c. 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 7.C.1.

Besides the detailed report given during the board meetings, the participation in the internal commissions of the Board, and the frequent discussions with independent board members during situations which require their opinion or intervention, there are no other specific initiatives planned for the purpose of adding to the knowledge of the directors concerning the events and dynamics of the company, but any initiative in this sense on behalf of the board member is immediately realized (Applicative criteria 2.C.2.).

## 4.6. INDEPENDENT DIRECTORS

During the meeting held on March 31st 2010 in relation to its non-executive members deemed independent in conformity with art. 147-*ter*, sub-section 4 TUF, the Board 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’ assembly 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 nine 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 2009, 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 on the basis of information obatined 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 relations of economic or personal control with the company, the subsidiaries or executives of the company.
In this regard it should be noted that during the approval of the financial for 2010 and of this Report, the Board, in the presence 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 2010 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.

## 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.
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

In conformity with art. 4 of the Code, 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.

Moreover, 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. 5 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 5.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 duties and functions approved by the Board of Directors and periodically updated by the Board, as last occurred during the meeting held on March 30th 2007, for the approval of the financials on December 31st 2006, and most recently with reference to the internal controls committee on November 12th 2010;
c) the composition reflects the recommendations expressed in the Code and the last time the members were replaced was on May 15th 2009
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 OF THE BOARD OF DIRECTORS – ART. 6 CODE

In conformity with art. 6.P.2. of the Code, the Board of Directors usually appoints a committee composed of prevalently of its own non-executive members which has the task of nominating members to be appointed director.

**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.
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 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; therefore, the current committee is composed of the board members Pecci, Blasi and Legnaioli
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 2009 the committee met on March 31st in view of the elections for the Board which were then held on April 30th. All of the components were present and the meeting lasted for 40 minutes. At this time no further meetings have been scheduled for this year.
The nominations committee this year has been made up mostly of independent directors.

During this year the committee has been composed of three members, two of which are independent. (Applicative criteria 5.C.1., lett. a).
Upon invitation by the committee, the secretary and the provost for internal controls participate in the meetings and, when necessary, a member of the Board of Statutory Auditors. (Applicative criteria 5.C.1., lett. f).

In compliance with art. 9 of the regulations of the committee, they are entrusted with the tasks described in art. 6 of the C*odice di Autodisciplina delle Società Quotate*. The committee therefore has the following functions:
a) they must guarantee the transparency of the procedures for the selection of the directors.
b) for the purpose of informing the shareholders in advance about the personal and professional characteristics of the candidates which make them, in the opinion of the nominators, suitable for the appointment, they preside over the appointing procedures in compliance with art. 19 of the company by-laws.
c) they can receive proposals from the shareholders as well as making their own proposals;
d) to the Board of Directors they can propose candidates for the position of director in conformity with art. 2386, first sub-section, c.c., in the case that it is necessary to replace an independent director; (Applicative criteria 6.C.2., lett. a)

e) they can indicate candidates for the office of independent director to be submitted to the shareholders’ assembly, bearing in mind any suggestions that might be made by the shareholders; (Applicative criteria 6.C.2., lett. b)
f) they can give their opinion to the Board of Directors concerning the size and composition of the Board as well as in relation to any professional figures whose presence on the committee would be useful. (Applicative criteria 6.C.2., lett. c)
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 2009, the committee in particular presided over the procedures for nomination in conformity with article 19 of the statutes. During this financial year the nominating committee has not had to intervene since there were no occasions which required appointments or replacements of directors.

Normally, the meetings of the nominations committee are recorded in the minutes book. (Applicative criteria 5.C.1., lett. d).

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 OF THE BOARD OF DIRECTORS – ART. 7 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 7.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 meeting held on May 15th 2009, 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 and 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.

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.

Number of meetings held by the committee during this year: 1 (one).
Average duration of the meetings: 45 minutes.
Presence of each individual member at the meetings of the committee: refer to Table 2.
Number of meetings scheduled for the current year: 1 (one) one of which was held on March 14th .

During 2010 the remuneration committee met on March 31st .

During 2010 the committee was composed of non-executive members, most of which were independent. (Principle 7.P.3.).

During 2010 the remuneration committee was composed of at least three members (Applicative criteria 5.C.1., lett. a).

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 7.C.4.).

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 5.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 the last time on March 30th 2007, which consists in the tasks described in art. 7 of the Code. Its role, consequently, is to advise and to propose:

- in relation to the various types of salaries that they are authorized to consider, the commission presents proposals to the Board of Directors for the remuneration of the executive directors and of those appointed to particular positions, and monitors the application of the decisions adopted by the Board, (Applicative criteria 7.C.3.);
- the commission periodically evaluates the criteria adopted for the remuneration of the executives with strategic responsibilities, supervises their application on the basis of information supplied by the executive directors and transmits general recommendations to the Board of Directors (Applicative criteria 7.C.3.).

In making their recommendations, the committee may stipulate that a part if the overall salaries of the board members be dependent on the earnings of the Company and, to the reaching of certain objectives specified in advance by the Board of Directors.

During 2010 the remuneration committee was involved chiefly in relation to what had occurred with the incentive salary plan for 2009 and on the definition of a proposal for the remuneration policy of incentive salaries and the incentive salary plan for 2010.

Normally, the meetings of the nominations committee are recorded in the minutes book. (Applicative criteria 5.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 5.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

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 (Applicative criteria 7.C.1.) proposed by the remuneration committee.

For the salaries of executives with strategic responsibilities (Applicative criteria 7.C.1.), as of this time the Board of Directors of El.En. has identified only one director with strategic responsibilities who, in addition is also a board member, and therefore who should be qualified as an executive in compliance with art. 2 (applicative criteria 2.C.1) , in relation to which a remuneration plan is applied which is the same as that described above for the executive board members defined as such.

The Board had also deemed it necessary to assign an incentive remuneration to the president of the scientific committee who is considered a figure of major strategic importance because of the fact that the main characteristic of the business of the company is that it is based on research.

The remuneration of the non-executive directors is established by the shareholders assembly at a set sum and is in no way connected to the earnings of El.En. (Applicative criteria 7.C.2.).

The non-executive directors are not included in the incentive plans involving stock options (Applicative criteria 7.C.2.).

The remuneration of the non-executive directors is represented by the base salary established by the shareholders' assembly for all of the board members when they are appointed and currently amounts to 12.000,00 Euros a year.
Following a proposal by the remuneration committee, for the year 2011 the Board approved a policy of incentive remuneration which will be submitted for approval to the shareholders' assembly at the next meeting.

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

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.

Therefore, in compliance with Consob communication n. DEM/11012984 of February 24th 2011 with which the commission exerts its power (art. 114, sub-section 5, TUF) to request from the company information which it believes necessary for the company to make available to the public, El.En. confirms what it had already declared in relation to the indemnity in case of early termination in the present report and in the reports related to the preceding years:
*a)* in confirmation of what was declared in the Report for 2009 and what is described above, the non-existence of the agreements specified in art. 123-*bis,* sub-section 1, lett. *i),* of the TUF.
*b)* on the basis of shareholder assembly votes, a severance payment in compliance with art. 17 the TUIR, for an amount of 6.500,00 Euros a year (for a total of 19.500,00 Euros a year) to the President of the Board of Directors, Gabriele Clementi and to each of the two executive members, Barbara Bazzocchi and. Andrea Cangioli;
*c)* at present no other rights exits besides those for severance pay as described above;

*d)* for those cases in which the right to an indemnity has matured, cessation of the appointment for end of term;
*e)* the non-existence of agreements which include the assigning or continuance of non-monetary benefits in favor of the persons who have terminated their employment ("postretirement perks") or the stipulation of consulting contracts for a period after termination of employment;
*f)* the non-existence of agreements which include compensation for non-disclosure.

## 10. INTERNAL CONTROLS COMMITTEE OF THE BOARD OF DIRECTORS

In 2000 the Board of Directors created the internal controls commission from among its own members (Principle 8.P.4.) the independent members of which were confirmed when the mandate was renewed 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 2009 the Board confirmed as members of the commission three non-executive members, two of which were independent.

**Composition and function of the commission for internal controls (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.
The commission always meets before the approval of the annual financial and the half-yearly report by the Board of Directors, before the approval of the appointment of the auditors, and whenever requested by one of its members or the provost for internal controls.

During this year the commission met on March 31st , August 27th and November 23rd .
The meetings lasted for an average of 90 minutes and all of the members were present.
For the current year two meetings have been scheduled: one on March 14th and another on August 29th.
In 2010 the internal controls commission was composed of non-executive directors, most of whom were independent (Principle 8.P.4.).

In 2010 the internal controls commission was composed of at least three members (Applicative criteria 5.C.1., lett. a).
All of the members of the internal controls commission have experience in the fields of accounting and finance which the Board felt was adequate at the time of the appointment (Principle 8.P.4.).

The acting auditor Paolo Caselli, the executive designated for the drawing up of the financial documents, the executive director for 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 5.C.1., lett. f).

**Functions attributed to the commission for internal controls**
According to the regulations last modified on November 12th 2010 by the Board, the commission is responsible for the tasks described in art. 8 of the Code, as well as those derived from the CONSOB *Regolamento Part Correlate* regarding the regulations for dealings with related parties.
During 2010 as long as there was the potential for a partial superimposing in accordance with of D. Lgs. 39/2010 in relation to the internal controls between the internal commission of the Board of Directors and the Board of Statutory Auditors, El. En. still has not made a final decision concerning the elimination of the internal controls committee of the Board of Directors in relation to all or part of the functions. Among other things, it should be noted that in light of the stock market notice (*Avviso di Borsa* n. 18916) dated December 21st 2010 – concerning the requirements which must be possessed by the companies belonging to the STAR segment – the interpretation would seem to be affirmed as far as the superimposing of the functions caused by D. Lgs. 39/2010 is concerned, related exclusively to the area of internal controls regarding auditing of accounts.

Therefore, as of December 31st 2010, 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. 8 of the Self-disciplining Code (*Codice di Autodisciplina delle Società Quotate*), 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 through a sound and correct management of the company (Applicative criteria 8.C.1.)
(b) evaluate, together with the executive who draws up the company accounting documents and the 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; (Applicative criteria 8.C.3., lett. a)
(c) express, upon request of the executive director appointed for this purpose, opinions on certain aspects related to the identification of the main risks for the company, as well as the planning, implementing and management of the internal controls system; (Applicative criteria 8.C.3., lett. b)
(d) examine the work plan set up by the provosts for internal controls as well as the periodic reports that they issue; (Applicative criteria 8.C.3., lett. c)
(e) evaluate the proposals made by the auditing companies in order to be appointed, as well as the work plan set up for the auditing and the results displayed in the report and the letter with suggestions; (Applicative criteria 8.C.3., lett. d)
(f) supervise the efficiency of the auditing procedures; (Applicative criteria 8.C.3., lett.e)
(g) 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; (Applicative criteria 8.C.3., lett. g)
(h) carry out the other tasks which from time to time may be assigned to it by the Board of Directors.

During 2010 the commission evaluated, in particular, the progress being made in relation to D. Lgs. 231/2001 and 262/2005 and the means being employed by the administrative office for the implementation of the new tax rules, in the legal area, as well as the adequacy of the internal procedure for operations with related parties.

The acting auditor, Paolo Caselli, participates in all of the meetings of the internal controls commission (Applicative criteria 8.C.4.)

Normally the meetings of the commission for internal controls are recorded in the book of minutes (Applicative criteria 5.C.1., lett. d).

When carrying out its functions, the commission for internal controls 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 5.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 SYSTEM

While mandating the various bodies involved in the system of internal controls (executive director, provost, commission, etc.) the Board has defined the various directives of the internal controls 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, the criteria for the compatibility of these risks with a sound and correct management of the company is determined (Applicative criteria 8.C.1, lett. a)

The essential elements of the system of internal controls (Applicative criteria 8.C.1, lett. d) of El.En. set up and used in order to guarantee a sound and efficient management for the purpose of proceeding with the identification, prevention and management, as far as possible, of any risks of a financial or operative nature which might involve the company, are represented, on the 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 where 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 internal controls commission, the provosts for internal controls, the executive responsible for the company financial documents, the supervising bodies 231, the Board of Statutory Auditors, the auditing company are all charged with the supervision of the compliance, with the rules and procedures on the basis of the competence and functions defined and attributed by the Board, of the rules and different bodies at their respective levels.

The details of the current system for the management of risks and for internal controls now in existence in relation to the policy on financial information, even consolidated (ex art. 123-bis, sub-section 2, letter b), TUF), are described in Appendix 1. The following is a summary of the policy followed by El.En. after law 262/2005 came into effect.
On May 5$^{th}$ 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 31st , May 14th , August 27th , and November 12th , the Board evaluated as adequate the efficiency, effectiveness and correct functioning of the internal controls system (Applicative criteria 8.C.1., lett. c).

## 11.1. EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROLS

The Board has appointed Andrea Cangioli as executive director in charge of supervising the functioning of the internal controls system (Applicative criteria 8.C.1., lett.b).
In the name of the Board of Directors, he is in charge of the supervision of the functioning of the internal controls system 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 8.C.5., 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 8.C.5., lett. b); adaptation of the system to the dynamics of the operating conditions and the legislative and regulating situation (Applicative criteria 8.C.5., lett. b); proposing to the Board of Directors the appointment, dismissal or remuneration of one or more provosts for internal controls (Applicative criteria 8.C.5., lett. c).

## 11.2. PROVOST FOR INTERNAL CONTROLS

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) (Applicative criteria 8.C.6., lett. a).
The current provosts for internal controls are Cristina Morvillo and, exclusively in relation to the drawing up of the financial statements, Lorenzo Paci who took the place of Simona Checconi, on August 27th, 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 internal controls commission (Applicative criteria 8.C.1.).

The Board is in charge of the remuneration of the provost(s) for internal controls; 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 internal controls, the Board established the salary. (Applicative criteria 8.C.1).

The provosts for internal controls are not responsible for any of the operative sectors and, except for the areas subject to their control, are not part of a hierarchy in which they depend on one of the managers responsible for one of the operative sectors, including the administrative and financial sectors (Applicative criteria 8.C.6., lett. b).

The provosts for internal controls have direct access to all the information that is useful for conducting their activities (Applicative criteria 8.C.6., lett. c); report their findings to the commission for internal controls and to the Board of Statutory Auditors (Applicative criteria 8.C.6., lett. e); report their activities also to the executive director in charge of supervising the functions of the internal controls commission (Applicative criteria 8.C.6., 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.

During 2010 the activities of the provost for internal controls were concentrated mainly on coordinating the various systems used for internal controls, on the updating of the procedure being used, on monitoring the methods employed by the administrative office for the implementation of the fiscal regulations as well the legal area.

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The function of internal audit (Applicative criteria 8.C.7.) is currently conducted by the provost for internal controls, Cristina Morvillo.

The function of internal audit is not currently conducted by persons outside of the company.

**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 been adopted by the subsidiary ASA srl and is in the process of being adopted by the subsidiary Deka M.E.L.A. s.r.l.

The current model has a rather simple structure which is designed to prevent offences which could involve the activity of El.En. in consideration of its structure and the area in which it operates.
We are about to implement a revision of the model related to the sections concerning health and safety in the work place which will make it possible to use a single model valid for the purpose of Legislative Decree 231 and art. 30 L. 81/09.
The superintending body is a commission composed of three members.

**11.4. INDEPENDENT AUDITOR**
The auditing of the books in conformity with art. 155 ss. TUF in force at time of the appointment, now replaced by the laws introduced by D.lgs 39/2010) is done by an auditing company enrolled in the professional registry of CONSOB; the assembly held on May 9th 2006 appointed RECONTA ERNST & YOUNG s.p.a for the auditing of the financial statements for the year and the consolidated financial statement of the Company for the years 2006-2011, in conformity with art. 159 TUF, in force at the time.

**11.5. MANAGER CHARGED WITH PREPARING THE COMPANY'S FINANCIAL REPORTS**
The executive in charge of drawing up the accounting and company documents is Enrico Romagnoli who is the manager of the accounting office of El.En. and also has the position of head of Investor Relations.

The executive in charge of the accounting documents 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 auditors and directors and the professional characteristics and requisites both in terms of education and formation but also 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.

## 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) 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 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.

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 internal controls commission has been expressed. (Applicative criteria 9.C.1.).

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 (Applicative criteria 9.C.2).

## 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 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.*

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

With vote 17148/2010 of January 27th 2010 Consob, in the pccasion of the renewal of the controls commission, established as 4,5% the percentage of capital stock required for the presentation of the lists.

## 14. STATUTORY AUDITORS (ex art. 123-bis, sub-section 2, letter d), TUF)

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

They must act with autonomy and independence also in relation to the shareholders who have elected them (10.P.2.): the current Board comes from a single list presented by Andrea Cangioli, since no other lists were presented at the time of the elections held on May 15th 2007.
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 10.C.7, one of the auditors, Paolo Caselli, participates regularly and actively in the meetings and the activities of the internal controls commission and collaborates with the provost for internal controls. Moreover, in accordance with the vote made by the Board on March 31st 2008 and confirmed on My 14th 2010, he also a member of the supervising body as per *ex* D.Lgs. 231/2001.

The Board of Statutory Auditors according to the law is the body which 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.
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 financial 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 | Alternate auditor | Firenze, Borgo Pinti, 80 | Firenze, December 9th 1966 |
| Manfredi Bufalini | Alternate 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 2010 the components of the Board of Statutory Auditors of the company were also members of the controlling bodies of the following subsidiary companies:

| Name | Office |
|---|---|
| Vincenzo Pilla | - President of the Board of Statutory Auditors of Lasit s.p.a.<br>- President of the Board of Statutory Auditors of Deka M.E.L.A. s.r.l.<br>- Acting auditor of Cutlite Penta s.r.l. |
| Paolo Caselli | - President of the Board of Statutory Auditors of Cutlite Penta s.r.l.<br>- Acting auditor of Deka M.E.L.A. s.r.l.<br>- Acting auditor of Lasit s.p.a. |
| Gino Manfriani | - Acting auditor of Cutlite Penta s.r.l.<br>- Acting auditor of Deka M.E.L.A. s.r.l. |

The average duration of the meetings of the Board of Statutory Auditors is 2,15 hours.
The number of meetings of the Board of Statutory Auditors scheduled during this year is six, two of which have already been held (on January 11th and January 27th 2011).

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The Board of Statutory Auditors:

- verified the independence of its members on the first occasion after their appointment (Applicative criteria 10.C.2.);

- during the year verified that their members continued to have the requisites for independence (Applicative criteria 10.C.2.);

- 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 10.C.2.).

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 10.C.4.).

The Board of Statutory Auditors supervised the independence of the auditing company and verified both that the regulations are followed as well as the nature and entity of the different services for controlling accounts rendered to El.En. and to its subsidiaries by the same auditing company and by the entities belonging to its network (Applicative criteria 10.C.5.).

The Board of Statutory Auditors is coordinated in its activities with the functions of the internal audit and with the internal controls commission (Applicative criteria 10.C.6. and 10.C.7.) through its participation in the meetings of the commission and by belonging to the supervising body *ex* D. Lgs. 231/2001 as well as by actively participating in the drawing up and verification of compliance to the regulations for the adaptation to the *Regulations governing operations with related parties (Regolamento per la disciplina delle operazioni con parti correlate).*

## 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 (Applicative criteria 11.C.1.).

The person responsible for management of relations with the El.En. shareholders is Enrico Romagnoli (investor relations manager) (Applicative criteria 11.C.2.).

El.En. does not feel it is necessary to create a special department in the company for the relations with shareholders (Applicative criteria 11.C.2.).

In conformity with art. 11 of the Code, the Board of Directors 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 (11.C.2).

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:

"***<u>Article 11</u>***

***<u>Assembly</u>***

*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.*

*The Shareholders' Assembly 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.*

***<u>Article 12</u>***

***<u>Place of asssembly</u>***

*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.*

***<u>Article 13</u>***

***<u>Convocation of the Assembly</u>***

*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 "LA NAZIONE" (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.*

***<u>Article 14</u>***

***<u>Attendance at the Assembly</u>***

*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.*

***<u>Article 15</u>***

***<u>Presidency of the Assembly</u>***

*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,* *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 (11.C.1 e 11.C.3).
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 the detailed description of the proposals and the subjects in the Order of the Day of the shareholders' assembly (11.C.4) in such a way as to guarantee that the assembly is conducted in an

efficient and orderly fashion. For this purpose the shareholders' assembly on May 15th 2007 voted to approve the assembly regulations drawn up by the Board (11.C.5).

***

**_"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' assembly 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 meetings of the assembly is governed by art. 14 of the Company Statutes, in conformity to which those who may attend the assembly with the right to vote are the owners of ordinary shares as shown in the records of the shareholders register who, in accordance with the law, have deposited them at least two days before the date set for the convocation of the assembly and have not removed them until the assembly actually takes place, even in second or third convocation.*

*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.ande 3.3. above.*

**_Art. 4 –Verification of the right to attend the assembly and access to the meetings._**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Art. 7 – Voting and conclusion of the meeting***
*7.1. Voting on the various items usually takes place right after the conclusion of the discussions on each item listed in the Order of the Day and the discussions are held in the order in which they appear in the agenda unless the president of the assembly decides otherwise and determines that the voting take place in a different order or after the conclusion of the discussions of all or some of the items.*
*7.2. Before the voting can begin, the president of the assembly must readmit the shareholders who wish to return to the meeting and had left or been expelled during the discussion time.*
*7.3. Except in the case of incontrovertible laws to the contrary, the voting must take place with open scrutiny.*
*7.4. The president of the assembly establishes the means for expressing the votes, which is normally by a show of hands, the recording and counting of the votes, and can also express a time limit within which the vote must be cast.*
*Upon conclusion of the voting, the scrutiny of the votes takes place; when this is terminated, the president, assisted by the secretary or the notary and scrutinizers if there are any, proclaims the results of the voting.*
*7.5. The votes that are expressed in a manner that is different from that established by the president of the assembly are null and void.*
*7.6. The shareholders who express negative votes or who abstain, must declare at the time of the declaration of their vote, their name and the number of shares which they hold on their own or for which they have power of attorney. After the agenda has been concluded, the president of the assembly declares the meeting terminated and proceeds with the formalities for the completion of the minutes.*

*Art. 8 – Final provisions*
*8.1. In compliance with art. 15 of the company statutes now in effect, this set of Regulations was approve, 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 must submit to the convened assembly of shareholders the modification of article 3 in compliance with the statute as it has been modified in conformity with the latest legislative modifications related to the rights of shareholders.

During the assembly the Board reported on the activities conducted and scheduled, and took measures to assure that the shareholders receive adequate information on all the elements necessary so that they can knowledgably make decisions which are the competence of the assembly, (Applicative criteria 11.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 | *ex lege* |
| Shares with limited voting rights | 0 | | | |
| Shares with no voting rights | 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 |
| EL.EN. s.p.a. | EL.EN. s.p.a. | 2,138 | (2,138)* |
| PIO BURLAMACCHI | PIO BURLAMACCHI | 2,001 | 2,001 |

* voting rights suspended *ex lege*

## TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

| **Board of Directors as of December 31st 2010** | | | | | | | | | | | Internal controls committee | | Remuneration committee | | Nomination committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Position | Members | From | Until | List (M/m) | Executive | Non Executive. | Indep. As per the Code | Indep. for TUF | Percentage of attendance at meetings | Number of other positions | Members | Percentage of attendance at meetings | Members | Percentage of attendance at meetings | Members | Percentage of attendance at meetings |
| *President and executive director* | Gabriele Clementi | April 30th 2009 | Appr. of annual report 2011 | M | X | | | | 100% | 0 | | | | | | |
| *Executive director* | Andrea Cangioli | April 30th 2009 | Appr. of annual report 2011 | M | X | | | | 100% | 1 | | | | | | |
| *Executive director* | Barbara Bazzocchi | April 30th 2009 | Appr. of annual report 2011 | M | X | | | | 100% | 0 | | | | | | |
| *Director* | Paolo Blasi | April 30th 2009 | Appr. of annual report 2011 | M | | X | X | X | 83% | 2 | X | 33% | X | 100% | X | - |
| *Director* | Michele Legnaioli | April 30th 2009 | Appr. of annual report 2011 | M | | X | X | X | 100% | 0 | X | 100% | X | 100% | X | - |
| *Director* | Alberto Pecci | April 30th 2009 | Appr. of annual report 2011 | M | | X | | | 100% | 1 | X | 100% | X | 100% | X | - |
| *Director* | Stefano Modi | April 30th 2009 | Appr. of annual report 2011 | M | | X | | | 100% | 0 | | | | | | |
| *Director* | Angelo Ercole Ferrario | April 30th 2009 | Appr. of annual report 2011 | M | | X | | | 33% | 0 | | | | | | |
| Number of meetings held during 2010 | | | | Board of Directors: 6 (six) | | Internal controls committee 3 (three) | | | | Remuneration committee: 1(one) | | | | Nomination committee: 0 (zero) | | |
| Quorum required for the presentation of lists during the | | | | 4,5% | | | | | | | | | | | | |

| | |
|---|---|
| last appointment | |

## TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

| Position | Member | Since | Until | List (M/m) | Indepen-dence as per the Code | Percentage of attendance at board meetings | Number of other positions in companies quoted on the Italian stock market |
|---|---|---|---|---|---|---|---|
| **President** | **Vincenzo Pilla** | 30/04/2010 | Appr. annual report 2012 | **M** | **X** | **89%** | 1 |
| **Acting auditor** | **Paolo Caselli** | 30/04/2010 | Appr. annual report 2012 | **M** | **X** | **100%** | 0 |
| **Acting auditor** | **Gino Manfriani** | 30/04/2010 | Appr. annual report 2012 | **M** | **X** | **100%** | 0 |
| **Alternate auditor** | **Lorenzo Galeotti Flori** | 30/04/2010 | Appr. annual report 2012 | **M** | **X** | / | 0 |
| **Alternate auditor** | **Manfredi Bufalini** | 30/04/2010 | Appr. annual report 2012 | **M** | **X** | / | 0 |

| |
|---|
| **Number of meetings held during 2010: 9** |
| **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.** |
| The acting auditor Giovanni Pacini whose term ended with the approval of the financial statement for 2009 was present at 100% of the meetings (4) held from January 1st until April 30th 2010.<br>The acting auditor Gino Manfriani appointed by the shareholders assembly on April 30th 2010 was present at 100% of the meetings (5) held between May 1st 2010 and December 31st 2010. |

**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, lett. b), TUF (henceforth called the System).

***

## 1) <u>Premise</u>

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 evacuate 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) <u>Description of the main characteristics of the System for managing risks and internal controls existing in relation to the process of financial information.</u>**

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) <u>Phases of the System for managing risks and internal controls existing in relation to the process of financial information</u>**

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

<u>a.1) Identification and evaluation of the risks in financial information:</u>
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**.**

<u>a.2) Identification of the controls for the risks which have been identified</u>
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.

<u>a.3) Evaluation of the controls for the risks which have been identified:</u>
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 Reconta Ernst & Young – main auditors for the Group - to which a specific task for some testing activities has been assigned this year. This task consisted in supplying the professional and methodological support both for the definition of the sampling techniques as well as the conduction and formalization of periodic tests.

