EL.EN. GROUP

CONSOLIDATED ANNUAL REPORT AS OF DECEMBER 31st 2005

MANAGEMENT REPORT

Management report on the financial year ending December 31st 2005

To our shareholders,

The financial year ending December 31st 2005 ends with a net profit for the Group of 24.704 thousand Euros net after taxes for an amount of 4.407 thousand Euros.

2005 was a year of exceptional expansion for the activities of the Group which registered a significant growth rate and reached an excellent level of operating profit. The determined activity conducted on the American market through the subsidiary Cynosure in the month of December was responsible for the success of the efforts that had been made in the preceding years with the IPO of the company, a remarkable capital gains after the sale of the stock made by the Group as part of the same operation, and a financial reinforcement which will make it possible to plan for the future development of Cynosure and the Group with an ample availability of capital.
The complex and articulated activities of the Group, however, were not without difficulties in some sectors of their business, even