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 Director in charge of drawing up 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 STATEMENTS**
**AS OF DECEMBER 31st 2010**

# FINANCIAL CHARTS AND EXPLANATORY NOTES

# *Consolidated statement of financial position*

| | Notes | | 31/12/2010 | | 31/12/2009 |
|---|---|---|---|---|---|
| **Statement of financial position** | | | | | |
| Intangible assets | 1 | | 6.991.986 | | 6.975.387 |
| Tangible assets | 2 | | 29.075.514 | | 29.844.579 |
| Equity investments: | 3 | | | | |
| - in associates | | 520.506 | | 1.116.205 | |
| - other investments | | 173.291 | | 173.291 | |
| Total equity investments | | | 693.797 | | 1.289.496 |
| Deferred tax assets | 4 | | 5.521.103 | | 4.431.198 |
| Other non current assets | 4 | | 7.642.922 | | 3.664.699 |
| **Total non current assets** | | | **49.925.322** | | **46.205.359** |
| Inventories | 5 | | 55.650.185 | | 50.530.850 |
| Accounts receivables: | 6 | | | | |
| - from third parties | | 44.780.858 | | 34.525.154 | |
| - from associates | | 1.933.542 | | 2.047.539 | |
| Total accounts receivables: | | | 46.714.400 | | 36.572.693 |
| Tax receivables | 7 | | 7.051.225 | | 8.039.656 |
| Other receivables: | 7 | | | | |
| - from third parties | | 6.580.528 | | 4.896.332 | |
| - from associates | | 37.241 | | 83.241 | |
| Total other receivables | | | 6.617.769 | | 4.979.573 |
| Financial instruments | 8 | | 44.676.217 | | 29.803.183 |
| Cash and cash equivalents | 9 | | 41.514.927 | | 49.572.862 |
| **Total current assets** | | | **202.224.723** | | **179.498.817** |
| **TOTAL ASSETS** | | | **252.150.045** | | **225.704.176** |
| Common stock | 10 | | 2.508.671 | | 2.508.671 |
| Additional paid in capital | 11 | | 38.593.618 | | 38.593.618 |
| Other reserves | 12 | | 34.896.907 | | 32.425.784 |
| Treasury stock | 13 | | -2.575.611 | | -2.575.611 |
| Retained earnings / (deficit) | 14 | | 19.448.171 | | 24.552.143 |
| Net income / (loss) | | | 1.267.547 | | -5.257.666 |
| **Group stockholders' equity** | | | **94.139.303** | | **90.246.939** |
| Minority interests in consolidated subsidiaries | | | 77.585.072 | | 73.116.715 |
| **Total equity** | | | **171.724.375** | | **163.363.654** |
| Severance indemnity | 15 | | 2.701.696 | | 2.607.348 |
| Deferred tax liabilities | 16 | | 666.833 | | 417.013 |
| Other accruals | 17 | | 5.627.198 | | 5.143.042 |
| Financial liabilities: | 18 | | | | |
| - to third parties | | 4.881.763 | | 4.926.996 | |
| Total financial liabilities | | | 4.881.763 | | 4.926.996 |
| **Non current liabilities** | | | **13.877.490** | | **13.094.399** |
| Financial liabilities: | 19 | | | | |
| - to third parties | | 6.459.617 | | 5.612.941 | |
| Total financial liabilities | | | 6.459.617 | | 5.612.941 |
| Accounts payables: | 20 | | | | |
| - to third parties | | 34.937.474 | | 25.034.788 | |
| - to associates | | 200.145 | | 101.538 | |
| Total accounts payables | | | 35.137.619 | | 25.136.326 |
| Income Tax payables | 21 | | 2.143.609 | | 450.143 |
| Other payables: | 21 | | | | |
| - to third parties | | 22.807.335 | | 18.046.713 | |
| Total other payables | | | 22.807.335 | | 18.046.713 |
| **Current liabilities** | | | **66.548.180** | | **49.246.123** |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | | | **252.150.045** | | **225.704.176** |

# *Consolidated statement of income*

| Statement of income | Note | | 31/12/2010 | | 31/12/2009 |
|---|---|---|---|---|---|
| Revenues: | 22 | | | | |
| - from third parties | | 188.079.913 | | 147.173.314 | |
| - from associates | | 1.717.080 | | 1.937.402 | |
| Total revenues | | | 189.796.993 | | 149.110.716 |
| Other revenues and income: | 23 | | | | |
| - from third parties | | 2.184.634 | | 1.793.780 | |
| - from associates | | 21.478 | | 35.457 | |
| Total other revenues and income | | | 2.206.112 | | 1.829.237 |
| **Total revenues and income** | | | **192.003.105** | | **150.939.953** |
| Purchase of raw materials: | 24 | | | | |
| - to third parties | | 76.809.703 | | 51.894.250 | |
| - to associates | | 308.782 | | 203.247 | |
| Total purchase of raw materials | | | 77.118.485 | | 52.097.497 |
| Change in inventory of finished goods and WIP | | | 397.376 | | 2.237.364 |
| Change in inventory of raw material | | | (4.035.986) | | 3.561.123 |
| Other direct services: | 25 | | | | |
| - to third parties | | 18.053.201 | | 13.700.737 | |
| - to associates | | 22.100 | | 56.010 | |
| Total other direct services | | | 18.075.301 | | 13.756.747 |
| Other operating services and charges: | 25 | | | | |
| - to third parties | | 41.140.617 | | 41.096.495 | |
| - to associates | | 185.537 | | 190.182 | |
| Total other operating services and charges | | | 41.326.154 | | 41.286.677 |
| For staff costs | 26 | | 44.825.113 | | 42.026.865 |
| Depreciation, amortization and other accruals | 27 | | 8.875.092 | | 8.571.392 |
| **EBIT** | | | **5.421.570** | | **(12.597.712)** |
| Financial charges: | 28 | | | | |
| - to third parties | | (1.514.912) | | (1.437.668) | |
| Total financial charges | | | (1.514.912) | | (1.437.668) |
| Financial income | 28 | | | | |
| - from third parties | | 1.563.123 | | 2.383.449 | |
| - from associates | | 170 | | 1.209 | |
| Total financial income | | | 1.563.293 | | 2.384.658 |
| Share of profit of associated companies | | | (320.384) | | (277.586) |
| Other net expenses | 29 | | (461.015) | | (402.858) |
| Other net income | 29 | | | | 525 |
| **Income before taxes** | | | **4.688.552** | | **(12.330.641)** |
| Income taxes | 30 | | 4.255.005 | | 4.060.099 |
| **Income for the financial period** | | | **433.547** | | **(16.390.740)** |
| Minority interest | | | (834.000) | | (11.133.074) |
| **Net income** | | | **1.267.547** | | **(5.257.666)** |

| | | | |
|---|---|---|---|
| Basic net (loss) income per share | | 0,27 | (1,11) |
| Diluted net (loss) income per share | | 0,27 | (1,11) |
| Basic weighted average common shares outstanding | 32 | 4.721.220 | 4.721.220 |
| Diluted weighted average common shares outstanding | | | |

(*) In accordance with Delibera Consob 15519 of 27th July 2006, the amounts related to significant non-recurring events are listed in note (33).

# *Consolidated statement of comprehensive income*

| | **31/12/2010** | **31/12/2009** |
|---|---|---|
| Reported net (loss) income | 433.547 | -16.390.740 |
| Cumulative conversion adjustments | 7.162.529 | -2.834.540 |
| Unrealized gain (loss) on marketable securities | 14.790 | -55.882 |
| Total comprehensive (loss) income | 7.610.866 | -19.281.162 |
| Referable to: | | |
| Parent Shareholders | 3.196.770 | -6.016.449 |
| Minority Shareholders | 4.414.096 | -13.264.713 |

# *Consolidated statement of cash flows*

| *Statement of cash flows* | Notes | 31/12/2010 | related parties | 31/12/2009 | related parties |
|---|---|---|---|---|---|
| **Cash flow generated by operating activity:** | | | | | |
| Profit (loss) for the financial period - group part | | **433.547** | | **-16.390.740** | |
| Amortizations and depreciations | 27 | 6.409.950 | | 6.051.115 | |
| Devaluations of equity investments | 29 | 457.297 | 457.297 | 374.895 | 374.895 |
| Stock Options | 26 | 2.034.145 | | 3.007.213 | |
| Change of employee severance indemnity | 15 | 94.348 | | 138.230 | |
| Change of provisions for risks and charges | 17 | 484.156 | | -285.124 | |
| Change of provisions for deferred income taxes assets | 4 | -1.089.905 | | 4.982.622 | |
| Change of provisions for deferred income taxes liabilities | 16 | 249.820 | | 88.927 | |
| Stocks | 5 | -5.119.335 | | 6.892.098 | |
| Receivables | 6 | -10.141.707 | 113.997 | 10.737.617 | -789.511 |
| Tax receivables | 7 | 988.431 | | -2.430.549 | |
| Other receivables | 7 | -1.689.453 | | 240.153 | |
| Payables | 20 | 10.001.293 | 98.607 | -5.981.310 | -541.016 |
| Income Tax payables | 21 | 1.693.466 | | -2.529.133 | |
| Other payables | 21 | 4.760.622 | | -1.542.425 | |
| | | 9.133.128 | | 19.744.329 | |
| **Cash flow generated by operating activity** | | 9.566.675 | | 3.353.589 | |
| **Cash flow generated by investment activity:** | | | | | |
| (Increase) decrease in tangible assets | 2 | -5.213.144 | | -9.184.323 | |
| (Increase) decrease in intangible assets | 1 | -444.340 | | -1.020.936 | |
| (Increase) decrease in equity investments and non current assets | | -3.839.821 | 167.978 | 11.770.118 | 137.198 |
| Increase (decrease) in financial receivables | 7 | 51.257 | 46.000 | 292.312 | 255.426 |
| (Increase) decrease investments which are not permanent | 8 | -14.873.034 | | -11.759.071 | |
| **Cash flow generated by investment activity** | | -24.319.082 | | -9.901.900 | |
| **Cash flow from financing activity:** | | | | | |
| Increase (decrease) in non current financial liabilities | 18 | -45.233 | | 1.192.465 | |
| Increase (decrease) in current financial liabilities | 19 | 846.676 | | 65.352 | |
| Change in Capital and Reserves | | 14.874 | | 9.232 | |
| Change in Capital and Reserves of third parties | | 48.783 | | 679.279 | |
| Change in Treasury Stock | | -1.039.378 | | -22.511 | |
| Dividends distributed | 31 | -204.900 | | -1.621.266 | |
| **Cash flow from financing activity** | | -379.178 | | 302.551 | |
| **Change in cumulative conversion adjustment reserve and other no monetary changes** | | 7.073.650 | | -3.294.891 | |
| **Increase (decrease) in cash and cash equivalents** | | -8.057.935 | | -9.540.651 | |
| **Cash and cash equivalents at the beginning of the financial period** | | **49.572.862** | | **59.113.513** | |
| **Cash and cash equivalents at the end of the financial period** | | **41.514.927** | | **49.572.862** | |

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 on bank deposits amounts to about 294 thousand Euros.

Current taxes for this financial year amounted to 5 million Euros.

# *Statement of changes in consolidated Stockholders' equity*

| *STOCKHOLDERS' EQUITY:* | **Balance 31/12/2008** | **Net income allocation** | **Dividends distributed** | **Other operations** | **Comprehensive (loss) income** | **Balance 31/12/2009** |
|---|---|---|---|---|---|---|
| Common stock | 2.508.671 | | | | | 2.508.671 |
| Additional paid-in capital | 38.593.618 | | | | | 38.593.618 |
| Legal reserve | 537.302 | | | | | 537.302 |
| Own shares | -2.575.611 | | | | | -2.575.611 |
| Others reserves: | | | | | | |
| Extraordinary reserves | 27.689.294 | 5.613.393 | | | | 33.302.687 |
| Reserve for contribution on capital account | 426.657 | | | | | 426.657 |
| Cumulative conversion adjustments reserve | -2.417.736 | | | | -745.904 | -3.163.640 |
| Other reserves | 1.137.844 | | | 184.934 | | 1.322.778 |
| Retained earnings | 22.458.978 | 2.715.133 | -1.416.366 | 807.277 | -12.879 | 24.552.143 |
| Profits (loss) of the year | 8.328.526 | -8.328.526 | | | -5.257.666 | -5.257.666 |
| *Group stockholders' equity* | 96.687.543 | 0 | -1.416.366 | 992.211 | -6.016.449 | 90.246.939 |
| Capital and reserves of third parties | 78.420.019 | 5.889.776 | -204.900 | 2.276.533 | -2.131.639 | 84.249.789 |
| Profit (loss) of third parties | 5.889.776 | -5.889.776 | | | -11.133.074 | -11.133.074 |
| *Minority interests* | 84.309.795 | 0 | -204.900 | 2.276.533 | -13.264.713 | 73.116.715 |
| *Total Stockholders' equity* | 180.997.338 | 0 | -1.621.266 | 3.268.744 | -19.281.162 | 163.363.654 |

| *STOCKHOLDERS' EQUITY:* | **Balance 31/12/2009** | **Net income allocation** | **Dividends distributed** | **Other operations** | **Comprehensive (loss) income** | **Balance 31/12/2010** |
|---|---|---|---|---|---|---|
| Common stock | 2.508.671 | | | | | 2.508.671 |
| Additional paid-in capital | 38.593.618 | | | | | 38.593.618 |
| Legal reserve | 537.302 | | | | | 537.302 |
| Own shares | -2.575.611 | | | | | -2.575.611 |
| Others reserves: | | | | | | |
| Extraordinary reserves | 33.302.687 | 360.422 | | | | 33.663.109 |
| Reserve for contribution on capital account | 426.657 | | | | | 426.657 |
| Cumulative conversion adjustments reserve | -3.163.640 | | | | 1.925.767 | -1.237.873 |
| Other reserves | 1.322.778 | | | 184.934 | | 1.507.712 |
| Retained earnings | 24.552.143 | -5.618.088 | | 510.660 | 3.456 | 19.448.171 |
| Profits (loss) of the year | -5.257.666 | 5.257.666 | | | 1.267.547 | 1.267.547 |
| *Group stockholders' equity* | 90.246.939 | 0 | 0 | 695.594 | 3.196.770 | 94.139.303 |
| Capital and reserves of third parties | 84.249.789 | -11.133.074 | -204.900 | 259.161 | 5.248.096 | 78.419.072 |
| Profit (loss) of third parties | -11.133.074 | 11.133.074 | | | -834.000 | -834.000 |
| *Minority interests* | 73.116.715 | 0 | -204.900 | 259.161 | 4.414.096 | 77.585.072 |
| *Total Stockholders' equity* | 163.363.654 | 0 | -204.900 | 954.755 | 7.610.866 | 171.724.375 |

The amount referred to the conversion reserve entered in the column "Comprehensive (loss) income" is related mainly to the positive change in that reserve which was caused in particular by the re-evaluation of the US dollar.

Other operations in the stockholders' equity of the Group refer to:
- the variation in the reserve for stock options (other reserves) for 185 thousand Euros, which includes the counterpart of the costs determined in accordance with IFRS 2 of the Stock Option Plans assigned to El.En. SpA for the quota which matured on December 31$^{st}$ 2010.
- the changes in the undivided earnings which, among other things, summarizes the increase in the stockholders' equity registered for Cynosure as a consequence of the stock option plans now in force.

# EXPLANATORY NOTES

## 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 Statement for the El.En. Group was examined and approved by the Board of Directors on March 15th 2011.
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 Statement of income,
- the Consolidated statement of comprehensive income
- the Consolidated statement of Cash Flows
- the Statement of changes in the Stockholders' equity,
  the following Explanatory Notes

The economic information which is provided here is related to the financial years 2010 and 2009. The financial information, however, is supplied with reference to December 31st 2010 and December 31st 2009.

The Parent Company El.En. SpA has engaged the auditing firm of Reconta Ernst & Young SpA to audit the consolidated financial statement dated December 31st 2010.

### CONFORMITY WITH IFRS STANDARDS

This consolidated statement for the financial year ending December 31st 2010 has been drawn up in conformity 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 conformity with the accounting standards used for drawing up the consolidated statement for December 31st 2009 except for the application of standards which are new or revised by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee as explained below. The use of these amendments and interpretations did not have significant effects on the financial position or performance of the Group.

**New standards and interpretations**

The accounting standards used in this report are the same as those used for last year with the exception of the following new or revised standards and IFRIC interpretations which entered into force on January 1st 2010:

- IFRS 2 *Payment based on stock: operations of the Group with payment based on stock regulated by cash.* In force since January 1st 2010.
- IFRS 3 *Business combinations (Revised) and IAS 27 Consolidated and individual statement (Modified*) in force since July 1st 2009 including the amendments consequent to: IFRS 2, IFRS 5, IFRS 7, IAS 21, IAS 28, IAS 31 e IAS 39
- Modifications of IAS 32 and IAS 1: *Financial instruments with options to sell and bonds in case of liquidation*
- IAS 39 *Financial instruments: reporting and evaluation, elements qualified for hedging* in force since July 1st 2009.
- IFRIC 12 *Agreements for services under license*
- IFRIC 15 *Agreements for the construction of buildings*
- IFRIC 16 *Hedging of a net investment under foreign management*
- IFRIC 17 *Distribution to shareholders of assets not represented by cash on hand*
- Improvements to the IFRS (May 2008)
- Improvements to the IFRS (April 2009)

The adoption of the standards and the interpretations are described below:

IFRS 2 *Payment based on stock (Revised)*

The IASB has issued an amendment to IFRS 2 which clarifies the purpose and entering into accounts of transactions of the Group with payment based on stock regulated by cash. The Group has adopted this amendment since January 1st 2010, but this fact has not caused any change in the financial position or the performance of the Group.

IFRS 3 Business combinations (Revised) and IAS 27 Consolidated and individual statements (Modified)

IFRS 3 (Revised) introduces significant changes for the entering into accounts of business combinations. The changes are related to the evaluation of interests which are not controlling, the entering into accounts of the costs of transaction, the initial reporting and later evaluation of any contingent considerations and the business combinations effected in more than one phase. These changes will have an impact on the amount of goodwill reported, on the results obtained during the period in which the acquisition occurred and on future results.

IAS 27 (Modified) requires that the change in ownership of a subsidiary (without loss of control) must be entered into accounts as an operation among partners in their roles as partners. Therefore, these transactions no longer generate goodwill nor profits or losses. Moreover, the standard that has been amended introduces modifications related to entering into accounts of losses registered by the subsidiary and the loss of control of the subsidiary. The changes introduced by IFRS 3 (Revised) and by IAS 27 (Revised) are related to the acquisitions or the losses of control of a subsidiary and the transactions with minority shareholders.

The changes in the accounting standards were applied in perspective and did not produce any material effects.

Modifications to IAS 32 and to IAS 1: Financial instruments with options to sell and bonds in case of liquidation

On February 14th 2008 the International Accounting Standards Board (IASB) published the Modifications to the International Accounting Standard (IAS) 32 Financial instruments: Registering in the statement and to IAS 1 Presentation of the statement – Financial instruments with options to sell and bonds in case of liquidation. The modifications require that some instruments issued by the company and presently classified as liabilities although they have characteristics which are the same as ordinary shares, be classified as capital. Additional information related to these instruments is required and it would be opportune to apply the new rules to their reclassification.

The changes in the accounting standards were applied in prospect and did not produce any material effects on the profits per share.

IAS 39 Financial instruments: reporting and evaluation, elements qualified for hedging

The modification clarifies that it is permitted to an entity to designate a portion of the variations in fair value or cash flow of a financial instrument as a hedged element. The modification includes the designation of inflation as a hedged risk or as a portion of the risk in particular situations. El.En. S.p.A. has concluded that this modification will not have any impact on its financial position or on the performance of the Group, because they do not use this type of hedging.

IFRIC 12 Agreements for services under license

IFRIC 12 is an interpretation which clarifies the way in which one must apply the rules of the International Reporting Financial Standards (IFRS) and agreements for services under license. In particular, IFRIC 12 illustrates how to record the obligations assumed and rights received by the operator of a service under license by distinguishing between the intangible model, the financial model and the mixed model according to the degree of uncertainty to which the operator is exposed in relation to the cash flow derived from the use of the concession as well as the obligations assumed in relation to the use of the infrastructure required for the supplying of the service. This interpretation is not related to the activity of the Group.

IFRIC 15 Agreements for the construction of buildings

On July 3rd 2008 the International Financial Reporting Interpretations Committee (IFRIC) published the interpretation of IFRIC 15 *Agreements for the construction of buildings* (below referred to as «IFRIC 15»). IFRIC 15 gives clarifications and instructions as to when the revenue derived from the construction of buildings must be recorded and in relation to the application of IAS 11 *Long term orders* or IAS 18 *Revenue* concerning an agreement for the construction of a building. This interpretation does not concern the activity of the Group.

IFRIC 16 Hedging of a net investment under foreign management

On July 3rd 2008 the International Financial Reporting Interpretations Committee (IFRIC) published an interpretation of IFRIC 16 *Hedging of a net investment under foreign management*. IFRIC 16 is an interpretation which clarifies the ways to apply the requirements of the International Accounting Standards IAS 21 and IAS 39 in those cases in which an entity hedges an exchange risk derived from its net investments in foreign managements. This interpretation did not have any effect on the financial position or on the performance of the Group.

IFRIC 17 Distribution to the shareholders of assets not represented by cash on hand

This interpretation supplies information on the registering of agreements according to which an entity distributes to the shareholders assets that are not represented by cash on hand as a distribution of reserves or dividends. This interpretation did not have any effect on the financial position or on the performance of the Group.

**Improvements to the IFRS**

In May of 2008 and April of 2009 the IASB issued a series of improvements to the standards in an effort mainly to eliminate any inconsistencies and clarify the terminology. Each standard presents ad hoc transition clauses. The adoption of the following modifications will bring about changes in the accounting standards but have not had any effect on the financial position or the results of the Group.

Issued in May 2008:

- IFRS 5 Non-current assets held for sale and operating assets clarifies that, when a subsidiary is classified as held for sale, all of its assets and liabilities are classified as held for sale, even in the case that the company, after the sale, represents a minority equity. The modification has been applied in prospect and has not had any effect on the financial position or the results of the Group.

Issued in April 2009

- IFRS 5 *Non current assets held for sale and ceased operating assets* clarifies that the additional information required in relation to non-current assets and to groups in the process of disvestment classified as being held for sale or related to ceased operating assets, are only those required by IFRS 5.
- IFRS 8 *Operating sectors* clarifies that the assets and liabilities referred to the operating sector must be presented only if they are part of the reports used by the highest managerial level. Since the highest managerial level of the Group reviews the assets and liabilities of the sector, the Group has continued to supply this information in the present financial report.
- IAS 7 *Financial Report* states that the only the expense that is registered for the recognition of an asset can be classified as cash flow from investment activity.

- IAS 36 *Long term reduction of the value of an asset* the modification clarifies that the largest unit (gene rating the cash flow) that can be identified for the purposes of al location as acquisition start-up in company aggregate is the operating sector as defined IFRS 8 before the aggregate for reporting purposes. The modification has not had any effect on the Group.

Other modifications related to IFRS improvements to the following standards have not had any effects on the accounting policies, financial position or performance of the Group.

- IFRS 2 Payment based on stock
- IAS 1 Presentation of the financial statement
- IAS 17 Leasing
- IAS 34 Intermediate financial statements
- IAS 38 Intangible assets
- IAS 39 Financial instruments: reporting and maturity
- IFRIC 9 Redetermination of incorporated derivatives

**Standards soon to be applied**

The list below shows the standards which will soon come into use and an estimation of their impact on future financial statements.

IFRIC 14 *Advance payments related to the expectation of a minimum tax*

On November 15th 2009 the International Financial Reporting Interpretations Committee (IFRIC) published the modifications of the interpretation of IFRIC 14 "*Advance payments related to the expectation of a minimum tax*". The purpose of the modifications to IFRIC 14 was to eliminate an undesirable consequence of IFRIC 14 in those cases in which the entity that could expect a minimum tax effected an advance payment of the taxes so that under some circumstances the entity that made this advance payment was required to enter an expense into accounts. In the case in which a defined benefit plan is subject to the expectation of a minimum tax, the modification of IFRIC 14 requires that this advance payment be treated as an asset like any other advance payment.

IFRIC 19: *Extinguishing financial liabilities with instruments representing capital*

On November 26th 2009 the International Financial Reporting Interpretations Committee (IFRIC) published an interpretation of IFRIC 19 *Extinguishing financial liabilities with instruments representing capital*, the purpose of which was to clarify the entering into accounts by the debtor of the instruments representing capital issued in order to extinguish wholly or in part financial liabilities after the renegotiation of the relative conditions. The companies will apply IFRIC 19 and the modification of IFRS 1 at the latest starting on the date of the beginning of their first financial year starting after June 30th 2010.

IAS 24: Financial information of operations with related parties

On November 4th 2009 the International Accounting Standards Board (IASB) published the revision of the International Accounting Standard (IAS) 24 — Financial information on the operations with related parties. The modifications introduced with the revision of IAS 24 simplify the definition of "related party" and, at the same time, eliminate some of the inconsistencies and dispense the public entities from some of the information requirements related to operations with related parties. Companies apply IAS 24and the modifications of IFRS 8 at the latest starting from the date of their first financial year begun December 31st 2010.

The Group has not adopted in advance any of the standards, interpretations or improvements which were not yet in force.

# AREA OF CONSOLIDATION

## SUBSIDIARY COMPANIES

The consolidated 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, or, in the case of Cynosure Inc., where they have the power to appoint and to remove the majority of members of the Board of Directors. The companies that are currently included in the area of consolidation are shown on the chart below, which also shows the percentage held either directly or indirectly by the Parent Company.

| | | | | | Percentage held: | | | Consolidated |
|---|---|---|---|---|---|---|---|---|
| **Company name:** | **Notes** | **Headquarters** | **Currency** | **Subscr. capital** | **Direct** | **Indirect** | **Total** | **Percentage** |
| **Parent company:** | | | | | | | | |
| El.En. SpA | | Calenzano (ITA) | EURO | 2.508.671 | | | | |
| **Subsidiary companies:** | | | | | | | | |
| Deka M.E.L.A. Srl | | Calenzano (ITA) | EURO | 40.560 | 70,00% | | 70,00% | 70,00% |
| Cutlite Penta Srl | | Calenzano (ITA) | EURO | 103.480 | 90,67% | | 90,67% | 90,67% |
| Esthelogue Srl | | Calenzano (ITA) | EURO | 47.840 | 100,00% | | 100,00% | 100,00% |
| Deka Technologies Laser Sarl | | Lyons (FRA) | EURO | 76.250 | 100,00% | | 100,00% | 100,00% |
| Deka Lasertechnologie GmbH | | Berlin (GER) | EURO | 51.129 | 100,00% | | 100,00% | 100,00% |
| Deka Laser Technologies Inc. | 1 | Carlsbad (USA) | USD | 25 | 11,78% | 80,71% | 92,49% | 92,49% |
| Ot-las Srl | | Calenzano (ITA) | EURO | 57.200 | 90,00% | | 90,00% | 90,00% |
| Lasit SpA | 2 | Vico Equense (ITA) | EURO | 1.154.000 | 52,67% | 17,33% | 70,00% | 68,27% |
| BRCT Inc. | | Branford (USA) | USD | no par value | 100,00% | | 100,00% | 100,00% |
| Quanta System SpA | | Solbiate Olona (ITA) | EURO | 1.500.000 | 60,00% | | 60,00% | 60,00% |
| Asclepion Laser Technologies GmbH | 3 | Jena (GER) | EURO | 1.025.000 | 50,00% | 50,00% | 100,00% | 80,00% |
| Arex Srl | 4 | Solbiate Olona (ITA) | EURO | 20.500 | | 51,22% | 51,22% | 30,73% |
| AQL Srl | 5 | Vimercate (ITA) | EURO | 50.000 | | 100,00% | 100,00% | 67,58% |
| ASA Srl | 6 | Arcugnano (ITA) | EURO | 46.800 | | 60,00% | 60,00% | 42,00% |
| Cynosure Inc. | | Westford (USA) | USD | 12.760 | 23,37% | | 23,37% | 23,37% |
| Cynosure GmbH | 7 | Langen (GER) | EURO | 25.565 | | 100,00% | 100,00% | 23,37% |
| Cynosure Sarl | 7 | Courbevoie (FRA) | EURO | 970.000 | | 100,00% | 100,00% | 23,37% |
| Cynosure KK | 7 | Tokyo (JAP) | YEN | 10.000.000 | | 100,00% | 100,00% | 23,37% |
| Cynosure UK | 7 | Cookham (UK) | GBP | 1 | | 100,00% | 100,00% | 23,37% |
| Suzhou Cynosure Medical Devices Co. | 7 | Suzhou (CHINA) | YUAN | no par value | | 100,00% | 100,00% | 23,37% |
| Cynosure Spain | 7 | Madrid (SPAIN) | EURO | 864.952 | | 100,00% | 100,00% | 23,37% |
| Cynosure Mexico | 7 | S. Jeronimo Aculco (MEXICO) | MEX | no par value | | 100,00% | 100,00% | 23,37% |
| Cynosure Korea | 7 | Seul (S. KOREA) | KRW | 350.800.000 | | 100,00% | 100,00% | 23,37% |
| With Us Co Ltd | 8 | Tokyo (JAP) | YEN | 100.000.000 | | 51,25% | 51,25% | 51,25% |
| Deka Japan Co. Ltd | | Tokyo (JAP) | YEN | 10.000.000 | 55,00% | | 55,00% | 55,00% |
| Wuhan Penta Chutian Laser Equipment Co Ltd | 9 | Wuhan (CHINA) | YUAN | 20.467.304 | | 55,00% | 55,00% | 49,87% |
| Lasit Usa Inc. | 10 | Branford (USA) | USD | 30.000 | | 100,00% | 100,00% | 68,27% |
| Cutlite do Brasil Ltda | | Blumenau (BRASIL) | REAL | 1.404.000 | 78,00% | | 78,00% | 78,00% |
| Lasercut Technologies Inc. | 11 | Branford (USA) | USD | 50.000 | | 100,00% | 100,00% | 100,00% |
| Ratok Srl | 12 | Solbiate Olona (ITA) | EURO | 20.000 | | 70,00% | 70,00% | 42,00% |
| Raylife Srl | 13 | Calenzano (ITA) | EURO | 110.000 | | 100,00% | 100,00% | 80,00% |
| Deka Medical Inc | 14 | San Francisco (USA) | USD | 10 | | 100,00% | 100,00% | 100,00% |

(1) owned by BRCT Inc. (80,71%) and
by ElEn Spa (11,78%)

(2) owned by Elen Spa (52,67%) and Ot-las (17,33%)
(3) owned by Elen SpA (50%) and Quanta System SpA (50%)
(4) owned by Quanta System SpA
(5) owned by Quanta System SpA (8,35%) and Lasit SpA (91,65%)
(6) owned by Deka Mela Srl
(7) owned by Cynosure Inc.
(8) owned by BRCT (51,25%)
(9) owned by Cutlite Penta Srl (55%)
(10) owned by Lasit SpA (100%)
(11) owned byBRCT (100%)
(12) owned by Quanta System Spa (70%)
(13) owned by Asclepion (100%)
(14) owned by BRCT (100%)

## Operations conducted during this financial period

Esthelogue Srl: on April 26th 2010 the shareholders' assembly voted to completely cover the losses sustained as per the financial report of December 31st 2009 (for an amount of 263.619,04 Euros) by the partial use of a payment of 300 thousand Euros made by El.En. with the residual amount directed as payment in capital account. At a later date, El.En. SpA provided further financial means to the company and for this purpose gave up part of the interest bearing financing which had earlier been issued for an amount of 400 thousand Euros.

**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 stockholders' equity method. The equities possessed in associated companies are the following:

| Company name: | Headquarters | Subscr.capital | Percentage held: Direct | Indirect | Total | Consolidated percentage |
|---|---|---|---|---|---|---|
| Immobiliare Del.Co. Srl | Solbiate Olona (ITA) | 24.000 | 30,00% | | 30,00% | 30,00% |
| Actis Srl | Calenzano (ITA) | 10.200 | 12,00% | | 12,00% | 12,00% |
| SBI S.A. | Herzele (BE) | 600.000 | 50,00% | | 50,00% | 50,00% |
| Laser International Ltd | Tianjin (CHINA) | 1.552.396 | | 40,00% | 40,00% | 24,00% |
| Elesta Srl | Calenzano (ITA) | 110.000 | 50,00% | | 50,00% | 50,00% |
| Grupo Laser Idoseme SL | Donostìa (SPAIN) | 1.045.280 | | 30,00% | 30,00% | 18,00% |
| Electro Optical Innovation Srl | Turin (ITA) | 12.000 | | 33,33% | 33,33% | 20,00% |

Capital stock of the associated companies is expressed in Euros except for Laser International Ltd expressed in Yuan.

## Operations conducted during this financial year

Elesta Srl: on January 28th 2010 the ordinary assembly of the company which is 50% owned by the Parent Company El.En. SpA voted to make up for the losses shown in the financial statement for December 31st 2009 by reducing to zero the capital stock and making a further payment by the partners of the residual amount. They also voted to reconstitute the capital stock to the original amount of 110 thousand Euros, an increase completely underwritten by the partners.

Electro Optical Innovation Srl: on April 28th 2010 the shareholders' assembly voted to dissolve in advance and liquidate the company.

## EQUITIES HELD IN OTHER COMPANIES

No operations were conducted during this period.

**TREASURY STOCK**

On March 3rd 2008, the shareholders' assembly 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 and these shares are still held in the portfolio of the company.
Upon request of the Board of Directors, the Shareholders' Assembly 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.

## 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 selected by the Parent Company.

In drawing up the consolidated financial statement the assets and liabilities, the income and charges of the companies included in the area of consolidation have all been included. We have not included the payables and receivables, income and charges, profits and losses which have been generated by transactions made between the consolidated companies.
The book value of the equity in each of the subsidiaries is eliminated in the place of the corresponding portion of the stockholders' 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 Statement of income.
The amount of capital and reserves of subsidiary companies corresponding to equities of third parties is entered under a heading of the stockholders' 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 "Profit (loss) this year pertaining to third parties".

## CONVERSION OF AMOUNTS 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.

## CONVERSION OF FINANCIAL STATEMENTS IN 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 Statement of income, 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 stockholders' equity and are displayed separately in a special reserve of the same. The differences in the exchange rate are shown in the Statement of income 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:

| **Currencies** | **Exchange Rate 31/12/2009** | **Average exchange rate 31/12/2010** | **Exchange Rate 31/12/2010** |
|---|---|---|---|
| USD | 1,4406 | 1,3257 | 1,3362 |
| Yen | 133,16 | 116,21 | 108,65 |
| Yuan | 9,84 | 8,97 | 8,82 |
| Real | 2,51 | 2,33 | 2,22 |

# 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 Statement of income.
Goodwill is annually subjected to an impairment test in order to determine any loss in value.

# SECTORIAL INFORMATION

Starting with the financial year 2009, the El.En. Group will present a sectorial information sheet in conformity with the requirements of IFRS 8, as described in detail in the specific paragraph of the report.

# EVALUATION CRITERIA

**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 Statement of income 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.

**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 indentified 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 stockholders' equity method and report in the statement of income 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 statement of income and in the chart showing the other components of the overall statement of income. 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 statement of income.

After the initial reporting, the goodwill is evaluated at the cost reduced by the amount of the losses accumulated. For 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 31$^{st}$ 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 statement of income.

*Business combinations prior to January 1$^{st}$ 2010*

The business combinations registered before January 1st 2010 were recorded following the previous version of the IFRS 3.

**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 Statement of income. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and amortized according to the residual possibility of use of the said item**.**

The Group uses the method of original cost as opposed to fair value as the assessment criteria for tangible fixed assets. Specifically, in accordance with such standards, the value of land and of the buildings constructed on it is separated and only the building is amortized.

The aliquots used for depreciation are shown on the chart below:

| *Description* | *Depreciation percentage* |
|---|---|
| *Buildings* | |
| - buildings | 3.00% |
| *Plants and machinery* | |
| - generic plants and machinery | 10.00% |
| - specific plants and machinery | 10.00% |
| - other plants and machinery | 15.50% |
| *Industrial and commercial equipment* | |
| - miscellaneous and minute equipment | 25.00% |
| - kitchen equipment | 25.00% |
| *Other goods* | |
| - 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 Statement of income 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 Statement of income 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 stockholders' equity method, that is to say, for an amount equal to the corresponding fraction of the stockholders' 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 conformity 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 stockholders' 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 Statement of income" 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 stockholders' equity which will be entered into the Statement of income at the time of sale. Changes in the value of the equities classified as assets evaluated at fair value through the Statement of income are entered directly into the Statement of income. These equities are evaluated at cost according to IAS 39.

**Financial instruments and financial assets at fair value with variations entered in the statement of income.**

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 statement of income. The Group evaluates its financial assets at the time for value registered in the statement of income (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 statement of income.

**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 Statement of income under the heading "Financial Revenue (Charges)" or in a special reserve of the Stockholders' 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 stockholders' equity. No profit/loss is shown in the Statement of income 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.

**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) EMPLOYEE BENEFITS**
*SEVERANCE INDEMNITY (TFR)*
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 Statement of income 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 Statement of income 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 statement of income under the heading of "Cost of work" when owed.

*REMUNERATION PLANS IN THE FORM OF PARTICIPATION IN THE CAPITAL (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 Statement of income 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 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 honour 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 Statement of income for the financial year in which the variation takes place.

**L) RECOGNITION OF REVENUE**
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 Statement of income.

**N) GRANTS IN CAPITAL ACCOUNT AND IN OPERATING ACCOUNT**
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 Statement of income 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 Statement of income in relation to the period of depreciation of the assets they refer to. Grants in operating account are shown entirely in the Statement of income 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 Statement of income.

**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 assets for 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 01.01.10 | Options issued 01.01.10-31.12.10 | Options cancelled 01.01.10-31.12.10 | Options exercised 01.01.10-31.12.10 | Expired option not exercised 01.01.10-31.12.10 | Outstanding options 31.12.10 | Exercisable options 31.12.10 | Exercise price |
|---|---|---|---|---|---|---|---|---|---|
| Plan 2008/2013 | May, 15 2013 | 160.000 | 0 | 0 | 0 | 0 | 160.000 | 0 | € 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 786 thousand Euros.

During the financial year 2010 the average price registered for El.En. SpA, shares was about 11,94 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.

***Cynosure Inc.***

The chart below shows a summary of the main elements of the Cynosure stock option plan in existence during 2010.

| Outstanding options 01.01.10 | Options granted 01.01.10 - 31.12.10 | Options cancelled, expired 01.01.10 -31.12.10 | Options exercised 01.01.10 -31.12.10 | Outstanding options 31.12.10 | Exercisable options 31.12.10 |
|---|---|---|---|---|---|
| 1.725.727 | 440.711 | 57.322 | 10.615 | 2.098.501 | 1.523.495 |

The chart below shows the average pick-up price and the average lifespan of the options in circulation on December 31st 2010

| Average exercise price | Outstanding options 31.12.10 | Exercisable options 31.12.10 | Average life |
|---|---|---|---|
| $15,17 | 2.098.501 | | 7,07 |
| $17,09 | | 1.523.495 | 6,44 |
| | 2.098.501 | 1.523.495 | |

# Comments on the Main Assets

## Non-current assets

### Intangible fixed assets (note 1)

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

| *Categories* | Balance 31/12/09 | Variation | (Devaluation) | Other Operations | (Amortizations) | Conversion Adjustemnts | Balance 31/12/10 |
|---|---|---|---|---|---|---|---|
| Goodwill | 5.880.586 | -1.579 | | | | 210.075 | 6.089.082 |
| Patents and rights to use patents of others | 65.776 | | | | -37.080 | 5.429 | 34.125 |
| Concessions, licences, trade marks and similar rights | 950.477 | 168.553 | | | -357.182 | 48.422 | 810.270 |
| Other | 78.548 | 11.637 | | | -33.479 | 1.803 | 58.509 |
| *Total* | **6.975.387** | **178.611** | | | **-427.741** | **265.729** | **6.991.986** |

## Goodwill

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

At the end of each impairment test 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 accounting value of goodwill for each "*Cash generating unit":*

| *CASH GENERATING UNIT (CGU)* | Goodwill 31/12/2010 | Goodwill 31/12/2009 |
|---|---|---|
| Cynosure Inc. | 2.007.007 | 1.863.024 |
| Cynosure Korea | 962.010 | 897.497 |
| Quanta System SpA | 2.079.260 | 2.079.260 |
| ASA Srl | 439.082 | 439.082 |
| Cutlite Penta Srl | 407.982 | 407.982 |
| Asclepion Laser Technologies GmbH | 72.758 | 72.758 |
| Arex Srl | 55.000 | 55.000 |
| Ot-Las Srl | 7.483 | 7.483 |
| Deka MELA Srl | 31.500 | 31.500 |
| Deka Laser Technologies | 27.000 | 27.000 |
| Total | 6.089.082 | 5.880.586 |

As of December 31st 2010 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.

***Cynosure Inc.***: the recoverable amount was determined with the Discounted Cash Flow Method (DCF) by using the cash flow contained in the economic-financial plan set up by the Cynosure management for the years 2011 to 2013. In order to determine the recoverable amount of the CGU we considered actualized financial flows for the 3 years for

which there was an explicit forecast 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 actualization rate applied to the expected cash flows (WACC) was 8,03%; for the cash flows related to the years following the period which had explicit forecasts, we hypothesize a long term growth rate “g” of’1,5%.
The determination of the recoverable amount on the basis of these parameters made it possible to avoid any reduction in the value of the goodwill.
We also conducted an analysis of the sensitivity of the results: the recoverable amount remain significantly higher than the accounting value even assuming as a hypothesis a growth rate “g” of 0,5% and a WACC + 1% equal to 9,03%.

***Quanta System SpA***: 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 2011-2013. 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 actualization rate applied to the expected cash flows (WACC) is 9,10%; 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 10,10%.

***Cutlite Penta Srl***: 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 Srl, which covered a time span from 2011-2013. In order to determine the recoverable amount of the CGU we 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 actualization rate applied to the expected cash flows (WACC) is 9,10%; 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 10,10%.

**ASA Srl**: 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 Srl, which covered a time span from 2011-2013. This company located in Vicenza, is a subsidiary of Deka MELA Srl, which operates in the sector of physical therapy. Even in the presence of a difficult financial situation, over the past few years it has shown a growing sales volume and constant revenue. This result has made it possible to distribute significant dividends. In order to determine the recoverable amount of the CGU we 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 actualization rate applied to the expected cash flows (WACC) is 9,10%; 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 10,10%.

***Cynosure Korea***: the amount entered into accounts is related to the acquisition made in 2009 by the Cynosure Group of a distributor for the products of the group in Korea.
The recoverable amount of the CGU was determined by actualizing the cash flow contained in the economic and financial plan organized by the management of Cynosure, head of Cynosure Korea, which covered a time span from 2011-2015. In order to determine the recoverable amount of the CGU we used the cash flow actualized in the 5 years for which an explicit forecast had been made added to the terminal value. 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.
Moreover, the analysis of the sensitivity of the results conducted by the American management did not reveal any reduction in value of the goodwill.

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 immaterial assets

The "Patent and rights to use the patents of others" are related to the capitalization of the costs sustained by Cynosure Inc., Deka Laser Technologies, Asa Srl and Arex Srl for patents and license agreements.

Under the heading "concessions, licenses, trade marks and similar rights" we have entered among other things, the overall costs sustained by the subsidiary Cynosure for new management software. Other increases for the purchase of new software refer to the subsidiaries Asclepion and Quanta System.

The residual heading "Others" includes the costs sustained, in particular by the subsidiary Quanta System, for the creation of a new web site.

## *Tangible fixed assets (note 2)*

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

| ***Cost*** | **Balance 31/12/09** | **Increments** | **Devaluations** | **Other operations** | **(Disposals)** | **Conversion Adjustments** | **Balance 31/12/10** |
|---|---|---|---|---|---|---|---|
| Lands | 2.408.469 | | | | | 12.172 | 2.420.641 |
| Buildings | 10.750.675 | 9.291 | | 3.962.562 | | 33.928 | 14.756.456 |
| Plants and machinery | 3.745.126 | 146.193 | | 325.233 | -97.925 | 13.563 | 4.132.190 |
| Industrial and commercial equipment | 23.295.778 | 3.917.383 | | -163.798 | -1.633.029 | 1.379.608 | 26.795.942 |
| Other goods | 10.123.120 | 1.117.806 | -1.117 | 240.092 | -595.185 | 381.207 | 11.265.923 |
| Tangible assets under construction | 4.353.869 | 394.932 | | -4.736.648 | | 4.492 | 16.645 |
| *Total* | **54.677.037** | **5.585.605** | **-1.117** | **-372.559** | **-2.326.139** | **1.824.970** | **59.387.797** |

| ***Depreciation provisions*** | **Balance 31/12/09** | **Depreciation** | **Devaluations** | **Other operations** | **(Disposals)** | **Conversion Adjustments** | **Balance 31/12/10** |
|---|---|---|---|---|---|---|---|
| Lands | | | | | | | |
| Buildings | 1.235.575 | 386.294 | | -49.647 | | 4.253 | 1.576.475 |
| Plants and machinery | 1.486.536 | 401.208 | | -672 | -79.437 | 7.612 | 1.815.247 |
| Industrial and commercial equipment | 14.773.475 | 3.805.657 | | -31.218 | -831.823 | 820.695 | 18.536.786 |
| Other goods | 7.336.872 | 1.389.050 | | -87.692 | -527.403 | 272.948 | 8.383.775 |
| Tangible assets under construction | | | | | | | |
| *Total* | **24.832.458** | **5.982.209** | | **-169.229** | **-1.438.663** | **1.105.508** | **30.312.283** |

| ***Net value*** | **Balance 31/12/09** | **Increments** | **Other operations** | **(Depreciations and devaluations)** | **(Disposals)** | **Conversion Adjustments** | **Balance 31/12/10** |
|---|---|---|---|---|---|---|---|
| Lands | 2.408.469 | | | | | 12.172 | 2.420.641 |
| Buildings | 9.515.100 | 9.291 | 4.012.209 | -386.294 | | 29.675 | 13.179.981 |
| Plants and machinery | 2.258.590 | 146.193 | 325.905 | -401.208 | -18.488 | 5.951 | 2.316.943 |
| Industrial and commercial equipment | 8.522.303 | 3.917.383 | -132.580 | -3.805.657 | -801.206 | 558.913 | 8.259.156 |
| Other goods | 2.786.248 | 1.117.806 | 327.784 | -1.390.167 | -67.782 | 108.259 | 2.882.148 |
| Tangible assets under construction | 4.353.869 | 394.932 | -4.736.648 | | | 4.492 | 16.645 |
| *Total* | **29.844.579** | **5.585.605** | **-203.330** | **-5.983.326** | **-887.476** | **719.462** | **29.075.514** |

In accordance with the current accounting standards, the value of the land has been separated from the value of the buildings located upon it and the lands have not been amortized since they constitute an element having an unlimited useful life. The value of the lands on December $31^{st}$ 2010 was 2.421 thousand Euros.

The heading of "Buildings" includes the building complex in Via Baldanzese a Calenzano (Florence), where the company operates along with the three subsidiaries Deka M.E.L.A., Cutlite Penta and Esthelogue 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.
In particular, the column titled “Other operations” includes the expenses sustained by El.En. for the completion of the enlargement of a part of the factory in Calenzano which was originally reclassified with the “tangible assets under construction”.

The increments in the category of “Plants and machinery” are related in particular to the investments made by the Parent Company El.En. SpA, by Asclepion GmbH and by ASA Srl. Also for this heading, the amount registered in the column “Other operations” is related to the activities for the enlargement of the factory in Calenzano as described in the paragraph related to “Buildings”.

The equipment which the subsidiary Cynosure assigns to most of their sales agents working in the US for sales demonstrations continues to represent a major investment. Further increases in the category of “Equipment” are related to investments by the subsidiaries, Deka Medical Inc., Quanta System SpA, Wuhan Penta Chutian Ltd, Otlas Srl and Deka Mela Srl; for this latter, also as a result of the different treatment of the sales which are financed by the clientele by means of operative leasing, considered in conformity with the IAS/IFRS standards as revenue from multi-year rents, there is the consequent capitalization of the costs of the machinery.

The disposals registered for the Equipment category refer mainly to the sales of equipment made by subsidiaries Cynosure and Deka Medical Inc.

The increase in the category of “Other Goods” refer mainly to the purchase of new motor vehicles and the acquisitions made by El.En. that are strictly connected to the furnishing of new rooms in its Headquarters.

Under the heading of “Tangible assets under construction”, in the “Other movements” column we have entered, the reallocation of the costs sustained for the enlargement of the headquarters of the Parent company in the specific categories as described above.

The tangible assets held in leasing amount to 0,3 million Euros and are mostly entered among the industrial and commercial equipment.

## *Equity investments (note 3)*

The chart below provides information on the equity investments:

| | 31/12/10 | 31/12/09 | Variation | Var. % |
|---|---|---|---|---|
| ***Equity investments in:*** | | | | |
| associated companies | 520.506 | 1.116.205 | -595.699 | -53,37% |
| other companies | 173.291 | 173.291 | 0 | 0,00% |
| *Total* | 693.797 | 1.289.496 | -595.699 | -46,20% |

### *Equities in associated companies*

For a detailed analysis of the equities held by Group companies in associated companies, refer to the paragraph relative to the area of consolidation.
It should be recalled that the associated companies GLI SA, Immobiliare Del.Co. Srl, Smartbleach International SA (SBI SA), Elesta Srl, JV Laser International LTD, Electro Optical Innovation Srl are consolidated using the stockholders’ equity method.

In consideration of the difficulties registered this year by the associated company GLI, which produced a negative result that was not in line with the economic plan formulated at the end of 2009, the administrators recorded impairment indicators and revised the amount of the equity, devaluating completely the residual goodwill for 457 thousand Euros. This evaluation had already been made in fact by the administrators when drawing up the half-yearly financial report on June 30$^{th}$ 2010.

The equity was further devaluated for an amount of 180 thousand Euros in consideration of the loss of the period in application of the stockholders' equity method.

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

| | | |
|---|---|---|
| Immobiliare Del.Co. Srl: | 251 | thousand Euros |
| Actis Srl: | 1 | thousand Euros |
| SBI S.A.: | 70 | thousand Euros |
| Laser International Ltd: | 157 | thousand Euros |
| Elesta Srl: | - 140 | thousand Euros |
| Grupo Laser Idoseme SL: | 196 | thousand Euros |
| Electro Optical Innovation Srl: | - 15 | 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 |
|---|---|---|---|---|---|
| Actis Active Sensors Srl (*) | 237.745 | 132.281 | 21.114 | 124.505 | 103.391 |
| Elesta Srl (ex IALT Scrl) | 1.275.794 | 1.554.890 | -389.094 | 813.555 | 1.202.649 |
| Immobiliare Del.Co. Srl | 2.030.685 | 1.988.661 | 20.411 | 143.938 | 123.527 |
| S.B.I. SA | 394.326 | 254.614 | -48.938 | 128.537 | 177.475 |
| JV Laser International Ltd | 1.046.491 | 621.182 | 128.205 | 829.780 | 701.576 |
| Electro Optical Innovation Srl | 18.212 | 63.044 | 63.308 | 112.738 | 49.430 |
| Grupo Laser Idoseme SL | 9.828.790 | 8.727.695 | -704.787 | 6.394.458 | 7.099.245 |

*(*) Data as of December 31st 2009*

***Other equities***

No other variations occurred during this financial year.

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

| Other non current assets | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Financial receivables vs associated | | 29.576 | -29.576 | -100,00% |
| Securities | 7.476.074 | 3.476.392 | 3.999.682 | 115,05% |
| Deferred tax assets | 5.521.103 | 4.431.198 | 1.089.905 | 24,60% |
| Other non current assets | 166.848 | 158.731 | 8.117 | 5,11% |
| *Total* | 13.164.025 | 8.095.897 | 5.068.128 | 62,60% |

The heading of Securities refers to investments made this year by Cynosure in mid-term government bonds for an amount of about 10 million dollars which are entered into accounts as non-current assets. It should be recalled that the amount entered under this heading on December 31st 2009 for 5 million dollars, as of December 31st 2010, is entered among the current assets since it is related to bonds that mature in March/May of 2011.

For an analysis of the heading "Deferred tax assets", refer to the note which follows concerning the analysis of deferred tax assets and liabilities.

# Current Assets

## Inventory (note 5)

The chart below shows a breakdown of the inventory:

| *Inventories:* | 31/12/10 | 31/12/09 | Variation | Var. % |
|---|---|---|---|---|
| Raw materials and consumables | 23.048.840 | 18.728.572 | 4.320.268 | 23,07% |
| Work in progress and semi finished products | 11.089.966 | 9.468.181 | 1.621.785 | 17,13% |
| Finished products and goods for sale | 21.511.379 | 22.334.097 | -822.718 | -3,68% |
| *Total* | 55.650.185 | 50.530.850 | 5.119.335 | 10,13% |

A comparison of the final inventories shows the increase in their amount which is also the result of an increase in the production volume.

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

| *Inventory:* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Gross amount | 63.028.511 | 58.666.273 | 4.362.238 | 7,44% |
| minus: devaluation provision | -7.378.326 | -8.135.423 | 757.097 | -9,31% |
| *Total* | 55.650.185 | 50.530.850 | 5.119.335 | 10,13% |

The incidence of the obsolescence provision on the gross value of the inventory fell from 13,87% on December 31st 2009 to 11,71% on December 31st 2010.

## Commercial receivables (note 6)

Receivables are composed as follows:

| *Debtors:* | 31/12/10 | 31/12/09 | Variation | Var. % |
|---|---|---|---|---|
| Trade debtors | 44.780.858 | 34.525.154 | 10.255.704 | 29,71% |
| Associated debtors | 1.933.542 | 2.047.539 | -113.997 | -5,57% |
| *Total* | 46.714.400 | 36.572.693 | 10.141.707 | 27,73% |

| *Trade debtors:* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Italy | 16.237.360 | 13.229.405 | 3.007.955 | 22,74% |
| European Community | 10.418.826 | 9.672.690 | 746.136 | 7,71% |
| Outside of European Community | 23.629.342 | 16.322.472 | 7.306.870 | 44,77% |
| minus: devaluation provision for debtors | -5.504.670 | -4.699.413 | -805.257 | 17,14% |
| *Total* | 44.780.858 | 34.525.154 | 10.255.704 | 29,71% |

The increase in the sales volume of the Group determined the rise in receivables as shown in the chart above.

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

| *Provision for bad debts* | **2010** | **2009** |
|---|---|---|
| **At the beginning of the period** | **4.699.413** | **4.787.476** |
| Amounts accrued | 2.093.340 | 2.732.632 |
| Amounts utilized | -1.437.905 | -2.676.039 |
| Unused amounts reversed | -22.188 | -6.816 |
| Conversion adjustment | 172.010 | -137.840 |
| **At the end of the period** | **5.504.670** | **4.699.413** |

Breakdown of trade receivables from third parties are shown below:

| *Account receivables vs. third parties:* | **31/12/2010** | **31/12/2009** |
|---|---|---|
| **To expire** | 20.999.542 | 12.435.318 |
| **Expired:** | | |
| *30 days* | 10.221.204 | 8.517.678 |
| *60 days* | 3.034.361 | 4.181.133 |
| *90 days* | 2.840.064 | 1.876.566 |
| *180 days* | 3.229.965 | 1.952.982 |
| *over 180 days* | 4.455.722 | 5.561.477 |
| **Total** | 44.780.858 | 34.525.154 |

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

| **Account receivables in:** | **31/12/2010** | **31/12/2009** |
|---|---|---|
| Euro | 27.301.282 | 23.904.698 |
| USD | 5.114.442 | 4.708.117 |
| Other currencies | 12.365.134 | 5.912.339 |
| **Total** | 44.780.858 | 34.525.154 |

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 31$^{st}$ 2010 and December 31$^{st}$ 2009.

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:

| | 31/12/2010 | 31/12/2009 | Variation | Variation % |
|---|---|---|---|---|
| *Tax debtors* | | | | |
| VAT credits | 5.807.188 | 3.442.746 | 2.364.442 | 68,68% |
| Income tax credits | 1.244.037 | 4.596.910 | -3.352.873 | -72,94% |
| *Total tax debtors* | 7.051.225 | 8.039.656 | -988.431 | -12,29% |

| | | | | |
|---|---|---|---|---|
| *Financial receivables* | | | | |
| Financial receivables from third parts | 50.000 | 55.257 | -5.257 | -9,51% |
| Financial receivables from associated companies | 37.241 | 83.241 | -46.000 | -55,26% |
| *Total* | 87.241 | 138.498 | -51.257 | -37,01% |
| | | | | |
| *Other receivables* | | | | |
| Security deposits | 542.394 | 535.452 | 6.942 | 1,30% |
| Down payments | 1.975.770 | 1.214.315 | 761.455 | 62,71% |
| Other credits | 4.012.364 | 3.091.308 | 921.056 | 29,80% |
| *Total* | 6.530.528 | 4.841.075 | 1.689.453 | 34,90% |
| | | | | |
| *Total financial and other receivables* | 6.617.769 | 4.979.573 | 1.638.196 | 32,90% |

The financial year closed with a VAT credit of over 5,8 million Euros which was mostly a result of the intense export activity of the Group and the difficulty in obtaining reimbursements beyond the annual compensation quotas.
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 should be recalled that on December 31st 2009 there were 2,8 million Euros entered as a credit which Cynosure had matured as a result of the losses sustained during the year and that this credit has already been partially reimbursed by the IRS.

For a detailed analysis of the financial receivables from associated companies, please refer to the following chapter regarding "Related parties".

## *Financial instruments (note 8)*

| *Investments which are not permanent:* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Other investments | 44.676.217 | 29.803.183 | 14.873.034 | 49,90% |
| *Total* | 44.676.217 | 29.803.183 | 14.873.034 | 49,90% |

The amount entered under the heading of "Other investments" consists of temporary uses of cash as follows:
a) by Deka Laser Technologies Sarl for an amount of about 220 thousand Euros;
b) by Cynosure using part of the cash obtained from the IPO of 2005.
In particular:
- stocks belonging to the category "financial assets available for sale" made up mainly of investments in bonds and similar securities, for a value of about 40,7 million Euros (16,5 million Euros on December 31st 2009); equal to about 54,4 million dollars (23,7 million dollars on December 31st 2009); it should be remembered that under this heading we have classified securities for an amount of about 5 million dollars which on December 31st 2009 were entered into accounts as non-current assets, as described in the preceding note (4).

## *Cash at Bank and on Hand (note 9)*

Cash at bank and on hand is composed as follows:

| *Cash at Bank and in hand:* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| bank and postal current accounts | 41.447.509 | 49.529.087 | -8.081.578 | -16,32% |
| cash in hand | 67.418 | 43.775 | 23.643 | 54,01% |
| *Total* | 41.514.927 | 49.572.862 | -8.057.935 | -16,25% |

For an analysis of the variations in cash at bank and on hand, please refer to the statement of cash flows.

### *Net financial position as of December 31st 2010*

The net financial position of the Group as of December 31st 2010 expressed in thousands of Euros, was as follows:

| **Net financial position** | | |
|---|---|---|
| | **31/12/2010** | **31/12/2009** |
| Cash and bank | 41.515 | 49.573 |
| Financial instruments | 44.676 | 29.803 |
| **Cash and cash equivalents** | **86.191** | **79.376** |
| **Short term financial receivables** | **50** | **55** |
| Bank short term loan | (5.290) | (4.450) |
| Part of financial long term liabilities due within 12 months | (1.169) | (1.163) |
| **Financial short term liabilities** | **(6.460)** | **(5.613)** |
| **Net current financial position** | **79.782** | **73.818** |
| Bank long term loan | (2.164) | (2.044) |
| Bonds | (784) | 0 |
| Other long term financial liabilities | (1.934) | (2.883) |
| **Financial long term liabilities** | **(4.882)** | **(4.927)** |
| **Net financial position** | **74.900** | **68.891** |

The net financial position of the Group shows an improvement with respect to December 31st 2009 and is registered for an amount of about 75 million Euros, most of which is held by the Parent Company and by its subsidiary Cynosure.

With respect to December 31st 2009, the net financial position has benefitted from the reclassification made by Cynosure which entered among the “Assets available for sale” over 5 million dollars in mid-term government bonds which, at the end of last year were entered among the fixed assets.
Among the uses of cash during this year, there was the investment of about 10 million dollars made by Cynosure in mid-term government bonds entered among the non-current assets.
The net financial position also benefits, for an amount of almost 5 million Euros, from the effects of the exchange rate due to the strengthening of the US dollar with respect to the Euro with the relative re-evaluation of the substantial amount of cash held by Cynosure.

From the net financial position we have excluded financial credits towards associated companies for an amount of 37 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.

# Comments on the main liabilities

## Capital and Reserves

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

## Capital stock (note 10)

As of December 31st 2010, 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*** |

| *Categories* | **31/12/2009** | **Increase.** | **(Decrease.)** | **31/12/2010** |
|---|---|---|---|---|
| No. of Ordinary Shares | 4.824.368 | | | 4.824.368 |
| *Total* | **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 stockholders' 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.

The Board of Directors of El.En. SpA, with the vote taken on July 15th 2008, implemented the authority of the shareholders assembly 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 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.

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

On December 31st 2010 the share premium reserve, coinciding with that of the Parent Company, amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2009.

## *Other reserves (note 12)*

| Other reserves | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Legal reserve | 537.302 | 537.302 | | 0,00% |
| Extraordinary reserve | 33.663.109 | 33.302.687 | 360.422 | 1,08% |
| Reserve for conversion adjustments | -1.237.873 | -3.163.640 | 1.925.767 | -60,87% |
| Stock options reserve fund | 1.494.320 | 1.309.386 | 184.934 | 14,12% |
| Reserve for contributions on capital account | 426.657 | 426.657 | | 0,00% |
| Other reserves | 13.392 | 13.392 | | 0,00% |
| *Total* | 34.896.907 | 32.425.784 | 2.471.123 | 7,62% |

As of December 31st 2010 the "extraordinary reserve" was 33.663 thousand Euros. The increase which took place with respect to December 31st 2009 is related to the use of part of the profits from 2009 by the Parent Company El.En., in accordance with the decision voted by the stockholders' assembly on April 30th 2010.

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. As of December 31st 2010 the value can be attributed essentially to the re-evaluation of the US dollar. The effects for the year 2010 are shown in the column " Comprehensive (loss) income " in the stockholders' 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 area of consolidation, at the date of closing of this document, December 31st 2010, the treasury stock purchased by the company amounted to a total of 103.148 shares at the average price of 24,97 Euros per share for a total amount of 2.575.611 Euros.

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

This category includes a synthesis of the contribution of all the consolidated companies to the stockholders' equity of the Group. During this financial year the variation is due to the clearance account of the profits from last year and the entering into accounts of the Cynosure stock options according to IFRS 2 standards as shown in the "Other operations" column of the Stockholders' equity chart.

# *Non-current liabilities*

## *Severance indemnity fund (note 15)*

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

| Balance 31/12/2009 | Accrual | Utilization | Payment to complementary pension forms, to INPS fund and other movements | Balance 31/12/2010 |
|---|---|---|---|---|
| 2.607.348 | 975.241 | -201.749 | -679.144 | 2.701.696 |

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 2010 the net accumulated value of the actuarial profits not registered was equal to 115 thousand Euros. The present value of the liabilities as of December 31st 2010 was 2.549 thousand Euros.

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

| **Financial hypotheses** | **Year 2009** | **Year 2010** |
|---|---|---|
| Annual implementation rate | 4,25% | 4,50% |
| Annual inflation rate | 1,50% | 2,00% |
| Annual increase rate of salaries (including inflation) | Executives 4%<br>White collar workers 2,50%<br>Blue collar workers 2,50% | Executives 4%<br>White collar workers 2,50%<br>Blue collar workers 2,50% |

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 31/12/2009 | Accrual | (Utilization) | Other | Conversion Adjustments | Balance 31/12/2010 |
|---|---|---|---|---|---|---|
| Deferred tax assets on inventory devaluations | 1.250.609 | 166.147 | -6.940 | | 1.912 | 1.411.728 |
| Deferred tax assets on warranty reserve | 193.063 | 78.832 | | | 14.455 | 286.350 |
| Deferred tax assets on bad debt reserve | 566.475 | 259.005 | -18.874 | | 4.029 | 810.635 |
| Deferred tax assets on loss brought forward from the previous years | 818.854 | 278.858 | -316.202 | -28.259 | 25.876 | 779.127 |
| Deferred tax assets on intercompany profits | 1.268.185 | 330.766 | | 4 | | 1.598.955 |
| Deferred tax assets on severance indemnity provision discount | -34.435 | -42 | | 3.601 | | -30.876 |
| Other deferred tax assets | 368.447 | 268.690 | -33.733 | 28.916 | 32.864 | 665.184 |
| *Total* | 4.431.198 | 1.382.256 | -375.749 | 4.262 | 79.136 | 5.521.103 |
| Deferred tax liabilities on advanced depreciations | 85.430 | | -4.623 | 97.826 | | 178.633 |
| Deferred tax liabilities for contributions on capital account | | 143.500 | | | | 143.500 |
| Other deferred tax liabilities | 331.583 | 85.073 | -24.704 | -65.523 | 18.271 | 344.700 |
| *Total* | 417.013 | 228.573 | -29.327 | 32.303 | 18.271 | 666.833 |
| *Net amount* | 4.014.185 | 1.153.683 | -346.422 | -28.041 | 60.865 | 4.854.270 |

Deferred tax assets amounted to about 5.521 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.
Deferred tax liabilities amounted to 667 thousand Euros. The variations in the other liabilities for deferred tax liabilities are related, among other things to an evaluation for tax purposes of some LIFO 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 31/12/2009 | Accrual | (Utilisation) | Other | Conversion Adjustments | Balance 31/12/2010 |
|---|---|---|---|---|---|---|
| Reserve for pension costs and similar | 421.217 | 83.655 | | -20.066 | | 484.806 |
| *Others:* | | | | | | |
| Warranty reserve on the products | 2.518.080 | 221.810 | -134.684 | | 187.497 | 2.792.703 |
| Reserve for risks and charges | 2.147.711 | 189.349 | -50.311 | 5.000 | 16.940 | 2.308.689 |
| Other minor reserves | 56.034 | 11.000 | -26.034 | | | 41.000 |
| *Total other reserves* | 4.721.825 | 422.159 | -211.029 | 5.000 | 204.437 | 5.142.392 |
| *Total* | 5.143.042 | 505.814 | -211.029 | -15.066 | 204.437 | 5.627.198 |

The clients' agents' indemnity fund included in the entry "Reserve for pension costs and similar" on December 31st 2010, amounted to 438 thousand Euros as opposed to 380 thousand Euros on December 31st 2009.
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 2009** | **Year 2010** |
|---|---|---|
| Annual rate of implementation | 4,25% | 4,50% |
| Annual rate of inflation | 1,50% | 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.

On February 28th, after conducting a general control for the year 2005, the regional tax authorities (*Direzione Regionale delle Entrate per la Toscana*), entered a protest report (*Processo Verbale di Constatazione* or PVC) against El.En. SpA. In this report, besides a few minor violations related to income taxes and VAT, the agency stated that refused to recognize the exemption from taxes of the capital gains derived from the sale of some shares made by El.En. SpA in 2005. On June 3rd 2010 the company received a tax assessment notice for a total of 3 million dollars plus interest and fines, in which the provincial tax authorities (*Direzione Provinciale delle Entrate*) acknowledged and took on the protests raised in the PVC. This assessment was firmly contested by the company and following a law suit it was possible to settle the entire assessment with a payment of 359 thousand Euros including fines and interest, and thus definitively conclude the litigation.

***Other debts and potential liabilities***

All of the companies belonging to the Group are subject to the risk of disputes and legal actions which may emerge during their normal operations. The subsidiary Cynosure, as part of their own 10-K related to the financial year 2010, has provided information concerning some of the disputes now in progress, in particular, a lawsuit related to the unsolicited use of faxes without the prior permission of the receiving party. The American company firmly opposed the requests of the adverse parties, and their position was sustained by the first sentence of the Court of the state of Massachusetts in the month of July 2010. In August the adverse part proposed a new motion which is still being examined by the court.
During 2009 moreover, Cynosure initiated a suit against its own insurance company because they considered that these damages were covered by an insurance policy stipulated by the same company. During the first half of 2009 the first sentence of the court of Massachusetts established that the insurance company must provide assistance and pay damages should Cynosure lose their suit. This decision was appealed by the adverse party in January of 2010 and their arguments will be heard sometime during the first months of 2011.

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

| Financial m/l term debts | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Bonds | 784.264 | | 784.264 | |
| Amounts owed to banks | 2.163.677 | 2.043.847 | 119.830 | 5,86% |
| Amounts owed for leasing | 290.738 | 224.399 | 66.339 | 29,56% |
| Amounts owed to other financiers | 1.643.084 | 2.658.750 | -1.015.666 | -38,20% |
| *Total* | 4.881.763 | 4.926.996 | -45.233 | -0,92% |

The heading "Bonds" includes the amounts entered by the subsidiary With Us following a debenture loan for 130.000.000,00 Yen which matures between 2011and 2013, reimbursed at an annual fixed rate of 0,55% for the first six months and at a variable rate for the remaining period. The bonds are guaranteed by the Bank of Tokyo-Mitsubishi UFJ and by the President of the company. The debenture loans have been entered into accounts in compliance with IAS39.

The medium/ long term debts owed to banks as of December 31st 2010 represent, for the most part, the quotas which are payable after the year of the bank financing which was granted to Asclepion GmbH for the construction of the building where the company is now operating.

“Amounts owed to other financers” consist, among other things, in the quotas which are payable after this year for:

a) Facilitated financing MPS for applied research, reference TRL01 granted to the Parent company El.En. S.p.A. for an amount of 681.103 Euros at a fixed annual rate of' 2%, last installment July 1st 2012.
b) 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.
c) 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 rate of 2,56%, 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 January 15th 2010
d) 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.
e) 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.

***Debts guaranteed by real estate property***
The property located in Via Baldanzese, 17 at Calenzano was bound by a mortgage, now being cancelled, which was used as a guarantee for the ten-year loan issued by the Cassa di Risparmio di Firenze and extinguished on December 31st 2006.

# Current liabilities

## Financial debts (note 19)

Below, a breakdown of the financial debts is given:

| *Financial short term debts* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Bonds | 393.309 | | 393.309 | |
| Amounts owed to banks | 5.290.231 | 4.449.788 | 840.443 | 18,89% |
| Amount owed for leasing | 211.835 | 300.306 | -88.471 | -29,46% |
| Liabilities (forward exchange contracts) | 57.416 | 199.136 | -141.720 | -71,17% |
| Amounts owed to other financiers | 506.826 | 663.711 | -156.885 | -23,64% |
| *Total* | 6.459.617 | 5.612.941 | 846.676 | 15,08% |

The heading of "Bonds" is related to the short-term quota of the debenture loan issued by the subsidiary With Us described above.

The heading of "Amounts owed to banks" is mainly composed of:
- short-term financing contracted by Asclepion (see note 18)
- the residual part of the bank financing granted for a total of 200 thousand Euros to ASA Srl for temporary cash requirements
- bank financing granted to Wuhan Penta Chutian Laser Equipment Co., Ltd for an amount of about 567 thousand Euros (corresponding to 5 million Yuan) at an annual rate of 7,92%.
- overdraft coverage granted by credit institutions to subsidiary companies and, in particular, to Quanta System SpA and With Us Co.
- debts for advance payments on invoices of the subsidiary Esthelogue Srl.

The liabilities for forward exchange contracts refer to the subsidiary With Us. The evaluation was made at fair value and the effects were registered in the statement of income.

The entry "amounts owed to other financiers" includes the short-term financings described in the note above.

## Amounts owed for supplies (note 20)

| *Trade debts:* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Amounts owed to suppliers | 34.937.474 | 25.034.788 | 9.902.686 | 39,56% |
| Amounts owed to associated companies | 200.145 | 101.538 | 98.607 | 97,11% |
| *Total* | 35.137.619 | 25.136.326 | 10.001.293 | 39,79% |

The increased sales volume caused the rise in the volume of purchases and consequently of the amounts owed for supplies.

The chart below shows the trade debts toward third parties for 2010 divided according to the currency.

| Account payables in: | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Euro | 22.859.209 | 17.640.455 |
| USD | 5.767.242 | 4.904.021 |
| Other currencies | 6.311.023 | 2.490.312 |
| **Total** | 34.937.474 | 25.034.788 |

On the chart, the value in Euros of the debts originally expressed in US dollars or other currencies represents the amount of currency converted at the exchange rate in force on December 31$^{st}$ 2009 and December 31$^{st}$ 2010.

## *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 2010 amounted to 2.143.609 Euros and are entered net of the down payments and deductions.

The break down of the Other debts is shown on the chart:

| | 31/12/2010 | 31/12/2009 | Variation | Variation % |
|---|---|---|---|---|
| *Social security debts* | | | | |
| Debts owed to INPS | 1.449.654 | 1.222.214 | 227.440 | 18,61% |
| Debts owed to INAIL | 123.520 | 128.701 | -5.181 | -4,03% |
| Debts owed to other Social Security Institutions | 237.879 | 214.465 | 23.414 | 10,92% |
| *Total* | 1.811.053 | 1.565.380 | 245.673 | 15,69% |
| *Other debts* | | | | |
| Debts owed to tax administration for VAT | 837.771 | 765.198 | 72.573 | 9,48% |
| Debts owed to tax administration for deductions | 1.017.490 | 945.998 | 71.492 | 7,56% |
| Other tax debts | 194.926 | 85.764 | 109.162 | 127,28% |
| Owed to staff for wages and salaries | 5.593.042 | 3.703.899 | 1.889.143 | 51,00% |
| Down payments | 4.597.512 | 3.107.766 | 1.489.746 | 47,94% |
| Other debts | 8.755.541 | 7.872.708 | 882.833 | 11,21% |
| *Total* | 20.996.282 | 16.481.333 | 4.514.949 | 27,39% |
| *Total Social security debts and other debts* | 22.807.335 | 18.046.713 | 4.760.622 | 26,38% |

The amounts "Owed to staff" include, among other things, the debts for deferred salaries of personnel employed as of December 31st 2010.
The entry of "Down payments" is made up of down payments received from clients and, for the Parent Company El.En. SpA, also from the Regione Toscana for co-financed projects.

The entry "Other debts" includes, among other things, the anticipated revenue related to the subsidiary Cynosure for customer assistance contracts entered with the revenue in proportion to the duration of the contracts.

*Analysis of debts according to due date*

| | 31/12/2010 | | | 31/12/2009 | | |
|---|---|---|---|---|---|---|
| | 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 | 393.309 | 784.264 | | | | |
| Amounts owed to banks | 5.290.231 | 588.850 | 1.574.827 | 4.449.788 | 284.561 | 1.759.286 |
| Amounts owed to leasing company | 211.835 | 290.738 | | 300.306 | 224.399 | |
| Liabilities (forward exchange contracts) | 57.416 | | | 199.136 | | |
| Amounts owed to other financiers | 506.826 | 1.643.084 | | 663.711 | 2.418.806 | 239.944 |
| Amounts owed to suppliers | 34.937.474 | | | 25.034.788 | | |
| Amounts owed to associated companies | 200.145 | | | 101.538 | | |
| Income taxes debts | 2.143.609 | | | 450.143 | | |
| Amounts owed to social security institutions | 1.811.053 | | | 1.565.380 | | |
| Other liabilities | 20.996.282 | | | 16.481.333 | | |
| *Total* | 66.548.180 | 3.306.936 | 1.574.827 | 49.246.123 | 2.927.766 | 1.999.230 |

# Sectorial information in conformity with IFRS8

Starting with the financial year 2009 the El.En. SpA Group will present sectorial information in conformity with the requirements of IFRS8. The application of this standard has not had any effect on the evaluation of the amounts displayed in the statement.
Within the El.En. Group the sectors which have been identified as relevant for IFRS purposes are the same as those analyzed in conformity with IAS 14.

| 31/12/10 | Total | Medical | Industrial | Other |
|---|---|---|---|---|
| Revenues | 190.928 | 155.886 | 34.133 | 909 |
| Intersectorial revenues | (1.131) | 0 | (354) | (777) |
| **Net Revenues** | 189.797 | 155.886 | 33.778 | 132 |
| Other revenues and income | 2.206 | 1.353 | 101 | 752 |
| **Gross Margin** | 100.448 | 85.223 | 14.635 | 590 |
| *Inc.%* | *52%* | *54%* | *43%* | *67%* |
| **Margin** | 17.755 | 15.075 | 2.091 | 590 |
| *Inc.%* | *9%* | *10%* | *6%* | *67%* |
| Not assigned charges | 12.333 | | | |
| **EBIT** | 5.422 | | | |
| Net financial income (charges) | 48 | | | |
| Share of profit of associated companies | (320) | (378) | 51 | 6 |
| Other Income (expense) net | (461) | | | |
| **Income before taxes** | 4.689 | | | |
| Income taxes | 4.255 | | | |
| **Income for the financial period** | 434 | | | |
| Minority interest | (834) | | | |
| **Net income** | 1.268 | | | |

| 31/12/09 | Total | Medical | Industrial | Other |
|---|---|---|---|---|
| Revenues | 149.839 | 126.177 | 22.781 | 881 |
| Intersectorial revenues | (728) | 0 | 0 | (728) |
| **Net Revenues** | 149.111 | 126.177 | 22.781 | 154 |
| Other revenues and income | 1.829 | 925 | 103 | 801 |
| **Gross Margin** | 79.287 | 69.255 | 9.273 | 759 |
| *Inc.%* | *53%* | *54%* | *41%* | *80%* |
| **Margin** | (1.217) | (196) | (1.781) | 759 |
| *Inc.%* | *-1%* | *-0%* | *-8%* | *80%* |
| Not assigned charges | 11.381 | | | |
| **EBIT** | (12.598) | | | |
| Net financial income (charges) | 947 | | | |
| Share of profit of associated companies | (278) | (313) | 16 | 19 |
| Other Income (expense) net | (402) | | | |
| **Income before taxes** | (12.331) | | | |
| Income taxes | 4.060 | | | |
| **Income for the financial period** | (16.391) | | | |
| Minority interest | (11.133) | | | |
| **Net income** | (5.258) | | | |

| 31/12/2010 | Total | Medical | Industrial | Other |
|---|---|---|---|---|
| Assets assigned | 236.240 | 190.331 | 45.909 | |
| Equity investments | 443 | 147 | 295 | |
| Assets not assigned | 15.467 | | | |
| Total assets | 252.150 | 190.479 | 46.204 | 0 |
| | | | | |
| Liabilities assigned | 55.326 | 41.399 | 13.927 | |
| Liabilities not assigned | 25.100 | | | |
| Total liabilities | 80.426 | 41.399 | 13.927 | 0 |

| 31/12/2009 | Total | Medical | Industrial | Other |
|---|---|---|---|---|
| Assets assigned | 202.010 | 168.244 | 33.766 | |
| Equity investments | 1.045 | 834 | 211 | |
| Assets not assigned | 22.650 | | | |
| Total assets | 225.704 | 169.077 | 33.977 | 0 |
| | | | | |
| Liabilities assigned | 42.816 | 34.452 | 8.364 | |
| Liabilities not assigned | 19.525 | | | |
| Total liabilities | 62.341 | 34.452 | 8.364 | 0 |

| 31/12/2010 | Total | Medical | Industrial | Other |
|---|---|---|---|---|
| Changes in fixed assets: | | | | |
| - assigned | 4.922 | 2.121 | 2.801 | 0 |
| - not assigned | (5.675) | | | |
| Total | (752) | 2.121 | 2.801 | 0 |

| 31/12/2009 | Total | Medical | Industrial | Other |
|---|---|---|---|---|
| Changes in fixed assets: | | | | |
| - assigned | 4.662 | 3.302 | 1.360 | 0 |
| - not assigned | (508) | | | |
| Total | 4.154 | 3.302 | 1.360 | 0 |

## *Secondary information*

| 31/12/10 | Total | Italy | Europe | Row |
|---|---|---|---|---|
| Revenues | 189.797 | 26.942 | 50.367 | 112.488 |

| 31/12/09 | Total | Italy | Europe | Row |
|---|---|---|---|---|
| Revenues | 149.111 | 24.437 | 42.859 | 81.815 |

| 31/12/2010 | Total | Italy | Europe | Row |
|---|---|---|---|---|
| Assets assigned | 251.456 | 97.988 | 15.960 | 137.508 |
| Equity investments | 694 | 694 | | |
| Total assets | 252.150 | 98.682 | 15.960 | 137.508 |
| Liabilities assigned | 80.426 | 38.926 | 10.129 | 31.371 |
| Total liabilities | 80.426 | 38.926 | 10.129 | 31.371 |

| 31/12/2009 | Total | Italy | Europe | Row |
|---|---|---|---|---|
| Assets assigned | 224.415 | 90.059 | 16.389 | 117.966 |
| Equity investments | 1.289 | 1.289 | | |
| Total assets | 225.704 | 91.349 | 16.389 | 117.966 |
| Liabilities assigned | 62.341 | 30.489 | 9.611 | 22.240 |
| Total liabilities | 62.341 | 30.489 | 9.611 | 22.240 |

| 31/12/2010 | Total | Italy | Europe | Row |
|---|---|---|---|---|
| Changes in fixed assets: | | | | |
| - assigned | (752) | (467) | (282) | (3) |
| Total | (752) | (467) | (282) | (3) |

| 31/12/2009 | Total | Italy | Europe | Row |
|---|---|---|---|---|
| Changes in fixed assets: | | | | |
| - assigned | 4.154 | 1.994 | (212) | 2.372 |
| Total | 4.154 | 1.994 | (212) | 2.372 |

# *Comments on the main entries in the Statement of income*

## *Revenue (note 22)*

After the substantial decrease shown for 2009, a considerable recovery (+27%, equal to about 40 million Euros), was registered in 2010 and involved all sectors of the Group's activities. For detailed comments on the single types of revenue, please consult the director's report on operations.

| | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Sales of industrial laser systems | 29.462.361 | 19.182.372 | 10.279.989 | 53,59% |
| Sales of medical laser systems | 124.496.676 | 99.946.235 | 24.550.441 | 24,56% |
| Service and sales of spare parts | 35.837.956 | 29.982.109 | 5.855.847 | 19,53% |
| *Total* | 189.796.993 | 149.110.716 | 40.686.277 | 27,29% |

## *Other revenue and income (note 23)*

The analysis of the other income is as follows:

| | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Recovery for accidents and insurance reimbursements | 50.197 | 37.440 | 12.757 | 34,07% |
| Expense recovery | 686.939 | 522.636 | 164.303 | 31,44% |
| Capital gains on disposal of fixed assets | 229.886 | 18.645 | 211.241 | 1132,96% |
| Other income | 1.239.090 | 1.250.516 | -11.426 | -0,91% |
| *Total* | 2.206.112 | 1.829.237 | 376.875 | 20,60% |

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. The most sizeable amounts were entered by the Parent Company, El.En. SpA for the amount of approx. 652 thousand Euros, by the subsidiary Asclepion GmbH for 365 thousand Euros.

## *Costs for the purchase of goods (note 24)*

The analysis is shown on the following table:

| | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Purchase of raw materials and finished products | 74.250.481 | 50.505.893 | 23.744.588 | 47,01% |
| Purchase of packaging | 639.305 | 459.526 | 179.779 | 39,12% |
| Shipment charges on purchases | 741.885 | 547.065 | 194.820 | 35,61% |
| Other purchase expenses | 979.677 | 238.660 | 741.017 | 310,49% |
| Other purchases | 507.137 | 346.353 | 160.784 | 46,42% |
| *Total* | 77.118.485 | 52.097.497 | 25.020.988 | 48,03% |

The increase in the number of purchases is a direct consequence of the rise in the business volume and, among other things, reflects the increase in inventory left at the end of the year.

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

Breakdown of this category is shown on the chart below:

| | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| *Direct services* | | | | |
| Assemblies outsourcing to third parties | 4.043.160 | 2.612.476 | 1.430.684 | 54,76% |
| Technical services | 828.826 | 763.401 | 65.425 | 8,57% |
| Shipment charges on sales | 1.691.371 | 1.426.319 | 265.052 | 18,58% |
| Commissions | 8.770.418 | 6.719.694 | 2.050.724 | 30,52% |
| Royalties | 27.910 | 26.561 | 1.349 | 5,08% |
| Travel expenses | 2.323.060 | 1.916.269 | 406.791 | 21,23% |
| Other direct services | 390.556 | 292.027 | 98.529 | 33,74% |
| *Total* | *18.075.301* | *13.756.747* | *4.318.554* | *31,39%* |
| *Operating services and charges* | | | | |
| Maintenance and technical assistance on equipments | 1.556.909 | 1.287.951 | 268.958 | 20,88% |
| Services and commercial consulting | 3.572.646 | 3.759.053 | -186.407 | -4,96% |
| Legal and administrative services | 2.151.964 | 3.186.205 | -1.034.241 | -32,46% |
| Auditing fees and charges | 991.508 | 848.665 | 142.843 | 16,83% |
| Insurances | 1.309.427 | 1.450.849 | -141.422 | -9,75% |
| Travel and overnight expenses | 3.404.127 | 3.263.677 | 140.450 | 4,30% |
| Promotional and advertising expenses | 8.348.457 | 8.733.075 | -384.618 | -4,40% |
| Building charges | 2.125.676 | 2.033.358 | 92.318 | 4,54% |
| Other taxes | 383.747 | 314.247 | 69.500 | 22,12% |
| Expenses for vehicles | 1.296.811 | 1.203.431 | 93.380 | 7,76% |
| Office supplies | 499.569 | 446.031 | 53.538 | 12,00% |
| Hardware and Software assistance | 320.181 | 303.331 | 16.850 | 5,55% |
| Bank charges | 640.836 | 578.930 | 61.906 | 10,69% |
| Rent | 2.929.896 | 2.755.346 | 174.550 | 6,33% |
| Other operating services and charges | 11.794.400 | 11.122.528 | 671.872 | 6,04% |
| *Total* | *41.326.154* | *41.286.677* | *39.477* | *0,10%* |

The most significant changes in the category of “other operating services” is related to the “expenses for work by third parties” and “commissions” which increased because of the rise in business volume and the partial transfer to outside workers of some phases of the production cycle which last year had been performed inside the factory.

The single most important entries in the category of “other operating services and charges” are represented by the salaries paid to members of management and the statutory board of auditors for an amount of about 2.533 thousand Euros; costs of technical and scientific consulting and studies and research amounted to about 1,9 million Euros. For the costs and activities of research and development, please refer to the description given in 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.

| Operating lease commitments: | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Within one year | 2.536.295 | 2.085.595 |
| After 1 year but not more than 5 years | 3.427.766 | 3.508.729 |
| More than five years | 654.549 | 368.349 |
| **Total** | **6.618.610** | **5.962.673** |

## *Personnel costs (note 26)*

The chart below shows the costs for staff:

| *For staff costs* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Wages and salaries | 34.624.879 | 31.809.863 | 2.815.016 | 8,85% |
| Social security costs | 7.261.757 | 6.357.327 | 904.430 | 14,23% |
| Accruals for severance indemnity | 871.924 | 821.970 | 49.954 | 6,08% |
| Stock options | 2.034.145 | 3.007.213 | -973.068 | -32,36% |
| Other costs | 32.408 | 30.492 | 1.916 | 6,28% |
| *Total* | 44.825.113 | 42.026.865 | 2.798.248 | 6,66% |

The costs for personnel was 44.825 thousand Euros, showing an increase of 6,7%,with respect to the 42.027 thousand Euros registered for the same period last year, but also showing a substantial increase in productivity which, in its incidence on the sales volume, fell from 28,2% on December 31st 2009 to 23,6% on December 31st 2010. The figurative costs entered into accounts in relation to the stock options assigned to employees are part of the personnel costs. On December 31st 2009 these costs were 3.007 thousand Euros, while on December 31st 2010 they fell to 2.034 thousand Euros; these costs refer mainly to the stock options issued by the subsidiary Cynosure Inc.

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

The table below shows the breakdown for this category:

| *Depreciations, amortizations, and other accruals* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Amortization of intangible assets | 427.741 | 453.015 | -25.274 | -5,58% |
| Depreciation of tangible assets | 5.982.209 | 5.598.100 | 384.109 | 6,86% |
| Devaluations of fixed assets | 1.117 | 51.979 | -50.862 | -97,85% |
| Accrual for risk on receivables | 2.062.027 | 2.736.132 | -674.105 | -24,64% |
| Other accruals for risks and charges | 401.998 | -267.834 | 669.832 | -250,09% |
| *Total* | 8.875.092 | 8.571.392 | 303.700 | 3,54% |

The category “Depreciations, Amortizations and other accruals” 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 28)*

The breakdown of the category is as follows:

| | 31/12/2010 | 31/12/2009 | Variation | Var.% |
|---|---|---|---|---|
| **Financial incomes:** | | | | |
| Interests from banks | 251.207 | 582.221 | -331.014 | -56,85% |
| Interests from associated company | 170 | 1.209 | -1.039 | -85,94% |
| Income from negotiations | 478 | | 478 | |
| Foreign exchange gain | 1.268.350 | 1.722.762 | -454.412 | -26,38% |
| Other financial incomes | 43.088 | 78.466 | -35.378 | -45,09% |
| *Total* | 1.563.293 | 2.384.658 | -821.365 | -34,44% |
| **Financial charges:** | | | | |
| Interest on bank debts for account overdraft | -281.953 | -406.892 | 124.939 | -30,71% |
| Interest on bank debts for medium and long - term loans | -46.726 | -32.075 | -14.651 | 45,68% |
| Foreign exchange loss | -900.496 | -823.036 | -77.460 | 9,41% |
| other financial charges | -285.737 | -175.665 | -110.072 | 62,66% |
| *Total* | -1.514.912 | -1.437.668 | -77.244 | 5,37% |

The entry “Interest from banks”, although still benefiting from the cash held in particular by Cynosure as a result of the IPO of 2005 is affected among other things, by the reduction in interest rates.
The interest paid on bank overdrafts refers mainly to the overdrafts granted by credit institutes to subsidiary companies.
The entry “other financial charges” includes, for the amount of 103 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 29)*

| | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| *Other charges* | | | | |
| Loss on equity investments | -3.718 | -27.963 | 24.245 | -86,70% |
| Devaluation of equity investments | -457.297 | -374.895 | -82.402 | 21,98% |
| *Total* | **-461.015** | **-402.858** | **-58.157** | **14,44%** |
| *Other income* | | | | |
| Profit on equity investments | | 525 | -525 | -100,00% |
| *Total* | | **525** | **-525** | **-100,00%** |

The entry under “loss on equity investments” quantifies the effects of the dilution of the value of the equity in Cynosure Inc. after the increase in capital for use in the stock option plan in favor of third parties.
The entry under “Devaluation of equity investments” refers to the devaluation made on the value of the equity in the associated companies Grupo Laser Idoseme SL and Elesta Srl.

## *Income taxes (note 30)*

| ***Description:*** | **31/12/2010** | **31/12/2009** | **Variation** | **Var. %** |
|---|---|---|---|---|
| IRES and other foreign income taxes | 3.976.273 | -1.007.457 | 4.983.730 | -494,68% |
| IRAP | 778.456 | 591.789 | 186.667 | 31,54% |
| IRES and other foreign income taxes - Deferred (Advanced) | -807.615 | 4.754.306 | -5.561.921 | -116,99% |
| IRAP - Deferred (Advanced) | 354 | 79.093 | -78.739 | -99,55% |
| Receivable for income tax | - | -283.908 | 283.908 | -100,00% |
| Taxes related to the previous years | 307.537 | -73.724 | 381.261 | -517,15% |
| *Total income taxes* | 4.255.005 | 4.060.099 | 194.906 | 4,80% |

The costs for current and deferred taxes was 4.255 thousand Euros. The fiscal charges increased thanks to the return to profits of several companies in the Group, with a tax rate for this year which was augmented by the presence of some non-deductible revenue components in the statement of some of the companies of the Group, like the devaluations of equities, besides the fact that some of the companies in the red (one of which was Cynosure) for cautionary purposes decided not to enter deferred tax assets because they felt that the conditions for entering them did not yet exist. It should also be recalled that the fiscal load during this period was heavily influenced by the devaluation of about 7 million dollars (about 5 million Euros) made by Cynosure Inc. on some deferred tax assets which had previously been entered into accounts on the assumption that these receivables would not be recoverable in the next few year.

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.

| | **2010** | **2009** |
|---|---|---|
| Profit/loss before taxes | 4.688.552 | (12.330.641) |
| Theoretical IRES Aliquot | 27,50% | 27,50% |
| Theoretical IRES | 1.289.352 | (3.390.926) |
| Higher (lower) fiscal incidence of the foreign companies with respect to the theoretical aliquot | 1.655.851 | 1.773.399 |
| Devaluation of deferred income taxes asset effected by Cynosure | 301.652 | 4.857.085 |
| Higher (lower) fiscal incidence of Italian companies with respect to the theoretical 'aliquot | 687.226 | 581.391 |
| Higher (lower) fiscal incidence due to the effects of consolidation | (490.975) | (48.197) |
| Actual IRES | 3.443.105 | 3.772.752 |
| Actual IRES aliquot | 73% | na |

The overall tax load for last year was negatively influenced by the devaluation made on some receivables for deferred tax assets by Cynosure, as explained above.

## *Dividends distributed (note 31)*

The shareholders' meeting held on April 30th 2009 voted to distribute a dividend of 0,30 Euros for each share in circulation at the maturity date of the coupon. The dividend paid amounted to 1.416.366 Euros.

The shareholders' meeting held on April 30th 2010 voted to not distribute any dividends.

## *Profits per share (note 32)*

The pondered average number of the shares in circulation remained constant for an amount of 4.721.220.

## *Non-recurring significant events and operations (note 33)*

During 2009 and 2010 no significant non-recurring atypical or unusual operations took place.

# *Information about related parties (note 34)*

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.

<u>The Members of the Board of Directors and the Board of Statutory Auditors and other strategic executives</u>

The Members of the Board of Directors and the Board of Statutory Auditors of the Parent company receive the salaries shown in the chart below:

| | | | ***Director compensation*** | | | |
|---|---|---|---|---|---|---|
| *Name* | *Position* | *Term duration* | *Fees* | *Non monetary benefits* | *Bonus and other incentives* | *Other rewards* |
| Gabriele Clementi | President of the Board of Directors | Until the date of the assembly for the approval of the financials for 31.12.2011 | 90.000 | | 90.128 | 19.407 |
| Barbara Bazzocchi | Managing Director | Until the date of the assembly for the approval of the financials for 31.12.2011 | 90.000 | | 28.374 | 18.500 |
| Andrea Cangioli | Managing Director | Until the date of the assembly for the approval of the financials for 31.12.2011 | 90.000 | | 45.063 | 19.407 |
| Michele Legnaioli | Director | Until the date of the assembly for the approval of the financials for 31.12.2011 | 12.000 | | | |
| Paolo Blasi | Director | Until the date of the assembly for the approval of the financials for 31.12.2011 | 12.000 | | | |
| Angelo Ercole Ferrario | Director | Until the date of the assembly for the approval of the financials for 31.12.2011 | 12.000 | | | 118.000 |
| Alberto Pecci | Director | Until the date of the assembly for the approval of the financials for 31.12.2011 | 12.000 | | | |
| Stefano Modi | Director | Until the date of the assembly for the approval of the financials for 31.12.2011 | 12.000 | | 34.974 | 109.492 |
| Vincenzo Pilla | President of the Board of Statutory Auditors | Until the date of the assembly for the approval of the financials for 31.12.2012 | 31.200 | | | 32.120 |
| Giovanni Pacini | Statutory Auditor | Until April 30, 2010 | 16.848 | | | 13.379 |
| Gino Manfriani | Statutory Auditor | Until the date of the assembly for the approval of the financials for 31.12.2012 | 3.952 | | | 4.235 |
| Paolo Caselli | Statutory Auditor | Until the date of the assembly for the approval of the financials for 31.12.2012 | 20.800 | | | 27.788 |

Note: the salaries shown on the chart are determined on the accrual basis.

*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' assembly held on April 30th 2009 which, when establishing the amount of the rewards to be paid to members of the Board of Directors, set a maximum of 250 thousand Euros for the incentive bonuses. These bonuses will be paid in 2011.
*Other remunerations:*
- 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 sole administrator of Cutlite Penta Srl received a salary of 12.000 Euros from that company; 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 received a salary of 108.000 Euros from that company and as Board Member of Arex Srl received a salary of 10.000 Euros from that company.
The salaries of members of the Board of Statutory Auditors for carrying out their functions in other companies included within the area of consolidation are as follows: Vincenzo Pilla as President of the Board of Statutory Auditors of Deka Mela Srl and Lasit SpA and actual Auditor of Cutlite Penta Srl received from these companies a total salary of 32.120 Euros; Giovanni Pacini, as acting auditor of Deka Mela Srl and Cutlite Penta Srl received a total salary of 13.379 euros for the period in which he worked for these companies; Gino Manfriani, as acting Auditor of Deka Mela Srl and Cutlite Penta Srl received a total salary of 4.235 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 actual Auditor of Deka Mela Srl and Lasit SpA received from these companies a total salary of 27.788 Euros; Manfredi Bufalini as actual Auditor of Quanta System SpA received from this company a salary of 7.280 Euros.
- Board Member Stefano Modi as an employee of the company in 2010 received a salary of about 109 thousand Euros.
- In accordance with art. 17 of the T.U.I.R., the president of the Board of Directors, Gabriele Clementi and the two executive Board Members, Barbara Bazzocchi and Andrea Cangioli received 6.500 Euros each.

Prof. Leonardo Masotti, President of the Scientific Committee, received a fixed remuneration of 6.800 Euros, besides an incentive bonus of 32.774 Euros. Moreover, as President of the Board of Directors of Deka M.E.L.A. Srl he received a salary of 15.000 Euros.

The 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, partners Carlo Raffini and Pio Burlamacchi also received salaries, as follows:
a) Prof. Pio Burlamacchi, who, on the basis of a specific contract, is the owner of an industrial right consisting of a patent pending for the invention of a “Support of an optical cavity for lasers with regulation of the alignment of the ray”, received a salary of 6 thousand Euros.
b) il Sig. Carlo Raffini, to whom the Parent Company El.En. Spa has assigned a series of professional tasks for the entire year received a remuneration of 41.000 Euros; moreover for a similar task, he received remuneration from the subsidiaries Deka M.E.L.A. Srl and Cutlite Penta Srl for an overall amount of 27.300 Euros.

Associated companies

All of the transactions involving payables and receivables, costs and revenue, and all financing and guarantees granted to the associated companies during 2010 are clearly shown in detail.
The prices for the transfer of goods are determined in accordance with what normally occurs on the market. The above mentioned inter-Group transactions therefore reflect the trends in market prices although they may differ slightly from them depending on the commercial policy of the Group.

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

| | **Financial Receivables** | | **Commercial receivables** | |
|---|---|---|---|---|
| **Associated companies:** | **< 1 year** | **> 1 year** | **< 1 year** | **> 1 year** |
| SBI SA | | | 281.855 | |
| Immobiliare Del.Co. Srl | 13.565 | | | |
| Elesta Srl | | | 662.249 | |
| Electro Optical Innovation Srl | 23.676 | | | |
| Grupo Laser Idoseme SL | | | 989.438 | |
| *Total* | 37.241 | - | 1.933.542 | - |

| | **Financial Payables** | | **Commercial payables** | |
|---|---|---|---|---|
| **Associated companies:** | **< 1 year** | **> 1 year** | **< 1 year** | **> 1 year** |
| Immobiliare Del.Co. Srl | | | 106.245 | |
| Actis Srl | | | 54.108 | |
| SBI SA | | | 15.660 | |
| Laser International ltd. | | | 24.132 | |
| *Total* | - | - | 200.145 | - |

| Associated companies: | Sales | Service | Total |
|---|---|---|---|
| SBI S.A. | 255.294 | | 255.294 |
| Elesta Srl | 349.462 | 1.678 | 351.140 |
| Grupo Laser Idoseme SL | 1.037.231 | 73.415 | 1.110.646 |
| *Total* | 1.641.987 | 75.093 | 1.717.080 |

| Associated companies: | Other revenues |
|---|---|
| Elesta Srl | 1.200 |
| Actis Srl | 2.400 |
| Grupo Laser Idoseme SL | 17.878 |
| *Total* | 21.478 |

| Associated companies: | Purchase of raw materials | Services | Other | Total |
|---|---|---|---|---|
| Actis Srl | 17.010 | 44.500 | | 61.510 |
| SBI S.A. | 9.960 | | | 9.960 |
| Elesta Srl | 15.811 | | | 15.811 |
| Immobiliare Delco Srl | | 141.037 | | 141.037 |
| JV Laser International Ltd | 36.606 | | | 36.606 |
| Electro Optical Innovation Srl | 26.875 | | | 26.875 |
| Grupo Laser Idoseme SL | 202.520 | 22.100 | | 224.620 |
| *Total* | 308.782 | 207.637 | - | 516.419 |

The amounts shown in the tables above refer to operations which are inherent to the characteristic management 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 | 693.797 | 520.506 | 75,02% |
| Other non current assets | | | |
| Accounts receivables | 46.714.400 | 1.933.542 | 4,14% |
| Other receivables | 6.617.769 | 37.241 | 0,56% |
| Non current financial liabilities | 4.881.763 | | 0,00% |
| Current financial liabilities | 6.459.617 | | 0,00% |
| Accounts payables | 35.137.619 | 200.145 | 0,57% |
| Other payables | 22.807.335 | | 0,00% |
| **b) Impact of related party transactions on the profit and loss** | | | |
| Revenues | 189.796.993 | 1.717.080 | 0,90% |
| Other revenues and income | 2.206.112 | 21.478 | 0,97% |
| Purchases of raw materials | 77.118.485 | 308.782 | 0,40% |
| Other direct services | 18.075.301 | 22.100 | 0,12% |
| Other operating services and charges | 41.326.154 | 185.537 | 0,45% |
| Financial charges | 1.514.912 | | 0,00% |
| Financial income | 1.563.293 | 170 | 0,01% |

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

*Operating risks*
Since the company is fully aware of the potential risks derived from the particular type of product made by the Group, already in the earliest phases of planning and research, they operate so as to guarantee the safety and quality of the product put on the market. There are marginal residua 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 and financial instruments.
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 2010, most of the consolidated sales (about 60%) were made in markets outside of the European Union; most of the transactions were conducted in US dollars. It should be pointed out that the presence of stable structures in the United States, in particular Cynosure, make it possible to have a partial coverage of these risks since both the costs and the revenue are in the same kind of currency.
The Japanese subsidiary With Us, moreover, has activated operations intended to cover currency risks.

*Credit risks*
As far as the commercial transactions are concerned, the Group operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance. There are no significant concentrations of credit risks within the Group. The devaluation provision which is accrued at the end of the year represents about 11% of the total trade receivables from third parties. For an analysis of receivables overdue from third parties, see the description in the related note of the Consolidated Financial Statement.
In relation to guarantees granted to third parties, it should be recalled that the Parent Company El.En. last year 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.
During this financial year the company has also underwritten:
- 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.
- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 1.203 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the "TRAP" 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
-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.
- 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.
The subsidiary Quanta System issued a bank guarantee in favor of some credit institutions of the subsidiary Grupo Laser Idoseme for a residual of 550 thousand Euros which fell due on February 28th 2011 and was renewed for an amount of 350.000 thousand Euros until February 27th 2012 and for an amount of 100.000 thousand Euros until May 27th 2011.

*Cash and interest rate risks*
As far as the exposure of the Group to risks related to cash and interest rates is concerned, it should be pointed out that cash held by the Group has been maintained at a high level also during this financial year in such a way as to cover

existing debts and obtain a net financial position which is extremely positive. For this reason we believe that these risks are sufficiently covered.

**Management of the capital**

The objective of the management of the capital of the Group is to guarantee that a low level of indebtedness is maintained. Considering the substantial amount of cash held by the Group, the net financial position is extremely positive and is such as to guarantee a good ratio between capital and reserves and debts.

# *Financial Instruments (note 36)*

### Fair value

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

| | Book value 31/12/2010 | Book value 31/12/2009 | Fair value 31/12/2010 | Fair value 31/12/2009 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial mid and long term receivables | | 29.576 | | 29.576 |
| Financial receivables within 12 months | 87.241 | 138.498 | 87.241 | 138.498 |
| Mid and long term Financial instruments | 7.476.074 | 3.476.392 | 7.476.074 | 3.476.392 |
| Short term Financial instruments | 44.676.217 | 29.803.183 | 44.676.217 | 29.803.183 |
| Cash and cash equivalents | 41.514.927 | 49.572.862 | 41.514.927 | 49.572.862 |
| | | | | |
| **Financial liabilities** | | | | |
| Financial mid and long term debts | 4.881.763 | 4.926.996 | 4.881.763 | 4.926.996 |
| Financial liabilities due within 12 months | 6.459.617 | 5.612.941 | 6.459.617 | 5.612.941 |

### 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 2010 the Group possesses the following securities evaluated at fair market value.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money Market funds (1) | 4.090.705 | - | - | 4.090.705 |
| State & Municipal bonds (2) | - | 56.721.924 | - | 56.721.924 |
| Equity securities | 8.753 | - | - | 8.753 |
| | | | | |
| **Total** | **4.099.458** | **56.721.924** | **-** | **60.821.383** |

(1) Included in cash and cash equivalent
(2) For 6,1 million Euros in the cash and cash equivalent.

# *Other information (note 37)*

**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 2010 related to auditing services and for those other than the ones conducted by Ernst & Young for the Parent Company and for some of the Italian and foreign subsidiaries.

| | Audit of individual, consolidated annual report and occasional audits | Audit of half-yearly report | Underwriting of tax forms | Other services |
|---|---|---|---|---|
| | Amount paid in 2010 (€) | Amount paid in 2010 (€) | Amount paid in 2010 (€) | Amount paid in 2010 (€) |
| El.En. SpA | 49.464 | 27.705 | 4.000 | 20.000 |
| Italian Subsidiaries (*) | 61.021 | 0 | 10.000 | 10.000 |
| Foreign Subsidiaries (**) | 324.209 | 99.780 | 0 | 107.489 |
| **Totale** | **434.695** | **127.485** | **14.000** | **137.489** |

(*) The Italian subsidiaries audited were Deka Mela Srl, Cutlite Penta Srl, Ot-Las Srl, Esthelogue Srl, Quanta System SpA and Lasit SpA.
(**)The foreign subsidiaries which were audited were Cynosure Inc., Wuhan Penta Chutian e Asclepion Laser Technologies GmbH.

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 divided by category**

| | Average 2010 | 31/12/2010 | Average 2009 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|---|---|
| *Total* | 921,5 | 969 | 875,0 | 874 | 95 | 10,87% |

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

# Declaration of the consolidated financial statement in conformity with art. 81-ter CONSOB regulation n. 11971 of May 14th 1999 and later modifications and additions

1. We the undersigned, Andrea Cangioli as managing director, and Enrico Romagnoli as manager in charge of preparing the financial statements of El.En. S.p.A., 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 2010.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the consolidated statement dated December 31st 2010:

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 area of consolidation.

3.2 The director's report on operations contains a reliable analysis of the trends and results of the management 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 15th 2011

| | |
|---|---|
| Managing Director | Manager in charge of preparing the Company's financial statements |
| Ing. Andrea Cangioli | Dott. Enrico Romagnoli |

# EL. EN. S.p.A.

Headquarters in Via Baldanzese 17 – Calenzano (Florence)

## Report of the Board of Statutory Auditors to the Stockholders' Assembly on the consolidated statement as of December 31st 2010

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 2010 and on the director's report on operations for 2010 (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 Reconta Ernst & Young 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 certification 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.

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 auditor, believes that the consolidated statement of the Company is drawn up in conformity with the regulations that govern it.

Florence, March 30th 2011.

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

Ernst & Young

# El.En. S.p.A.

Consolidated financial statements as of and for the year ended December 31, 2010

Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010 (Translation from the original Italian text)

Reconta Ernst & Young S.p.A.
Piazza della Libertà, 9
50129 Firenze

Tel. (+39) 055 552451
Fax (+39) 055 5524850
www.ey.com

**Independent auditors' report**
**pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010**
**(Translation from the original Italian text)**

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

1. We have audited the consolidated financial statements of El.En. S.p.A. and its subsidiaries, (the "El.En. Group") as of and for the year ended December 31, 2010, comprising the statement of financial position, the statement of income, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of El.En. S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 13, 2010.

3. In our opinion, the consolidated financial statements of El.En. Group as of, and for the year ended, December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the El.En. Group for the year then ended.

4. The management of El.En. S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and the Company's Ownership Structure, as required by the law. For this purpose, we have performed the

procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) presented in the Report on Corporate Governance and the Company's Ownership Structure , are consistent with the consolidated financial statements of the El.En. Group as of, and for the year ended, December 31,2010.

Florence, March 30, 2011

Reconta Ernst & Young S.p.A.
Signed by: Lorenzo Signorini, Partner

# EL.EN. SpA INDIVIDUAL FINANCIAL STATEMENT AS OF DECEMBER 31st 2010

# ACCOUNTING CHARTS AND EXPLANATORY NOTES

## *Statement of financial position*

| | Notes | | 31/12/2010 | | 31/12/2009 |
|---|---|---|---|---|---|
| **Statement of financial position** | | | | | |
| Intangible assets | 1 | | 13.884 | | 13.954 |
| Tangible assets | 2 | | 13.858.105 | | 14.237.318 |
| Equity investments: | 3 | | | | |
| - in subsidiaries | | 17.438.047 | | 17.850.011 | |
| - in associates | | 345.297 | | 369.765 | |
| - other investments | | 109.080 | | 109.080 | |
| Total equity investments | | | 17.892.424 | | 18.328.856 |
| Deferred tax assets | 4 | | 1.476.317 | | 1.317.015 |
| Other non current assets | 4 | | 157.585 | | 550.328 |
| **Total non current assets** | | | **33.398.315** | | **34.447.471** |
| Inventories | 5 | | 18.232.453 | | 16.878.696 |
| Accounts receivables: | 6 | | | | |
| - from third parties | | 3.196.752 | | 4.162.531 | |
| - from subsidiaries | | 26.338.967 | | 17.722.803 | |
| - from associates | | 778.926 | | 643.083 | |
| Total accounts receivables: | | | 30.314.645 | | 22.528.417 |
| Tax receivables | 7 | | 2.300.390 | | 2.169.259 |
| Other receivables: | 7 | | | | |
| - from third parties | | 743.937 | | 672.852 | |
| - from subsidiaries | | 3.263.688 | | 3.195.118 | |
| - from associates | | 13.565 | | 13.565 | |
| Total other receivables | | | 4.021.190 | | 3.881.535 |
| Financial instruments | 8 | | | | |
| Cash and cash equivalents | 9 | | 4.918.560 | | 7.618.474 |
| **Total current assets** | | | **59.787.238** | | **53.076.381** |
| **TOTAL ASSETS** | | | **93.185.553** | | **87.523.852** |
| Common stock | 10 | | 2.508.671 | | 2.508.671 |
| Additional paid in capital | 11 | | 38.593.618 | | 38.593.618 |
| Other reserves | 12 | | 36.134.781 | | 35.589.427 |
| Treasury stock | 13 | | -2.575.611 | | -2.575.611 |
| Retained earnings / (deficit) | 14 | | -920.544 | | -920.544 |
| Net income / (loss) | | | 1.061.672 | | 360.422 |
| **Total equity** | | | **74.802.587** | | **73.555.983** |
| Severance indemnity | 15 | | 934.529 | | 967.881 |
| Deferred tax liabilities | 16 | | 440.551 | | 267.074 |
| Other accruals | 17 | | 2.195.788 | | 2.143.669 |
| Financial liabilities: | 18 | | | | |
| - to third parties | | 66.392 | | 136.100 | |
| Total financial liabilities | | | 66.392 | | 136.100 |
| **Non current liabilities** | | | **3.637.260** | | **3.514.724** |
| Financial liabilities: | 19 | | | | |
| - to third parties | | 96.327 | | 88.502 | |
| Total financial liabilities | | | 96.327 | | 88.502 |
| Accounts payables: | 20 | | | | |
| - to third parties | | 9.427.847 | | 5.919.349 | |
| - to subsidiaries | | 1.257.266 | | 1.911.730 | |
| - to associates | | 69.444 | | 45.300 | |
| Total accounts payables | | | 10.754.557 | | 7.876.379 |
| Income Tax payables | 21 | | 565.127 | | |
| Other payables: | 21 | | | | |
| - to third parties | | 3.328.314 | | 2.486.420 | |
| - to subsidiaries | | 1.381 | | 1.844 | |
| Total other payables | | | 3.329.695 | | 2.488.264 |
| **Current liabilities** | | | **14.745.706** | | **10.453.145** |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | | | **93.185.553** | | **87.523.852** |

# Statement of income

| Statement of income | Note | | 31/12/2010 | | 31/12/2009 |
|---|---|---|---|---|---|
| Revenues: | 22 | | | | |
| - from third parties | | 9.792.144 | | 11.143.880 | |
| - from subsidiaries | | 35.602.488 | | 24.609.181 | |
| - from associates | | 152.528 | | 339.400 | |
| Total revenues | | | 45.547.160 | | 36.092.461 |
| Other revenues and income: | 23 | | | | |
| - from third parties | | 785.026 | | 910.443 | |
| - from subsidiaries | | 381.721 | | 327.361 | |
| - from associates | | 3.600 | | 3.600 | |
| Total other revenues and income | | | 1.170.347 | | 1.241.404 |
| **Total revenues and income** | | | **46.717.507** | | **37.333.865** |
| Purchase of raw materials: | 24 | | | | |
| - to third parties | | 20.211.471 | | 11.155.750 | |
| - to subsidiaries | | 4.181.143 | | 2.662.105 | |
| - to associates | | 26.700 | | 5.925 | |
| Total purchase of raw materials | | | 24.419.314 | | 13.823.780 |
| Change in inventory of finished goods and WIP | | | (693.692) | | 1.114.870 |
| Change in inventory of raw material | | | (845.346) | | 2.893.908 |
| Other direct services: | 25 | | | | |
| - to third parties | | 3.590.150 | | 2.683.192 | |
| - to subsidiaries | | 209.744 | | 56.914 | |
| - to associates | | | | | |
| Total other direct services | | | 3.799.894 | | 2.740.106 |
| Other operating services and charges: | 25 | | | | |
| - to third parties | | 5.562.886 | | 4.804.908 | |
| - to subsidiaries | | 65.656 | | 127.099 | |
| - to associates | | 44.500 | | 83.473 | |
| Total other operating services and charges | | | 5.673.042 | | 5.015.480 |
| For staff costs | 26 | | 9.409.553 | | 8.758.753 |
| Depreciation, amortization and other accruals | 27 | | 1.076.174 | | 1.276.657 |
| **EBIT** | | | **3.878.568** | | **1.710.311** |
| Financial charges: | 28 | | | | |
| - to third parties | | (257.595) | | (424.640) | |
| - to subsidiaries | | | | | |
| - to associates | | | | | |
| Total financial charges | | | (257.595) | | (424.640) |
| Financial income | 28 | | | | |
| - from third parties | | 706.192 | | 809.108 | |
| - from subsidiaries | | 77.228 | | 77.018 | |
| - from associates | | 170 | | 1.209 | |

| | | | |
|---|---|---|---|
| Total financial income | | 783.590 | 887.335 |
| Share of profit of associated companies | | | |
| Other net expenses | 29 | (1.401.865) | (850.113) |
| Other net income | 29 | | 525 |
| **Income before taxes** | | **3.002.698** | **1.323.418** |
| Income taxes | 30 | 1.941.026 | 962.996 |
| **Income for the financial period** | | **1.061.672** | **360.422** |

(*)In accordance with Delibera Consob 15519 of 27th July 2006, the amounts related to significant non-recurring events are listed in note (32).

## *Consolidated statement of comprehensive income*

| | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Reported net (loss) income | 1.061.672 | 360.422 |
| Gain (loss) from financial assets available for sale | | |
| Total comprehensive (loss) income | 1.061.672 | 360.422 |

# Statement of Cash flows

| *Statement of Cash flows* | Notes | 31/12/2010 | related parties | 31/12/2009 | related parties |
|---|---|---|---|---|---|
| **Cash flow generated by operating activity:** | | | | | |
| Profit (loss) for the financial period - group part | | 1.061.672 | | 360.422 | |
| Amortizations and depreciations | 27 | 912.717 | | 845.860 | |
| Devaluations of equity investments | 29 | 1.026.271 | 1.026.271 | 194.599 | 194.599 |
| Stock Options | 26 | 184.934 | | 184.934 | |
| Change of employee severance indemnity | 15 | -33.352 | | -24.719 | |
| Change of provisions for risks and charges | 17 | 52.119 | 95.072 | -169.560 | -98.650 |
| Change of provisions for deferred income taxes assets | 4 | -159.302 | | -70.819 | |
| Change of provisions for deferred income taxes liabilities | 16 | 173.477 | | 45.697 | |
| Stocks | 5 | -1.353.757 | | 4.187.836 | |
| Receivables | 6 | -7.786.230 | -8.752.007 | 2.890.500 | 2.015.223 |
| Tax receivables | 7 | -131.131 | | -540.340 | |
| Other receivables | 7 | -167.085 | -96.000 | 17.131 | |
| Payables | 20 | 2.878.178 | -630.320 | -5.672.058 | -516.611 |
| Income Tax payables | 21 | 565.127 | | -1.677.529 | |
| Other payables | 21 | 841.431 | -463 | -429.562 | -4.136 |
| | | -2.996.603 | | -218.030 | |
| **Cash flow generated by operating activity** | | -1.934.931 | | 142.392 | |
| **Cash flow generated by investment activity:** | | | | | |
| (Increase) decrease in tangible assets | 2 | -517.438 | | -2.919.477 | |
| (Increase) decrease in intangible assets | 1 | -15.996 | | -9.649 | |
| (Increase) decrease in equity investments and non current assets | | -197.096 | -197.096 | -246.005 | -227.778 |
| Increase (decrease) in financial receivables | 7 | 27.430 | 27.430 | 618.601 | 638.601 |
| **Flussi di cassa generati dall'attività di investimento** | | -703.100 | | -2.556.530 | |
| **Flussi di cassa dall'attività di finanziamento:** | | | | | |
| Increase (decrease) in non current financial liabilities | 18 | -69.708 | | -132.099 | |
| Increase (decrease) in current financial liabilities | 19 | 7.825 | | 45.340 | |
| Dividends distributed | 31 | | | -1.416.366 | |
| **Cash flow from financing activity** | | -61.883 | | -1.503.125 | |
| **Increase (decrease) in cash and cash equivalents** | | -2.699.914 | | -3.917.263 | |
| **Cash and cash equivalents at the beginning of the financial period** | | 7.618.474 | | 11.535.737 | |
| **Cash and cash equivalents at the end of the financial period** | | 4.918.560 | | 7.618.474 | |

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 97 thousand Euros, of which 77 thousand Euros from associated or subsidiary companies.

Current income taxes for this financial year were 1.927 thousand Euros.

# *Statement of changes in the Stockholders' equity*

| *STOCKHOLDERS' EQUITY:* | **Balance 31/12/2008** | **Net income allocation** | **Dividends distributed** | **Other operations** | **Comprehensive (loss) income** | **Balance 31/12/2009** |
|---|---|---|---|---|---|---|
| Common stock | 2.508.671 | | | | | 2.508.671 |
| Additional paid-in capital | 38.593.618 | | | | | 38.593.618 |
| Legal reserve | 537.302 | | | | | 537.302 |
| Own shares | -2.575.611 | | | | | -2.575.611 |
| Others reserves: | | | | | | |
| Extraordinary reserves | 27.689.294 | 5.613.393 | | | | 33.302.687 |
| Reserve for contribution on capital account | 426.657 | | | | | 426.657 |
| Cumulative translation adjustments reserve | 0 | | | | | 0 |
| Other reserves | 1.137.842 | | | 184.939 | | 1.322.781 |
| Retained earnings | -920.544 | 1.416.366 | -1.416.366 | | | -920.544 |
| Profits (loss) of the year | 7.029.759 | -7.029.759 | | | 360.422 | 360.422 |
| *Total Stockholders' equity* | 74.426.988 | 0 | -1.416.366 | 184.939 | 360.422 | 73.555.983 |

| *STOCKHOLDERS' EQUITY:* | **Balance 31/12/2009** | **Net income allocation** | **Dividends distributed** | **Other operations** | **Comprehensive (loss) income** | **Balance 31/12/2010** |
|---|---|---|---|---|---|---|
| Common stock | 2.508.671 | | | | | 2.508.671 |
| Additional paid-in capital | 38.593.618 | | | | | 38.593.618 |
| Legal reserve | 537.302 | | | | | 537.302 |
| Own shares | -2.575.611 | | | | | -2.575.611 |
| Others reserves: | | | | | | |
| Extraordinary reserves | 33.302.687 | 360.422 | | | | 33.663.109 |
| Reserve for contribution on capital account | 426.657 | | | | | 426.657 |
| Cumulative translation adjustments reserve | 0 | | | | | 0 |
| Other reserves | 1.322.781 | | | 184.932 | | 1.507.713 |
| Retained earnings | -920.544 | | | | | -920.544 |
| Profits (loss) of the year | 360.422 | -360.422 | | | 1.061.672 | 1.061.672 |
| *Total Stockholders' equity* | 73.555.983 | 0 | 0 | 184.932 | 1.061.672 | 74.802.587 |

# EXPLANATORY NOTES

## 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. Statement was examined and approved by the Board of Directors on March 15th 2011.

This statement and the relative comments are presented in Euros unless otherwise indicated.

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

### PRINCIPLES USED FOR DRAWING UP THE STATEMENT

The statement for the financial year 2010 which represents the individual 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 individual Annual Report consists of:

- the Statement of financial position,
- the Statement of income,
- the statement of comprehensive income
- the Statement of Cash Flows
- the Statement of changes in the Stockholders' equity,
- the Explanatory Notes which follow.

The economic information given refers to the financial years 2010 and 2009. The financial information on the other hand refer to the situations on December 31st 2010 and December 31st 2009.

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.

### CONFORMITY TO THE IFRS

The statement as of December 31st 2010 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 2009 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 report 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 Individual 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 and funds. The estimates and assumptions are periodically reviewed and the effects of any variation are reflected in the Statement of income.

## EVALUATION CRITERIA

### 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 Statement of income 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 Statement of income. 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:

| *Description* | *Depreciation percentage* |
|---|---|
| *Buildings* | |
| - buildings | 3.00% |
| *Plants and machinery* | |
| - generic plants and machinery | 10.00% |
| - specific plants and machinery | 10.00% |
| - other plants and machinery | 15.50% |
| *Industrial and commercial equipment* | |
| - miscellaneous and minute equipment | 25.00% |
| - kitchen equipment | 25.00% |
| *Other goods* | |
| - 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 Statement of income 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 Statement of income 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 individual 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 Statement of income” 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 stockholders’ equity which will be entered into the Statement of income at the time of sale. Changes in the value of the equities classified as assets evaluated at fair value through the Statement of income are entered directly into the Statement of income. 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 Statement of income under the heading “Financial Revenue (Charges)” or in a special reserve of the Stockholders’ 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 stockholders’ equity. No profit/loss is shown in the Statement of income 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.

**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) EMPLOYEE BENEFITS**
*SEVERANCE INDEMNITY (TFR).*
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 Statement of income 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 Statement of income 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 statement of income under the heading of "Cost of labor" when owed.

*REMUNERATION PLANS IN THE FORM OF PARTICIPATION IN THE CAPITAL (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 Statement of income 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 honour 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 Statement of income for the financial year in which the variation takes place.

**L) RECOGNITION OF REVENUE**
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 Statement of income.

**N) GRANTS IN CAPITAL ACCOUNT AND IN OPERATING ACCOUNT**

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 Statement of income 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 Statement of income in relation to the period of depreciation of the assets they refer to.
Grants in operating account are shown entirely in the Statement of income 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 assets for deferred tax assets is re-examined at the closing of each financial year. No fiscal effect has been felt by El.En in relation to the stock option plans since the shares assigned to the employees derive from an increase in the capital.

## 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 01.01.10 | Options issued 01.01.10-31.12.10 | Options cancelled 01.01.10-31.12.10 | Options exercised 01.01.10-31.12.10 | Expired option not exercised 01.01.10-31.12.10 | Outstanding options 31.12.10 | Exercisable options 31.12.10 | Exercise price |
|---|---|---|---|---|---|---|---|---|---|
| Plan 2008/2013 | May, 15 2013 | 160.000 | 0 | 0 | 0 | 0 | 160.000 | 0 | € 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 786 thousand Euros.

During the financial year 2010 the average price registered for El.En. SpA, shares was about 11,94 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.

# Comments on the main assets

## Non-current assets

### Intangible fixed assets (note 1)

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

| *Categories* | **Balance 31/12/09** | **Variation** | **(Devaluation)** | **Other Operations** | **(Amortizations)** | **Balance 31/12/10** |
|---|---|---|---|---|---|---|
| Concessions, licences, trade marks and similar rights | 10.720 | 11.496 | | | -11.733 | 10.483 |
| Other | 3.234 | 4.500 | | | -4.333 | 3.401 |
| *Total* | **13.954** | **15.996** | | | **-16.066** | **13.884** |

In the category of "Intangible assets", the most significant entry is the cost sustained for the purchase of some software licenses.

### Tangible fixed assets (note 2)

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

| *Cost* | **Balance 31/12/09** | **Increments** | **Devaluations** | **Other operations** | **(Disposals)** | **Balance 31/12/10** |
|---|---|---|---|---|---|---|
| Lands | 1.881.777 | | | | | 1.881.777 |
| Buildings | 6.633.231 | 9.291 | | 3.962.562 | | 10.605.084 |
| Plants and machinery | 1.711.189 | 24.388 | | 318.808 | | 2.054.385 |
| Industrial and commercial equipment | 3.528.945 | 261.664 | | -24.505 | -78.861 | 3.687.243 |
| Other goods | 1.510.006 | 192.899 | | -50.550 | -1.369 | 1.650.986 |
| Tangible assets under construction | 4.309.264 | 255.927 | | -4.563.735 | | 1.456 |
| *Total* | **19.574.412** | **744.169** | | **-357.420** | **-80.230** | **19.880.931** |

| *Depreciation provisions* | **Balance 31/12/09** | **Depreciation** | **Devaluations** | **Other operations** | **(Disposals)** | **Balance 31/12/10** |
|---|---|---|---|---|---|---|
| Lands | | | | | | |
| Buildings | 992.670 | 256.578 | | -49.647 | | 1.199.601 |
| Plants and machinery | 493.134 | 174.552 | | -1.546 | | 666.140 |
| Industrial and commercial equipment | 2.794.211 | 329.278 | | -18.145 | -51.780 | 3.053.564 |
| Other goods | 1.057.079 | 136.243 | | -88.432 | -1.369 | 1.103.521 |
| Tangible assets under construction | | | | | | |
| *Total* | **5.337.094** | **896.651** | | **-157.770** | **-53.149** | **6.022.826** |

| *Net value* | **Balance 31/12/09** | **Increments** | **Other operations** | **(Depreciations and devaluations)** | **(Disposals)** | **Balance 31/12/10** |
|---|---|---|---|---|---|---|
| Lands | 1.881.777 | | | | | 1.881.777 |
| Buildings | 5.640.561 | 9.291 | 4.012.209 | -256.578 | | 9.405.483 |
| Plants and machinery | 1.218.055 | 24.388 | 320.354 | -174.552 | | 1.388.245 |
| Industrial and commercial equipment | 734.734 | 261.664 | -6.360 | -329.278 | -27.081 | 633.679 |
| Other goods | 452.927 | 192.899 | 37.882 | -136.243 | | 547.465 |
| Tangible assets under construction | 4.309.264 | 255.927 | -4.563.735 | | | 1.456 |
| *Total* | **14.237.318** | **744.169** | **-199.650** | **-896.651** | **-27.081** | **13.858.105** |

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 2010 was 1.882 thousand Euros.

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The heading of “Buildings” includes the building complex in Via Baldanzese a Calenzano (Florence), where the company operates along with the three subsidiaries Deka M.E.L.A., Cutlite Penta and Esthelogue (formerly Valfivre Italia), the building complex in Via Dante Alighieri also in Calenzano purchased in 2008 and the building in the city of Torre Annunziata purchased in 2006 for the research, development and production activities of the subsidiary Lasit SpA.

In particular, the column titled “Other operations” includes the expenses sustained by El.En. for the completion of the enlargement of a part of the factory in Calenzano which was originally reclassified with the “tangible assets under construction”.

The increments in the category of “Plants and machinery” are also registered in the column of “Other operations” are related to the activities for the enlargement of the factory in Calenzano as described under the heading of “Buildings”.

The amounts entered in the column of “Other operations” for the category of” Industrial and Commercial Equipment” and “Other Goods” refer to machinery that has been scrapped because it was considered obsolete.
The increases in the category of “Other Goods” is mainly related to the purchases of goods for furnishing the new rooms in the company Headquarters.

Under the heading of “Tangible assets under construction” we have entered, the reallocation of the costs sustained for the enlargement of the headquarters of the Parent company in the specific categories as described above.

## *Equity investments (note 3)*

***Equities in subsidiary companies***

| Company name: | Headquarters | % owned | Value of charge | Equity 31/12/2010 | Result 31/12/2010 | Share of equity | Difference |
|---|---|---|---|---|---|---|---|
| Cynosure | Westford - USA | 23,37% | 9.928.028 | 89.793.233 | -3.372.878 | 20.984.679 | 11.056.651 |
| Deka M.E.L.A. Srl | Calenzano (FI) - Italy | 70,00% | 629.520 | 7.686.150 | 1.282.689 | 5.380.305 | 4.750.785 |
| Cutlite Penta Srl | Calenzano (FI) - Italy | 90,67% | 1.031.053 | 1.293.186 | 191.124 | 1.172.532 | 141.479 |
| Esthelogue Srl (ex Valfivre Italia Srl) | Calenzano (FI) - Italy | 100,00% | 62.633 | 62.745 | -471.986 | 62.745 | 112 |
| Quanta System Spa | Solbiate Olona (VA) - Italy | 60,00% | 2.859.710 | 2.404.990 | -425.739 | 1.442.994 | -1.416.716 |
| Ot-Las Srl | Calenzano (FI) - Italy | 90,00% | 1.481.000 | 1.433.368 | -72.230 | 1.290.031 | -190.969 |
| Lasit SpA | Vico Equense (NA) - Italy | 52,67% | 593.614 | 1.266.380 | 138.275 | 667.002 | 73.388 |
| Deka Technologies Laser Sarl | Lyons - France | 100,00% | 78.545 | 447.469 | 107.174 | 447.469 | 368.924 |
| Deka Lasertechnologie GmbH | Berlin - Germany | 100,00% | | -1.640.124 | -135.522 | -1.640.124 | -1.640.124 |
| Asclepion Laser Technologies GmbH | Jena - Germany | 50,00% | 525.879 | 4.600.837 | 21.612 | 2.300.419 | 1.774.540 |
| BRCT Inc | New York - USA | 100,00% | 205.479 | 1.192.364 | -260.801 | 1.192.364 | 986.885 |
| Deka Laser Technologies Inc | Carlsband - USA | 11,78% | | -1.022.272 | -256.270 | -120.424 | -120.424 |
| Cutlite do Brasil Ltda | Blumenau - Brazil | 78,00% | | 498.605 | 501.768 | 388.912 | 388.912 |
| Deka Japan Co. Ltd | Tokyo - Japan | 55,00% | 42.586 | 486.180 | 392.652 | 267.399 | 224.813 |
| *Total* | | | 17.438.047 | 108.503.111 | -2.360.132 | 33.836.303 | 16.398.256 |

As far as Esthelogue Srl is concerned, on April 26th 2010 the shareholders’ assembly voted to completely cover the losses sustained as per the financial report of December 31st 2009 (for an amount of 263.619,04 Euros) by the partial use of a payment of 300 thousand Euros made by El.En. with the residual amount directed as payment in capital account. At a later date, El.En. SpA provided further financial means to the company and for this purpose gave up part of the interest bearing financing which had earlier been issued for an amount of 400 thousand Euros.

The amount of the equity therefore, as it stood after the above mentioned operations, was then subjected to direct devaluation in order to adapt the value to the corresponding value of the stockholders’ equity of the subsidiary on December 31st 2010.

For Quanta System SpA the difference between the amount entered into accounts and the corresponding fraction of the stockholders' equity is essentially due to the goodwill paid at the time of purchase. The amount of this goodwill is also justified by an analysis of the expected revenue from the company which was conducted using the DCF method and by the capital gains implicit in the equity that Quanta holds in the subsidiary Asclepion.

The equity held in the subsidiary Deka Lasertechnologie GmbH, which has already been subjected to both direct and indirect devaluation on account of the losses incurred in the preceding years, was the subject of a further accrual in the "Reserve for losses by associated companies" for an amount of 135 thousand Euros in consideration of the losses incurred in 2010. As of December 31st 2010, the fund related to this company amounted to 1.640 thousand Euros.

The equity held in the subsidiary BRCT was subjected to direct devaluation for an amount of 447 thousand Euros as a result of the loss in value registered by this company which is related to the losses incurred by its subsidiaries.

The equity held in the subsidiary Deka Laser Technologies Inc, of which El.En. SpA holds 11,78% directly, as a consequence of the losses incurred during 2010, was subjected to direct devaluation, reducing its value to zero. For an amount of 27 thousand Euros and indirectly with an accrual in the "Reserve for losses by group companies" for an amount of 120 thousand Euros.

Lastly, in relation to the equity held in Cutlite do Brasil, in consideration of the positive results obtained during 2010, the entire reserve for losses which had been accrued on December 31st 2009 for an amount of 20 thousand Euros was reversed.

***Equities in associated companies***

| Company Name: | Headquarters | % owned | Value of charge | Equity 31/12/2010 | Result 31/12/2010 | Share of equity | Difference |
|---|---|---|---|---|---|---|---|
| Actis Srl (*) | Calenzano | 12,00% | 1.240 | 105.464 | 21.114 | 12.656 | - 11.416 |
| Elesta Srl (ex IALT Scrl) | Calenzano | 50,00% | - | - 279.096 | - 389.094 | - 139.548 | - 139.548 |
| Immobiliare Del.Co. Srl | Solbiate Olona | 30,00% | 274.200 | 42.024 | 20.411 | 12.607 | - 261.593 |
| S.B.I. SA | Herzele (B) | 50,00% | 69.856 | 139.712 | - 48.938 | 69.856 | - |
| *Totale* | | | 345.296 | 8.104 | - 396.507 | - 44.429 | - 389.725 |

*(*) Dati al December 31st 2009*

The data related to the associated company "Immobiliare Del.Co. Srl", which owns the building rented to Quanta System SpA, shows a difference between the purchase cost and the corresponding amount of the stockholders' equity which is due to the greater value implicit in the lands and the buildings it owns, as revealed during the voluntary re-evaluation of the real estate conducted by the associated company in conformity with D.L. 185/08.

The value of the equity in SBI SA, on December 31st 2010 was subjected to a direct devaluation for the purpose of adjusting the value of the equity to the corresponding fraction of the stockholders' equity.

In relation to the equity held in Elesta it should be recalled that on January 28th 2010 the shareholders' assembly voted to make up for the losses registered in the financial report of December 31st 2009 by reducing the capital stock to zero value, and having the partners pay out the residual amount. They also voted to reconstitute the capital stock to the original amount of 110 thousand Euros, and this amount was entirely underwritten by the partners. As of December 31st 2010 the value of the equity, as it stood after the above mentioned operations, was subjected to a further direct devaluation which reduced the value of the equity to zero and an indirect devaluation with an accrual in the "Reserve for losses by associated companies" for the amount of 139 thousand Euros.

A summary of the data related to associated companies shown in the chart below.

| | Total assets | Total liabilities | Net income (loss) | Revenues and other income | Charges and expenses |
|---|---|---|---|---|---|
| Actis Active Sensors Srl (*) | 237.745 | 132.281 | 21.114 | 124.505 | 103.391 |
| Elesta Srl (ex IALT Scrl) | 1.275.794 | 1.554.890 | -389.094 | 813.555 | 1.202.649 |
| Immobiliare Del.Co. Srl | 2.030.685 | 1.988.661 | 20.411 | 143.938 | 123.527 |
| S.B.I. SA | 394.326 | 254.614 | -48.938 | 128.537 | 177.475 |

*(*) Data available on December 31st 2009*

### *Equities in other companies*

No changes were registered in this category during 2010.

### *Composition of equity investments*

| Company name: | 31/12/09 Cost | 31/12/09 Reval. (Deval.) | 31/12/09 Balance 31/12/09 | Changes | Revaluations (devaluations) | Other movements | 31/12/10 Balance 31/12/10 | 31/12/10 Reval. (Deval.) | 31/12/10 Cost |
|---|---|---|---|---|---|---|---|---|---|
| **Subsidiary companies:** | | | | | | | | | |
| Deka M.E.L.A. Srl | 629.520 | 0 | 629.520 | 0 | 0 | 0 | 629.520 | 0 | 629.520 |
| Cutlite Penta Srl | 1.031.053 | 0 | 1.031.053 | 0 | 0 | 0 | 1.031.053 | 0 | 1.031.053 |
| Esthelogue Srl | 49.583 | -49.583 | 0 | 700.000 | -472.206 | -165.161 | 62.633 | -686.950 | 749.583 |
| Deka Technologies Laser Sarl | 78.545 | 0 | 78.545 | 0 | 0 | 0 | 78.545 | 0 | 78.545 |
| Deka Lasertechnologie GmbH | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Ot-las Srl | 1.481.000 | 0 | 1.481.000 | 0 | 0 | 0 | 1.481.000 | 0 | 1.481.000 |
| Lasit SpA | 593.614 | 0 | 593.614 | 0 | 0 | 0 | 593.614 | 0 | 593.614 |
| Quanta System SpA | 2.859.710 | 0 | 2.859.710 | 0 | 0 | 0 | 2.859.710 | 0 | 2.859.710 |
| Cynosure | 9.928.028 | 0 | 9.928.028 | 0 | 0 | 0 | 9.928.028 | 0 | 9.928.028 |
| Deka Laser technologies INC | 27.485 | 0 | 27.485 | 0 | -27.485 | 0 | 0 | -27.485 | 27.485 |
| BRCT | 652.591 | 0 | 652.591 | 0 | -447.112 | 0 | 205.479 | -447.112 | 652.591 |
| Asclepion Laser T. GmbH | 525.879 | 0 | 525.879 | 0 | 0 | 0 | 525.879 | 0 | 525.879 |
| Cutlite do Brasil Ltda | 440.969 | -440.969 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deka Japan Ltd | 42.586 | 0 | 42.586 | 0 | 0 | 0 | 42.586 | 0 | 42.586 |
| *Total* | 18.340.563 | -490.552 | 17.850.011 | 700.000 | -946.803 | -165.161 | 17.438.047 | -1.161.547 | 18.599.594 |
| **Associated companies:** | | | | | | | | | |
| Actis Srl | 1.240 | 0 | 1.240 | 0 | 0 | 0 | 1.240 | 0 | 1.240 |
| Elesta Srl (ex IALT scrl) | 55.000 | -55.000 | 0 | 170.361 | -55.000 | -115.361 | 0 | -225.361 | 225.361 |
| Immobiliare Del.Co. | 274.200 | 0 | 274.200 | 0 | 0 | 0 | 274.200 | 0 | 274.200 |
| Sbi International | 300.000 | -205.675 | 94.325 | 0 | -24.468 | 0 | 69.857 | -230.143 | 300.000 |
| *Total* | 630.440 | -260.675 | 369.765 | 170.361 | -79.468 | -115.361 | 345.297 | -455.504 | 800.801 |
| **Other companies:** | | | | | | | | | |
| Concept Laser Solutions GmbH | 19.000 | 0 | 19.000 | 0 | 0 | 0 | 19.000 | 0 | 19.000 |
| Alfa Laser Srl | 19.950 | 0 | 19.950 | 0 | 0 | 0 | 19.950 | 0 | 19.950 |
| CALEF | 3.402 | 0 | 3.402 | 0 | 0 | 0 | 3.402 | 0 | 3.402 |
| R&S | 516 | 0 | 516 | 0 | 0 | 0 | 516 | 0 | 516 |
| RTM | 66.212 | 0 | 66.212 | 0 | 0 | 0 | 66.212 | 0 | 66.212 |
| *Total* | 109.080 | 0 | 109.080 | 0 | 0 | 0 | 109.080 | 0 | 109.080 |
| *Total* | 19.080.083 | -751.227 | 18.328.856 | 870.361 | -1.026.271 | -280.522 | 17.892.424 | -1.617.051 | 19.509.475 |

During this year direct devaluations of equities for about 1 million Euros have been entered in the statement of income. The column showing Other movements includes the adaptation of the value made on equities using the “Reserve for losses by group companies “ accrued at the end of last year.

### *Financial charges for this year for the amounts entered among the assets*

No financial charges have been entered under the heading of assets.

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

| *Other non current assets* | **31/12/2010** | **31/12/2009** | **Variation** | **Var. %** |
|---|---|---|---|---|
| Financial receivables vs subsidiaries | 154.477 | 517.644 | -363.167 | -70,16% |
| Financial receivables vs associated | | 29.576 | -29.576 | -100,00% |
| Deferred tax assets | 1.476.317 | 1.317.015 | 159.302 | 12,10% |
| Other non current assets | 3.108 | 3.108 | 0 | 0,00% |
| *Total* | 1.633.902 | 1.867.343 | -233.441 | -12,50% |

The financial receivables are related to mid-term financing issued to subsidiary and associated companies in order to pay for normal operating expenses. The amount entered on December 31st 2010 refers to financing issued to Deka Laser Technologies for 185 thousand dollars to be reimbursed at an annual rate of 2,5%.
The difference with respect to December 31st 2009 shown in the column "Variations" shows the amount of financing issued to Deka Lasertechnologie GmbH for 385 thousand Euros and to Actis for about 30 thousand Euros, reimbursed during 2010.

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:* | 31/12/10 | 31/12/09 | Variation | Var. % |
|---|---|---|---|---|
| Raw materials and consumables | 10.048.531 | 9.203.185 | 845.346 | 9,19% |
| Work in progress and semi finished products | 5.286.603 | 4.847.366 | 439.237 | 9,06% |
| Finished products and goods for sale | 2.897.319 | 2.828.145 | 69.174 | 2,45% |
| *Total* | 18.232.453 | 16.878.696 | 1.353.757 | 8,02% |

The comparison between the final inventories shows the increase in their amount, which is in part due to the increase in the volume of business.

It should also be pointed out that the values shown in the chart above are net of the devaluation provision which registered an increase as shown in the chart below:

| *Inventory:* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Gross amount | 21.885.393 | 20.241.864 | 1.643.529 | 8,12% |
| minus: devaluation provision | -3.652.940 | -3.363.168 | -289.772 | 8,62% |
| *Total* | 18.232.453 | 16.878.696 | 1.353.757 | 8,02% |

The incidence of the reserve for obsolescence on the gross value of the inventory as of December 31st 2010 was 16,7%, which was essentially unchanged with respect to December 31st 2009.

## Commercial receivables (note 6)

Receivables are composed as follows:

| *Debtors:* | 31/12/10 | 31/12/09 | Variation | Var. % |
|---|---|---|---|---|
| Trade debtors | 3.196.752 | 4.162.531 | -965.779 | -23,20% |
| Subsidiary debtors | 26.338.967 | 17.722.803 | 8.616.164 | 48,62% |
| Associated debtors | 778.926 | 643.083 | 135.843 | 21,12% |
| *Total* | 30.314.645 | 22.528.417 | 7.786.228 | 34,56% |

| *Trade debtors:* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Italy | 2.484.205 | 2.509.600 | -25.395 | -1,01% |
| European Community | 1.540.593 | 2.063.116 | -522.523 | -25,33% |
| Outside of European Community | 548.665 | 820.855 | -272.190 | -33,16% |
| minus: devaluation provision for debtors | -1.376.711 | -1.231.040 | -145.671 | 11,83% |
| *Total* | 3.196.752 | 4.162.531 | -965.779 | -23,20% |

The trade receivables from subsidiary and associated companies are inherent to the characteristic management operations.

The chart below shows the operations which took place this year in the provision for bad debts .

| *Provision for bad debts* | **2010** | **2009** |
|---|---|---|
| **At the beginning of the period** | **1.231.040** | **969.418** |
| Amounts accrued | 158.457 | 480.797 |
| Amounts utilized | -12.786 | -219.175 |
| Unused amounts reversed | | |
| Other operations | | |
| Translation adjustment | | |
| **At the end of the period** | **1.376.711** | **1.231.040** |

The chart below shows the trade receivables from third parties for 2010 divided according to the type of currency.

| **Account receivables in:** | **31/12/2010** | **31/12/2009** |
|---|---|---|
| Euro | 2.907.584 | 3.815.220 |
| USD | 289.168 | 346.794 |
| Other currencies | | 517 |
| **Total** | 3.196.752 | 4.162.531 |

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 2010 and December 31st 2009.

The chart below shows the analysis of the trade receivables from third parties and from subsidiary companies for 2009:

| *Account receivables vs. third parties:* | **31/12/2010** | **31/12/2009** |
|---|---|---|
| **To expire** | 1.169.204 | 1.592.548 |
| **Expired:** | | |
| *30 days* | 536.826 | 578.558 |
| *60 days* | 250.034 | 509.595 |
| *90 days* | 311.760 | 175.350 |
| *180 days* | 379.687 | 418.009 |
| *over 180 days* | 549.241 | 888.471 |
| **Total** | 3.196.752 | 4.162.531 |

| *Account receivables from subsidiaries:* | **31/12/2010** | **31/12/2009** |
|---|---|---|
| **To expire** | 8.544.891 | 6.167.513 |
| **Expired:** | | |
| *30 days* | 1.757.821 | 690.413 |
| *60 days* | 1.059.287 | 554.544 |
| *90 days* | 838.420 | 724.245 |
| *180 days* | 3.965.147 | 1.587.138 |
| *over 180 days* | 10.173.401 | 7.998.950 |
| **Total** | 26.338.967 | 17.722.803 |

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:

| | 31/12/2010 | 31/12/2009 | Variation | Variation % |
|---|---|---|---|---|
| <u>Tax debtors</u> | | | | |
| VAT credits | 2.294.237 | 1.219.442 | 1.074.795 | 88,14% |
| Income tax credits | 6.153 | 949.817 | -943.664 | -99,35% |
| *Total tax debtors* | 2.300.390 | 2.169.259 | 131.131 | 6,04% |

| | | | | |
|---|---|---|---|---|
| <u>Financial receivables</u> | | | | |
| Financial receivables from third parts | 20.000 | 20.000 | - | 0,00% |
| Financial receivables from subsidiary companies | 3.167.688 | 3.195.118 | -27.430 | -0,86% |
| Financial receivables from associated companies | 13.565 | 13.565 | - | 0,00% |
| *Total* | 3.201.253 | 3.228.683 | -27.430 | -0,85% |
| | | | | |
| <u>Other receivables</u> | | | | |
| Security deposits | 25.993 | 30.253 | -4.260 | -14,08% |
| Down payments | 296.513 | 224.343 | 72.170 | 32,17% |
| Other credits | 401.431 | 398.256 | 3.175 | 0,80% |
| Other credits from subsidiary companies | 96.000 | | 96.000 | 0,00% |
| *Total* | 819.937 | 652.852 | 71.085 | 10,89% |
| | | | | |
| *Total financial and other receivables* | 4.021.190 | 3.881.535 | 139.655 | 3,60% |

The amount entered among the "tax credits" related to Value Added Tax (IVA) is the natural effect of the large amount of exports which characterize the sales volume of the company and the difficulty in obtaining reimbursements beyond those which are compensated annually.

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 | 500 | Euro | BCE + 1% |
| Cutlite Penta Srl | 500 | Euro | BCE + 1% |
| Esthelogue Srl | 450 | Euro | BCE + 1% |
| Deka Laser Technologies INC | 309 | USD | 2,50% |
| BRCT Inc. | 360 | USD | 2,50% |
| Lasit SpA | 203 | Euro | BCE + 1% |
| Quanta System SpA | 330 | Euro | BCE + 1% |
| Deka Medical Inc | 200 | USD | 2,50% |
| Raylife Srl | 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 at Bank and on Hand (note 9)*

Cash at bank and on hand is composed as follows:

| *Cash at Bank and in hand:* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| bank and postal current accounts | 4.913.193 | 7.610.593 | -2.697.400 | -35,44% |
| cash in hand | 5.367 | 7.881 | -2.514 | -31,90% |
| *Total* | 4.918.560 | 7.618.474 | -2.699.914 | -35,44% |

For an analysis of the variations in cash at bank and on hand, please refer to the statement of cash flows; in any case it should be noted that the bank deposits are not binding.

### *Net financial position as of December 31st 2010*

The net financial position as of December 31st 2010 is composed as follows (in thousands of Euros).

| **Net financial position** | | |
|---|---|---|
| | **31/12/2010** | **31/12/2009** |
| Cash and bank | 4.919 | 7.618 |
| **Cash and cash equivalents** | **4.919** | **7.618** |
| **Short term financial receivables** | **20** | **20** |
| Part of financial long term liabilities due within 12 months | (96) | (89) |
| **Financial short term liabilities** | **(96)** | **(89)** |
| **Net current financial position** | **4.842** | **7.550** |
| Other long term financial liabilities | (66) | (136) |
| **Financial long term liabilities** | **(66)** | **(136)** |
| **Net financial position** | **4.776** | **7.414** |

The net financial position remains positive for an amount of over 4,7 million Euros, but it shows a decrease of 2,6 million Euros with respect to last year. The use of cash was due mainly to the increase in the volume of business with the consequent increase in net working capital, also on account of the financial support that El.En. gives to the other companies in the Group through credit on sales. In any case, for this year the investments related to the enlargement of the building complex in Calenzano were also considerable.

Financial receivables from subsidiary and associated companies for an amount of 3.181 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.

# Comments on the main liability entries

## Capital and Reserves

The main components of the stockholders' equity are shown on the chart below:

## Capital stock (note 10)

As of December 31st 2010, 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*** |

| *Categories* | **31/12/2009** | **Increase.** | **(Decrease.)** | **31/12/2010** |
|---|---|---|---|---|
| No. of Ordinary Shares | 4.824.368 | | | 4.824.368 |
| *Total* | **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 stockholders' 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.

The Board of Directors of El.En. SpA, with the vote taken on July 15th 2008, implemented the authority of the shareholders assembly 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 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.

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

On December 31st 2010 the share premium reserve amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2009.

## *Other reserves (note 12)*

| Other reserves | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Legal reserve | 537.302 | 537.302 | | 0,00% |
| Extraordinary reserve | 33.663.109 | 33.302.687 | 360.422 | 1,08% |
| Stock options reserve fund | 1.494.320 | 1.309.386 | 184.934 | 14,12% |
| Reserve for contributions on capital account | 426.657 | 426.657 | | 0,00% |
| Other reserves | 13.393 | 13.395 | -2 | -0,01% |
| *Total* | 36.134.781 | 35.589.427 | 545.354 | 1,53% |

On December 31st 2010, the "extraordinary reserve" amounted to 33.663 thousand Euros; the change which occurred during the financial year is due to the addition to the reserve of part of the profit of 2009, as per the decision of the shareholders' meeting on April 30th 2010.

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 2010. The change of 185 thousand Euros, which took place during the year, is entered in the chart of the stockholders' equity in the "Other operations" column.

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

## *Treasury stock (note 13)*

On March 3rd 2008, the shareholders' assembly 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 2357and 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 and these shares are still held in the portfolio of the company.
Upon request of the Board of Directors, the Shareholders' Assembly 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.

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

The entry includes the rectifications of the stockholders' 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.

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

| *NET CAPITAL AND RESERVES:* | **Balance 31/12/2010** | **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 | | | | | |
| *Other reserves:* | | | | | |
| Extraordinary reserves | 33.663.109 | ABC | 31.087.498 | | |
| Reserve for contribution on capital account | 426.657 | ABC | 426.657 | | |
| Profits (loss) brought forward | -920.544 | ABC | -920.544 | | |
| Other reserves | 1.507.713 | ABC | 1.507.712 | | |
| | | | **70.694.941** | **0** | **0** |
| Portion not distributable | | | | | |
| Portion distributable | | | **70.694.941** | | |

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 2.576 thousand Euros.

# Non-current liabilities

# Severance indemnity fund (note 15)

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

| Balance 31/12/2009 | Accrual | Utilization | Payment to complementary pension forms, to INPS fund and other movements | Balance 31/12/2010 |
|---|---|---|---|---|
| 967.881 | 444.381 | -70.457 | -407.276 | 934.529 |

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 or in other cases according to the law.

For IAS purposes the payment of a severance indemnity represents a "long term benefit subsequent to the termination of employment"; this is an obligation of the "defined benefit" type which entails entering a liability similar to that entered for defined benefit pension plans.

After the modifications to the severance indemnity in conformity with the Law of December 27$^{th}$ 2006 (and later modifications), for IAS purposes, only the liability relative to the matured severance fund left in the company has been evaluated because the quota maturing has been paid to a separate entity (complementary pension type). Also for employees who have explicitly decided to keep the indemnity fund in the company, the indemnity has matured since January 1$^{st}$ 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 surplus and deficit is not registered until it exceeds in absolute terms 10% of the current value of the liabilities. On December 31$^{st}$ 2010 the net accumulated value of the actuarial profits not registered was equal to 79 thousand Euros. The present value of the liabilities as of December 31$^{st}$ 2010 was 842 thousand Euros.

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

| **Financial hypotheses** | **Year 2009** | **Year 2010** |
|---|---|---|
| Annual implementation rate | 4,25% | 4,50% |
| Annual inflation rate | 1,50% | 2,00% |
| Annual increase rate of salaries (including inflation) | Executives 4%<br>White collar workers 2,50%<br>Blue collar workers 2,50% | Executives 4%<br>White collar workers 2,50%<br>Blue collar workers 2,50% |

## *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 he chart below.

| | Balance 31/12/2009 | Accrual | (Utilization) | Other | Balance 31/12/2010 |
|---|---|---|---|---|---|
| Deferred tax assets on inventory devaluations | 952.931 | 81.253 | -5.782 | | 1.028.402 |
| Deferred tax assets on warranty reserve | 75.360 | 9.420 | | | 84.780 |
| Deferred tax assets on bad debt reserve | 305.866 | | | | 305.866 |
| Deferred tax assets on severance indemnity provision discount | -23.119 | | | | -23.119 |
| Other deferred tax assets | 5.977 | 74.995 | -584 | | 80.388 |
| *Total* | 1.317.015 | 165.668 | -6.366 | 0 | 1.476.317 |
| Deferred tax liabilities on advanced depreciations | 74.119 | | -1.298 | 97.826 | 170.647 |
| Deferred tax liabilities for contributions on capital account | | 143.500 | | | 143.500 |
| Other deferred tax liabilities | 192.955 | 43.947 | -12.672 | -97.826 | 126.404 |
| *Total* | 267.074 | 187.447 | -13.970 | 0 | 440.551 |
| *Net amount* | 1.049.941 | -21.779 | 7.604 | 0 | 1.035.766 |

Deferred tax assets amounted to 1.476 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 inventory devaluation, for accruals related to product guarantees and for remuneration recognized (but not paid in 2010) as incentive bonuses to some members of the Board of Directors and to the President of the Scientific Commission. Deferred tax liabilities were 441 thousand Euros. The accruals are related to the deferring of taxes on the contributions in capital account entered into accounts in 2010 and to the differences in the Exchange rate which were not realized; the utilizations are mostly due to the difference in the civil and fiscal value on warehouse inventory and on the depreciatons.

## *Other accruals (note 17)*

The chart below shows the operations made with other accruals.

| | Balance 31/12/2009 | Accrual | (Utilisation) | Other | Translation Adjustments | Balance 31/12/2010 |
|---|---|---|---|---|---|---|
| Reserve for pension costs and similar | 22.612 | 22.581 | | -19.500 | | 25.693 |
| *Others:* | | | | | | |
| Warranty reserve on the products | 240.001 | 30.000 | | | | 270.001 |
| Reserve for risks and charges | 50.000 | | -25.000 | -25.000 | | |
| Other minor reserves | 1.831.056 | 395.492 | -306.555 | -19.899 | | 1.900.094 |
| *Total other reserves* | 2.121.057 | 425.492 | -331.555 | -44.899 | - | 2.170.095 |
| *Total* | 2.143.669 | 448.073 | -331.555 | -64.399 | - | 2.195.788 |

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 2009 | Year 2010 |
|---|---|---|
| Annual rate of implementation | 4,25% | 4,50% |
| Annual rate of inflation | 1,50% | 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 covering operations of the associated companies Esthelogue Srl and Elesta srl and also described in note 3 above.

On February 28th 2008, after conducting a general control for the year 2005, the regional tax authorities (*Direzione Regionale delle Entrate per la Toscana*), entered a protest report (*Processo Verbale di Constatazione* or PVC) against El.En. SpA. In this report, besides a few minor violations related to income taxes and VAT, the agency stated that refused to recognize the exemption from taxes of the capital gains derived from the sale of some shares made by El.En. SpA in 2005. On June 3rd 2010 the company received a tax assessment notice for a total of 3 million Euros plus interest and fines, in which the provincial tax authorities (*Direzione Provinciale delle Entrate*) acknowledged and took on the protests raised in the PVC. This assessment was firmly contested by the company and following a law suit it was possible to settle the entire assessment with a payment of 359 thousand Euros including fines and interest, and thus definitively conclude the litigation.

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

The chart below shows the breakdown of the amounts owed:

| *Financial m/l term debts* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Amounts owed for leasing | 20.573 | | 20.573 | |
| Amounts owed to other financiers | 45.819 | 136.100 | -90.281 | -66,33% |
| *Total* | 66.392 | 136.100 | -69.708 | -51,22% |

The amounts owed to leasing companies represent the effects of the entering into accounts of the contract for financial leasing for a motor vehicle underwritten by the company this year, in compliance with IAS 17.

Among the non-current debts, there are amounts owed to other financers for amount not due within the year for facilitated financing MPS for applied research, reference TRL01, granted for an amount of 681.103 Euros at a fixed annual rate of' 2% , last installment July 1st 2012.

# Current liabilities

## Financial debts (note 19)

| *Financial short term debts* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Amount owed for leasing | 6.046 | | 6.046 | |
| Amounts owed to other financiers | 90.281 | 88.502 | 1.779 | 2,01% |
| *Total* | 96.327 | 88.502 | 7.825 | 8,84% |

The entries “amounts owed to leasing companies” and “amounts owed to other financiers” include the short-term financings described in the note above.

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 |
|---|---|---|---|---|---|---|
| MPS TRL 01 Loan | 01/07/2012 | 2,00% | 136.100 | 90.281 | 45.819 | |
| Leasing | | | 26.619 | 6.046 | 20.573 | |
| *Total* | | | 162.719 | 96.327 | 66.392 | 0 |

The amount entered in the column “amount within 1 year” consists of the amount of the short term installments related to the mid-term financing received.

***Long term financial operations***
During this financial year the following mid/long-term financial movements occurred. The balances include the short term capital amounts but do not include debts for interests.

| | Balance 31/12/2009 | Increase | Reimbursement | Other | Balance 31/12/2010 |
|---|---|---|---|---|---|
| MPS TRL 01 Loan | 224.602 | | -88.502 | | 136.100 |
| Leasing | | 31.577 | -4.958 | | 26.619 |
| *Total* | 224.602 | 31.577 | -93.460 | - | 162.719 |

***Debts guaranteed by real estate property***
The property located in Via Baldanzese, 17 at Calenzano was bound by a mortgage, now being cancelled, which was used as a guarantee for the ten-year loan issued by the Cassa di Risparmio di Firenze and extinguished on December 31st 2006.

## Amounts owed for supplies (note 20)

| *Trade debts:* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Amounts owed to suppliers | 9.427.847 | 5.919.349 | 3.508.498 | 59,27% |
| Amounts owed to subsidiary companies | 1.257.266 | 1.911.730 | -654.464 | -34,23% |
| Amounts owed to associated companies | 69.444 | 45.300 | 24.144 | 53,30% |
| *Total* | 10.754.557 | 7.876.379 | 2.878.178 | 36,54% |

The rise in the sales volume comported an increase in the volume of purchases and consequently also of amounts owed to third parties for supplies.

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 chart below shows a detailed breakdown of the trade debts for 2010 to third parties divided according to the type of currency.

| Account payables in: | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Euro | 9.200.316 | 5.672.591 |
| USD | 173.576 | 182.569 |
| Other currencies | 53.955 | 64.189 |
| **Total** | 9.427.847 | 5.919.349 |

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 2010 and on December 31st 2009.

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

The breakdown of the other short term debts is the following:

| | 31/12/2010 | 31/12/2009 | Variation | Variation % |
|---|---|---|---|---|
| Social security debts | | | | |
| Debts owed to INPS | 661.463 | 511.242 | 150.221 | 29,38% |
| Debts owed to INAIL | 59.642 | 71.609 | -11.967 | -16,71% |
| Debts owed to other Social Security Institutions | 86.942 | 79.938 | 7.004 | 8,76% |
| *Total* | 808.047 | 662.789 | 145.258 | 21,92% |
| Other debts | | | | |
| Debts owed to tax administration for VAT | 2.519 | 5.420 | -2.901 | -53,52% |
| Debts owed to tax administration for deductions | 457.797 | 457.913 | -116 | -0,03% |
| Other tax debts | | 12.991 | -12.991 | -100,00% |
| Owed to staff for wages and salaries | 1.000.082 | 795.173 | 204.909 | 25,77% |
| Down payments | 525.955 | 56.085 | 469.870 | 837,78% |
| Other debts | 535.295 | 497.893 | 37.402 | 7,51% |
| *Total* | 2.521.648 | 1.825.475 | 696.173 | 38,14% |
| *Total Social security debts and other debts* | 3.329.695 | 2.488.264 | 841.431 | 33,82% |

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 2010.

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).

*Analysis of debts according to due date*

| | 31/12/2010 | | | 31/12/2009 | | |
|---|---|---|---|---|---|---|
| | **Within 1 year** | **From 1 to 5 years** | **More than 5 years** | **Within 1 year** | **From 1 to 5 years** | **More than 5 years** |
| Amounts owed to leasing company | 6.046 | 20.573 | | | | |
| Amounts owed to other financiers | 90.281 | 45.819 | | 88.502 | 136.100 | |
| Amounts owed to suppliers | 9.427.847 | | | 5.919.349 | | |
| Amounts owed to subsidiary companies | 1.258.647 | | | 1.913.574 | | |
| Amounts owed to associated companies | 69.444 | | | 45.300 | | |
| Income taxes debts | 565.127 | | | | | |
| Amounts owed to social security institutions | 808.047 | | | 662.789 | | |
| Other liabilities | 2.520.267 | | | 1.823.631 | | |
| *Total* | 14.745.706 | 66.392 | 0 | 10.453.145 | 136.100 | 0 |

# Comments on the main entries in the statement of income

## Revenue (note 22)

| | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Sales of industrial laser systems | 8.432.122 | 4.842.384 | 3.589.738 | 74,13% |
| Sales of medical laser systems | 30.622.678 | 25.818.805 | 4.803.873 | 18,61% |
| Service and sales of spare parts | 6.492.360 | 5.431.272 | 1.061.088 | 19,54% |
| *Total* | 45.547.160 | 36.092.461 | 9.454.699 | 26,20% |

After having been hit very hard by the international crisis in 2009, during 2010 the sales volume showed a significant recovery and was registered for an amount of 45 million Euros. For detailed comments on the revenue, see the director's report on operations.

***Subdivision of revenue by geographical area***

| | 31/12/10 | 31/12/09 | Variation | Var. % |
|---|---|---|---|---|
| Sales in Italy | 26.730.386 | 19.956.795 | 6.773.591 | 33,94% |
| Sales other EC countries | 7.523.511 | 8.078.979 | -555.468 | -6,88% |
| Sales outside EC | 11.293.263 | 8.056.687 | 3.236.576 | 40,17% |
| *Total* | 45.547.160 | 36.092.461 | 9.454.699 | 26,20% |

The Italian market, which is mainly made up of the Italian companies of the Group, showed a growth rate of about 34% and, as in previous years, remains the prevalent one although it should be noted that a large part of the production which is invoiced to the companies of the Group is later distributed abroad. The growth of exports outside of the European Union is due among other things to the positive trend in the sales in the industrial sector in China and Brazil.

## Other revenue and income (note 23)

Analysis of the other income is as follows:

| | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Recovery for accidents and insurance reimbursements | 3.610 | 3.270 | 340 | 10,40% |
| Expense recovery | 86.220 | 79.564 | 6.656 | 8,37% |
| Capital gains on disposal of fixed assets | 41.806 | 30.844 | 10.962 | 35,54% |
| Other income | 1.038.711 | 1.127.726 | -89.015 | -7,89% |
| *Total* | 1.170.347 | 1.241.404 | -71.057 | -5,72% |

In the category of "Other income" we have entered income for an amount of about 652 thousand Euros for a grant received for financing, in particular, on the following research projects:
-TROPHOS project – Tissue Regeneration Outcomes by Proteomics after High-Tech Optronic System Stimulation – Proteomic evalution of tissue re generation stimulated by highly innovative optronic systems – admitted by the Region of Tuscany for financing as a grant with Decree 5084 of October 2$^{nd}$ 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 31$^{st}$ 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 2$^{nd}$ 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 31$^{st}$ 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 27$^{th}$ 2009, on the basis of the contest

related to 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.

## *Costs for the purchase of goods (note 24)*

The analysis of these purchase is shown on the chart below.

| | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Purchase of raw materials and finished products | 23.730.732 | 13.312.946 | 10.417.786 | 78,25% |
| Purchase of packaging | 236.431 | 167.939 | 68.492 | 40,78% |
| Shipment charges on purchases | 260.829 | 196.512 | 64.317 | 32,73% |
| Other purchase expenses | 138.654 | 86.847 | 51.807 | 59,65% |
| Other purchases | 52.668 | 59.536 | -6.868 | -11,54% |
| *Total* | 24.419.314 | 13.823.780 | 10.595.534 | 76,65% |

The increase in the number of purchases is a direct consequence of the rise in the sales volume and is reflected, among other things, also in the final inventory at the end of the period.

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

Breakdown of this category is shown on the chart below:

| | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| *Direct services* | | | | |
| Assemblies outsourcing to third parties | 2.798.355 | 1.756.943 | 1.041.412 | 59,27% |
| Technical services | 188.293 | 161.980 | 26.313 | 16,24% |
| Shipment charges on sales | 366.584 | 379.167 | -12.583 | -3,32% |
| Commissions | 152.586 | 131.090 | 21.496 | 16,40% |
| Travel expenses | 184.027 | 120.436 | 63.591 | 52,80% |
| Other direct services | 110.049 | 190.490 | -80.441 | -42,23% |
| *Total* | *3.799.894* | *2.740.106* | *1.059.788* | *38,68%* |
| *Operating services and charges* | | | | |
| Maintenance and technical assistance on equipments | 299.366 | 187.683 | 111.683 | 59,51% |
| Services and commercial consulting | 169.240 | 219.120 | -49.880 | -22,76% |
| Legal and administrative services | 478.682 | 458.696 | 19.986 | 4,36% |
| Auditing fees and charges | 97.391 | 97.368 | 23 | 0,02% |
| Insurances | 148.659 | 97.262 | 51.397 | 52,84% |
| Travel and overnight expenses | 337.410 | 311.284 | 26.126 | 8,39% |
| Promotional and advertising expenses | 554.740 | 568.850 | -14.110 | -2,48% |
| Building charges | 594.285 | 533.490 | 60.795 | 11,40% |
| Other taxes | 34.513 | 22.577 | 11.936 | 52,87% |
| Expenses for vehicles | 185.875 | 156.294 | 29.581 | 18,93% |
| Office supplies | 42.223 | 42.201 | 22 | 0,05% |
| Hardware and Software assistance | 103.523 | 113.290 | -9.767 | -8,62% |
| Bank charges | 19.029 | 32.042 | -13.013 | -40,61% |
| Rent | 83.051 | 66.123 | 16.928 | 25,60% |
| Other operating services and charges | 2.525.055 | 2.109.200 | 415.855 | 19,72% |
| *Total* | *5.673.042* | *5.015.480* | *657.562* | *13,11%* |

The most significant changes in the category of "other direct services" is related to the "expenses for work by third parties" which increased because of the rise in business volume and the fact that some phases of the production cycle which last year had been performed inside the factory were again outsourced.

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 601 thousand

Euros; costs of technical and scientific consulting and studies and research amounted to about 524 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.

| Operating lease commitments: | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Within one year | 171.558 | 177.165 |
| After 1 year but not more than 5 years | 180.087 | 210.540 |
| More than five years | | |
| **Total** | **351.645** | **387.705** |

# *Personnel costs (note 26)*

The chart below shows the costs for staff:

| *For staff costs* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Wages and salaries | 6.731.139 | 6.246.769 | 484.370 | 7,75% |
| Social security costs | 2.095.864 | 1.941.619 | 154.245 | 7,94% |
| Accruals for severance indemnity | 408.019 | 395.834 | 12.185 | 3,08% |
| Stock options | 174.531 | 174.531 | - | 0,00% |
| *Total* | 9.409.553 | 8.758.753 | 650.800 | 7,43% |

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

The table below shows the breakdown for this category:

| *Depreciations, amortizations, and other accruals* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| Amortization of intangible assets | 16.066 | 12.265 | 3.801 | 30,99% |
| Depreciation of tangible assets | 896.651 | 833.595 | 63.056 | 7,56% |
| Accrual for risk on receivables | 158.457 | 480.797 | -322.340 | -67,04% |
| Other accruals for risks and charges | 5.000 | -50.000 | 55.000 | -110,00% |
| *Total* | 1.076.174 | 1.276.657 | -200.483 | -15,70% |

## *Financial incomes and charges (note 28)*

The breakdown of the category is as follows:

| | 31/12/2010 | 31/12/2009 | Variation | Var.% |
|---|---|---|---|---|
| **Financial incomes:** | | | | |
| Interests from banks | 18.737 | 71.900 | -53.163 | -73,94% |
| Dividends | 35.000 | 175.000 | -140.000 | -80,00% |
| Interests from subsidiary company | 77.228 | 77.018 | 210 | 0,27% |
| Interests from associated company | 170 | 1.209 | -1.039 | -85,94% |
| Foreign exchange gain | 652.055 | 562.084 | 89.971 | 16,01% |
| Other financial incomes | 400 | 124 | 276 | 222,58% |
| *Total* | 783.590 | 887.335 | -103.745 | -11,69% |
| **Financial charges:** | | | | |
| Interest on bank debts for account overdraft | | -9 | 9 | -100,00% |
| Interest on bank debts for medium and long - term loans | -4.052 | -5.796 | 1.744 | -30,09% |
| Foreign exchange loss | -184.520 | -374.817 | 190.297 | -50,77% |
| other financial charges | -69.023 | -44.018 | -25.005 | 56,81% |
| *Total* | -257.595 | -424.640 | 167.045 | -39,34% |

During this year dividends from subsidiaries were entered into accounts for an amount of 35 thousand Euros distributed by the subsidiary company Deka M.E.L.A. Srl.

The entry “other financial charges” includes for an amount of about 36 thousand Euros circa, the entering into accounts of interest charges derived from the application of accounting principal IAS 19 to the severance indemnity.

## *Other net income and charges (note 29)*

| | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| <u>*Other charges*</u> | | | | |
| Accrual for losses in group companies | -375.594 | -655.514 | 279.920 | -42,70% |
| Devaluation of equity investments | -1.026.271 | -194.599 | -831.672 | 427,38% |
| *Total* | **-1.401.865** | **-850.113** | **-551.752** | **64,90%** |
| <u>*Other income*</u> | | | | |
| Profit on equity investments | | 525 | -525 | -100,00% |
| *Total* | | **525** | **-525** | **-100,00%** |

The entry of “Accruals for losses in Group companies” includes the relative cost of a further (indirect) devaluation with accrual in the” Reserve for losses by Group companies” for an amount of 136 thousand Euros for Deka Lasertechnologie GmbH, 120 thousand Euros for Deka Laser Technologies Inc., and 139 thousand Euros for the associated company Elesta Srl; it also includes the reversal of the reserve of 20 thousand Euros accrued last year for the subsidiary Cutlite do Brasil Ltda; this reversal was made in consideration of the positive results achieved by the subsidiary in 2010.

The entry under “Devaluations of equity investments” is related to the devaluation made on the value of the equities held in Esthelogue Srl for 472 thousand Euros, in BRCT for 447 thousand Euros, in Deka Laser Technologies Inc. for 28 thousand Euros, in Elesta Srl for 55 thousand Euros and in SBI SA for 24 thousand Euros, due to the losses incurred this year.

## *Income taxes (note 30)*

| *Description:* | 31/12/2010 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|
| IRES | 1.224.189 | 744.293 | 479.896 | 64,48% |
| IRAP | 401.010 | 306.599 | 94.411 | 30,79% |
| IRES Deferred (Advanced) | 12.379 | -96.151 | 108.530 | -112,87% |
| IRAP Deferred (Advanced) | 1.796 | 71.029 | -69.233 | -97,47% |
| Taxes related to the previous years | 301.652 | -62.774 | 364.426 | -580,54% |
| *Total income taxes* | 1.941.026 | 962.996 | 978.030 | 101,56% |

The fiscal costs for this year amounted to 1.941 thousand Euros as opposed to the 963 thousand Euros for last year; the tax rate which fell from 72,78% in 2009 to 64,64% for this year, was mainly influenced by the effect of the devaluation made on the value of the equity investments held by the company, as described above. The amount entered under the heading of "Taxes related to the previous year" is related to the charges derived from the closure of the litigation as described in note 17 above.

The chart below shows the reconciliation between the theoretical fiscal aliquots and the actual aliquot limited to the income tax of the companies (IRES).

| | 2010 | 2009 |
|---|---|---|
| Risultato Ante Imposte | 3.002.698 | 1.323.418 |
| Aliquota Ires | 27,50% | 27,50% |
| Ires Teorica | 825.742 | 363.940 |
| Oneri fiscali non ripetibili | 301.652 | |
| Maggiore (minore) incidenza fiscale rispetto all'aliquota teorica | 414.984 | 288.360 |
| Oneri fiscale effettivo | 1.542.378 | 652.300 |
| Aliquota Ires Effettiva | 51% | 49% |

The breakdown of the composition of deferred tax assets and liabilities is shown in the note above (16). The heading "Income taxes" includes the balance related to this financial year.

## *Dividends distributed (note 31)*

The shareholders' assembly of El.En. Spa which met on April 30th 2009 voted to distribute a dividend of 0,30 Euros per share in circulation on the maturity date. The dividend paid amounted to 1.416.366 Euros.

The shareholders' assembly of El.En. Spa which met on April 30th 2010 voted to not distribute any dividends.

## *Non-recurring significant, atypical or unusual events and operations (note 32)*

During 2010 and 2009 no significant non-recurring atypical and/or unusual operations were made.

## *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 as shown in this document;
- the members of the Board of Directors and Board of Statutory Auditors and the other executives with strategic responsibilities;
- 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 one of the El.En. shareholders belonging to the voting syndicate, by a member of the Board of Directors, by a member of the Board of Statutory Auditors, by any other of the executives with strategic responsibilities.

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 $CO_2$ laser sources which constitute a fundamental component in the products manufactured by Cutlite Penta Srl, Ot-Las 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 Deka M.E.L.A. Srl, to Esthelogue Srl, to Deka Tecnologies Laser Sarl, to Deka 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 different 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 Deka Mela 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

| | **Financial receivables** | | **Commercial receivables** | |
|---|---|---|---|---|
| **Subsidiary companies:** | **< 1 year** | **> 1 year** | **< 1 year** | **> 1 year** |
| Cynosure | | | 1.476.176 | |
| Asclepion Laser Technologies GmbH | 500.000 | | 1.092.329 | |
| Deka MELA Srl | | | 4.395.291 | |
| Cutlite Penta Srl | 500.000 | | 5.914.908 | |
| Esthelogue Srl | 450.000 | | 1.997.533 | |
| Deka Technologies Laser Sarl | | | 1.160.011 | |
| Deka Lasertechnologie GmbH | | | 2.257.267 | |
| Deka Laser Technologies INC | 215.035 | 154.477 | 1.083.979 | |
| BRCT Inc. | 269.421 | | 8.528 | |
| Lasit Spa | 203.255 | | 263.252 | |
| Ot-Las Srl | | | 1.517.664 | |
| Quanta System SpA | 330.000 | | 165.620 | |
| AQL Srl | | | 1.920 | |
| ASA Srl | | | 178.084 | |
| Lasercut Technologies Inc. | 50.299 | | 291.362 | |
| Cutlite do Brasil Ltda | | | 839.298 | |
| Wuhan Penta-Chutian Ltd | | | 2.512.097 | |
| Deka Medical Inc | 149.678 | | 1.241.927 | |
| Raylife Srl | 500.000 | | 37.721 | |
| *Total* | **3.167.688** | **154.477** | **26.434.967** | **0** |

| Associated companies: | Financial receivables < 1 year | Financial receivables > 1 year | Commercial receivables < 1 year | Commercial receivables > 1 year |
|---|---|---|---|---|
| SBI SA | | | 116.677 | |
| Immobiliare Del.Co. Srl | 13.565 | | | |
| Elesta Srl | | | 662.249 | |
| *Total* | 13.565 | - | 778.926 | - |

| Subsidiary companies: | Financial payables < 1 year | Financial payables > 1 year | Commercial payables < 1 year | Commercial payables > 1 year |
|---|---|---|---|---|
| Cynosure | | | 12.912 | |
| Asclepion Laser Technologies GmbH | | | 104.373 | |
| Deka MELA Srl | | | 5.865 | |
| Cutlite Penta Srl | | | 1.915 | |
| Deka Technologies Laser Sarl | | | 3.513 | |
| Deka Lasertechnologie GmbH | | | 4.345 | |
| Lasit Spa | | | 222.439 | |
| Ot-Las Srl | | | 28.088 | |
| Raylife Srl | | | 1.409 | |
| Quanta System SpA | | | 784.877 | |
| ASA Srl | | | 36.000 | |
| Cutlite do Brasil Ltda | | | 4.308 | |
| Lasercut Technologies Inc. | | | 401 | |
| Deka Medical Inc | | | 48.202 | |
| *Total* | - | - | 1.258.647 | - |

| Associated companies: | Financial payables < 1 year | Financial payables > 1 year | Commercial payables < 1 year | Commercial payables > 1 year |
|---|---|---|---|---|
| Actis Srl | | | 53.784 | |
| SBI SA | | | 15.660 | |
| *Total* | - | - | 69.444 | - |

| Subsidiary companies: | Purchase raw materials | Services | Other | Total |
|---|---|---|---|---|
| Cynosure | 9.451 | | | 9.451 |
| Deka MELA Srl | 47.924 | 9.354 | | 57.278 |
| Cutlite Penta Srl | 20.505 | 3.623 | | 24.128 |
| Deka Technolgies Laser Sarl | | 113.259 | | 113.259 |
| Deka Lasertechnologie GmbH | 216.043 | 10.314 | | 226.357 |
| Lasit Spa | 508.639 | 477 | | 509.116 |
| Ot-Las Srl | 2.450 | 18.157 | | 20.607 |
| Quanta System SpA | 2.522.352 | 24.805 | | 2.547.157 |
| Asclepion Laser Technolohies GmbH | 792.716 | 14.636 | | 807.352 |
| ASA Srl | | 30.000 | | 30.000 |
| Deka Medical Inc. | | 50.616 | | 50.616 |
| With Us Co Ltd | | 159 | | 159 |
| Cutlite do Brasil Ltda | 3.063 | | | 3.063 |
| Wuhan-Penta Chutian Ltd | 58.000 | | | 58.000 |
| *Total* | 4.181.143 | 275.400 | - | 4.456.543 |

| Associated companies: | Purchase of raw materials | Services | Other | Total |
|---|---|---|---|---|
| Actis Srl | 16.740 | 44.500 | | 61.240 |
| SBI S.A. | 9.960 | | | 9.960 |
| *Total* | 26.700 | 44.500 | - | 71.200 |

| Subsidiary companies: | Sales | Services | Total |
|---|---|---|---|
| Cynosure | 3.170.315 | 2.809 | 3.173.124 |
| Deka MELA Srl | 16.795.774 | 384.217 | 17.179.991 |
| Cutlite Penta Srl | 1.648.230 | 541.392 | 2.189.622 |
| Esthelogue Srl | 1.362.822 | 224.715 | 1.587.537 |
| Deka Technologies Laser Sarl | 1.748.621 | 20.537 | 1.769.158 |
| Deka Lasertechnologie GmbH | 130.174 | 39.997 | 170.171 |
| Lasit Spa | 79.724 | 541 | 80.265 |
| Ot-Las Srl | 1.470.264 | 44.797 | 1.515.061 |
| Deka Laser Technologies INC | 1.003.660 | 1.282 | 1.004.942 |
| Asclepion Laser Technologies GmbH | 1.346.332 | 213.414 | 1.559.746 |
| Quanta System SpA | 100.869 | 557 | 101.426 |
| ASA Srl | 605.225 | 1.516 | 606.741 |
| Wuhan Penta-Chutian Ltd | 2.925.759 | 29.165 | 2.954.924 |
| Cutlite do Brasil Ltda | 613.941 | 4.707 | 618.648 |
| With Us Co Ltd | 2.250 | | 2.250 |
| Deka Medical Inc. | 1.038.267 | | 1.038.267 |
| Raylife Srl | 850 | 12.000 | 12.850 |
| Lasercut Technologies Inc. | 11.483 | 26.282 | 37.765 |
| *Total* | 34.054.560 | 1.547.928 | 35.602.488 |

| Associated companies: | Sales | Service | Total |
|---|---|---|---|
| SBI S.A. | 177 | | 177 |
| Elesta Srl | 150.673 | 1.678 | 152.351 |
| *Total* | 150.850 | 1.678 | 152.528 |

| Subsidiary companies: | Other revenues |
|---|---|
| Cynosure | 21.346 |
| Deka MELA Srl | 83.790 |
| Cutlite Penta Srl | 112.810 |
| Esthelogue Srl | 1.389 |
| Deka Technologies Laser Sarl | 3.544 |
| Deka Lasertechnologie GmbH | 660 |
| Lasit Spa | 105.527 |
| Ot-Las Srl | 1.894 |
| Deka Laser Technologies Inc | 6.228 |
| Quanta System SpA | 147 |
| Asclepion Laser Technologies GmbH | 21.738 |
| ASA Srl | 3.475 |
| Wuhan Penta-Chutian Ltd | 585 |
| Raylife srl | 1.562 |
| Deka Medical Inc. | 16.656 |
| Lasercut Technologies Inc. | 370 |
| *Total* | 381.721 |

| **Associated companies:** | **Other revenues** |
|---|---|
| Elesta Srl | 1.200 |
| Actis Srl | 2.400 |
| *Total* | 3.600 |

The amounts shown on the charts above refer to operations which are inherent to the characteristic management 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. 77 thousand Euros in interest earned on the financing granted to subsidiary companies.

Members of the Board of Directors, the Board of Statutory Auditors s and other strategic executives
Members of the Board of Directors and the Board of Statutory Auditors receive the salaries indicated in the chart below.

| | | | ***Director compensation*** | | | |
|---|---|---|---|---|---|---|
| *Name* | *Position* | *Term duration* | *Fees* | *Non monetary benefits* | *Bonus and other incentives* | *Other rewards* |
| Gabriele Clementi | Presidente del CdA | Until the date of the assembly for the approval of the financials for 31.12.2011 | 90.000 | | 90.128 | 19.407 |
| Barbara Bazzocchi | Consigliere delegato | Until the date of the assembly for the approval of the financials for 31.12.2011 | 90.000 | | 28.374 | 18.500 |
| Andrea Cangioli | Consigliere delegato | Until the date of the assembly for the approval of the financials for 31.12.2011 | 90.000 | | 45.063 | 19.407 |
| Michele Legnaioli | Consigliere | Until the date of the assembly for the approval of the financials for 31.12.2011 | 12.000 | | | |
| Paolo Blasi | Consigliere | Until the date of the assembly for the approval of the financials for 31.12.2011 | 12.000 | | | |
| Angelo Ercole Ferrario | Consigliere | Until the date of the assembly for the approval of the financials for 31.12.2011 | 12.000 | | | 118.000 |
| Alberto Pecci | Consigliere | Until the date of the assembly for the approval of the financials for 31.12.2011 | 12.000 | | | |
| Stefano Modi | Consigliere | Until the date of the assembly for the approval of the financials for 31.12.2011 | 12.000 | | 34.974 | 109.492 |
| Vincenzo Pilla | Presidente Collegio Sindacale | Until the date of the assembly for the approval of the financials for 31.12.2012 | 31.200 | | | 32.120 |
| Giovanni Pacini | Sindaco Effettivo | Until April 30, 2010 | 16.848 | | | 13.379 |
| Gino Manfriani | Sindaco Effettivo | Until the date of the assembly for the approval of the financials for 31.12.2012 | 3.952 | | | 4.235 |
| Paolo Caselli | Sindaco Effettivo | Until the date of the assembly for the approval of the financials for 31.12.2012 | 20.800 | | | 27.788 |

Note: the salaries shown on the chart are determined on the accrual basis.

*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' assembly held on April 30th 2009 which, when establishing the amount of the rewards to be paid to members of the Board of Directors, set a maximum of 250 thousand Euros for the incentive bonuses. These bonuses will be paid in 2011.
*Other remunerations:*
- 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 sole administrator of Cutlite Penta Srl received a salary of 12.000 Euros from that company; 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 received a salary of 108.000 Euros from that company and as Board Member of Arex Srl received a salary of 10.000 Euros from that company.
The salaries of members of the Board of Statutory Auditors for carrying out their functions in other companies included within the area of consolidation are as follows: Vincenzo Pilla as President of the Board of Statutory Auditors of Deka Mela Srl and Lasit SpA and actual Auditor of Cutlite Penta Srl received from these companies a total salary of 32.120

Euros; Giovanni Pacini, as acting auditor of Deka Mela Srl and Cutlite Penta Srl received a salary of 13.379 Euros for the period in which he worked for these companies; Gino Manfriani, as acting Auditor of Deka Mela Srl and Cutlite Penta Srl received a total salary of 4.235 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 actual Auditor of Deka Mela Srl and Lasit SpA received from these companies a total salary of 27.788 Euros; Manfredi Bufalini as actual Auditor of Quanta System SpA received from this company a salary of 7.280 Euros.

- Board Member Stefano Modi as an employee of the company in 2010 received a salary of about 109 thousand Euros.

- In accordance with art. 17 of the T.U.I.R., the president of the Board of Directors, Gabriele Clementi and the two executive Board Members, Barbara Bazzocchi and Andrea Cangioli received 6.500 Euros each.

Prof. Leonardo Masotti, President of the Scientific Committee, received a fixed remuneration of 6.800 Euros, besides an incentive bonus of 32.774 Euros. Moreover, as President of the Board of Directors of Deka M.E.L.A. Srl he received a salary of 15.000 Euros.

The 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, partners Carlo Raffini and Pio Burlamacchi also received salaries, as follows:

a) Prof. Pio Burlamacchi, who, on the basis of a specific contract, is the owner of an industrial right consisting of a patent pending for the invention of a “Support of an optical cavity for lasers with regulation of the alignment of the ray”, received a salary of 6 thousand Euros.

b) il Sig. Carlo Raffini, to whom the Parent Company El.En. Spa has assigned a series of professional tasks for the entire year received a remuneration of 41.000 Euros; moreover for a similar task, he received remuneration from the subsidiaries Deka M.E.L.A. Srl and Cutlite Penta Srl for an overall amount of 27.300 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 | 17.892.424 | 17.783.344 | 99,39% |
| Other non current assets | 154.477 | 154.477 | 100,00% |
| Accounts receivables | 30.314.645 | 27.117.893 | 89,45% |
| Other receivables | 4.021.190 | 3.277.253 | 81,50% |
| Non current financial liabilities | 66.392 | | 0,00% |
| Current financial liabilities | 96.327 | | 0,00% |
| Accounts payables | 10.754.557 | 1.326.710 | 12,34% |
| Other payables | 3.329.695 | 1.381 | 0,04% |
| | | | |
| **b) Impact of related party transactions on the profit and loss** | | | |
| Revenues | 45.547.160 | 35.755.016 | 78,50% |
| Other revenues and income | 1.170.347 | 385.321 | 32,92% |
| Purchases of raw materials | 24.419.314 | 4.207.843 | 17,23% |
| Other direct services | 3.799.894 | 209.744 | 5,52% |
| Other operating services and charges | 5.673.042 | 110.156 | 1,94% |
| Financial charges | 257.595 | | 0,00% |
| Financial income | 783.590 | 77.398 | 9,88% |

## *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 company also has payables and receivables derived from its activity.

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

*Currency 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.

*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 30% 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 Parent Company El.En. last year 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.

During this financial year the company has also underwritten:

- 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.
- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 1.203 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the “TRAP” 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
- 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.
- 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.

*Cash and interest rate risks*

As far as the exposure of the Company to risks related to cash and interest rates is concerned, it should be pointed out that cash held by the company has been maintained at a high level also during this financial year in such a way as to cover existing debts and obtain a net financial position which is extremely positive. For this reason we believe that these risks are sufficiently covered.

**Management of the capital**

The objective of the management of the capital of the Company is to guarantee that a low level of indebtedness is maintained. Considering the substantial amount of cash held by the Company, the net financial position is extremely positive and is such as to guarantee a good 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 |
|---|---|---|---|---|
| | **31/12/2010** | **31/12/2009** | **31/12/2010** | **31/12/2009** |
| **Financial assets** | | | | |
| Financial mid and long term receivables | 154.477 | 547.220 | 154.477 | 547.220 |
| Financial receivables within 12 months | 3.201.253 | 3.228.683 | 3.201.253 | 3.228.683 |
| Cash and cash equivalents | 4.918.560 | 7.618.474 | 4.918.560 | 7.618.474 |
| | | | | |
| **Financial liabilities** | | | | |
| Financial mid and long term debts | 66.392 | 136.100 | 66.392 | 136.100 |
| Financial liabilities due within 12 months | 96.327 | 88.502 | 96.327 | 88.502 |

# *Other information (note 36)*

**Remuneration of directors and statutory auditors**

| | 31/12/2010 | 31/12/2009 | Variation | Var.% |
|---|---|---|---|---|
| Remuneration of directors | 528.539 | 330.000 | 198.539 | 60,16% |
| Remuneration of statutory auditors | 72.800 | 62.038 | 10.762 | 17,35% |
| *Total* | 601.339 | 392.038 | 209.301 | 53,39% |

**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 2010 related to auditing services and for those other than the ones conducted by Ernst & Young.

| | Audit of individual, consolidated annual report and occasional audits | Audit of half-yearly report | Underwriting of tax forms | Other services |
|---|---|---|---|---|
| | **Amount paid in 2010 (€)** | **Amount paid in 2010 (€)** | **Amount paid in 2010 (€)** | **Amount paid in 2010 (€)** |
| El.En. SpA | 49.464 | 27.705 | 4.000 | 20.000 |
| **Total** | **49.464** | **27.705** | **4.000** | **20.000** |

The honorariums shown in the chart 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 divided by category

| | Average 2010 | 31/12/2010 | Average 2009 | 31/12/2009 | Variation | Var. % |
|---|---|---|---|---|---|---|
| Executives | 11,0 | 11 | 11,5 | 11 | 0 | 0,00% |
| Management | 9,0 | 9 | 8,5 | 9 | 0 | 0,00% |
| White collar | 89,5 | 91 | 88,5 | 88 | 3 | 3,41% |
| Blue collar | 65,5 | 66 | 69,5 | 65 | 1 | 1,54% |
| *Total* | 175,0 | 177 | 178,0 | 173 | 4 | 2,31% |

***For the Board of Directors***

The Managing Director – Ing. Andrea Cangioli

# Declaration of the individual 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 manager in charge of preparing 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 individual financial statement, during 2010.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the individual statement dated December 31st 2010:

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 management 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 15th 2011

| | |
|---|---|
| Managing Director | Manager in charge of preparing the Company's financial statements |
| Andrea Cangioli | Enrico Romagnoli |

# El. En. S.p.A.

Legal headquarters Via Baldanzese 17 Calenzano (FI)

**Report of the Board of Statutory Auditors to the Stockholders' Assembly on the financials as of December 31st 2010 in conformity with art. 2429 c.c. and of 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 2010 which was consigned to the Board of Statutory Auditors on March 15th 2011.

During the financial year 2010 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 Reconta Ernst & Young S.p.A. which was confirmed for the auditing of the financials for 2006 – 2011, by the stockholders' assembly which met on May 9th 2006, subject to the approval of the Board of Statutory Auditors.

For the financials as of December 31st 2010, 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 written clearly 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 2010 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 Statute and are not manifestly imprudent, risky or in potential conflict of interest or in contrast with the decisions made by the Assembly or of a nature to compromise the stockholders' equity.

- 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 auditor, both by examining the minutes transcribed in the auditing books and 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 of 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 2010 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 individual 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 Internal Control 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 (*Relazione Annuale sul sistema di corporate governance)*.
-
- They have taken note of the approval of the Board of Directors of the ethics code for operations made on financial instruments by the El.En. Group (*Codice di "Comportamento per operazioni compiute su strumenti finanziari del Gruppo El.En. da persone rilevanti")* in effect starting on January 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 3rd 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 December 11th 2010), to the principles indicated in the *Regolamento Consob* mentioned above as well as to the application of these same principles.

- 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 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:
    - Professional services for assistance in the testing phase as part of the project for adaptation in compliance with L. 262/2005 for 20 thousand Euros to El.En. SpA.;
    - Professional services for assistance in the testing phase as part of the project for adaptation in compliance with L. 262/2005 for 10 thousand Euros to the subsidiary Quanta System S.p.A.;
    - Non-auditing services (tax compliance activities) rendered to the American subsidiary Cynosure Inc., by Ernst & Young LLP of Boston to which a fee of US Dollars 142.500,00 was paid.

    .

- In compliance with art. 19 of D.Lgs n. 39/2010, they discussed with the legal auditing company the risks related to the independence of this latter as well as the measures taken by them to reduce 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.

- In a specific statement by the Directors confirmed by the Independent auditing company, there are no positions held by subjects connected to this latter in a continuous relationship

- 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 auditing company, 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 manager in charge of preparing the Company's financial statements, the Board of Statutory Auditors expressed their favorable opinion in conformity with art. 154-bis D. Lgs. 58/98.

The Board of Statutory Auditors, during the stockholders' assembly held on October 28th 2010, expressed their favorable opinion in relation to the request for authorization to purchase treasury stock and the request made on March 3rd 2008 by the assembly for an extension of the term established for putting back into circulation the shares held in the portfolio.

The Board of Statutory Auditors issued opinions related to the salaries as per ex art. 2389 n. 3 c.c..

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 nine meetings of the Board of Statutory Auditors, attending six meetings of the Board of Directors and two meetings of the stockholders' assembly and participating in the activities of the Internal Control Committees.

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 auditing company, expresses their favorable opinion for the approval of the financial report as it has been presented by the Board of Directors, and of the proposal by the same body in relation to the destination of the earnings for the financial year.

Florence, March 30th 2011.

The 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 Recycle S.p.A. President of the Board of Statutory Auditors (2011); Dekamela S.r.l. President of the Board of Statutory Auditors (2012); Lasit S.p.A. President of the Board of Statutory Auditors (2012); Affitto Firenze S.p.A. President of the Board of Statutory Auditors (2011); Cutlite Penta S.r.l. statutory auditor (2012); Geikos S.p.A. statutory auditor (2012); KME Italy S.p.A. President of the Board of Statutory Auditors (2012); Kme Group S.p.A., statutory auditor (2011); number of positions held in listed companies: 2; overall number of positions held: 9.*

***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); Figli di Michelangelo Calamai S.r.l. statutory auditor (2011); Betamotor S.p.A. statutory auditor (2010); Biagioni Gas S.r.l. statutory auditor (2010); IMEG S.r.l. statutory auditor (2012); UNISER S.cons.r.l. (2011); 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); statutory auditor (2012); Vetreria etrusca S.r.l. statutory auditor (2011); Sebia Italia s.r.l. (formerly Ciampolini Strumenti Scientifici s.r.l.) statutory auditor (2011); Vetruria S.r.l. (2010); number of positions held in listed companies: 1; overall number of positions held: 6.*

ERNST & YOUNG

# El.En. S.p.A.

Financial statements as of and for the year ended December 31, 2010

Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Piazza della Libertà, 9
50129 Firenze

Tel. (+39) 055 552451
Fax (+39) 055 5524850
www.ey.com

**Independent auditors' report**
**pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010**
**(Translation from the original Italian text)**

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

1. We have audited the financial statements of El.En S.p.A. as of and for the year ended December 31, 2010, comprising the statement of financial position, the statement of income, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of El.En. S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 13, 2010.

3. In our opinion, the financial statements of El.En. S.p.A. as of, and for the year ended, December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of El.En. S.p.A. for the year then ended.

4. The management of El.En. S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and the Company's Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on

Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) presented in the Report on Corporate Governance and the Company's Ownership Structure , are consistent with the financial statements of El.En. S.p.A. as of, and for the year ended, December 31,2010.

Florence, March 30, 2011

Reconta Ernst & Young S.p.A.
Signed by: Lorenzo Signorini, Partner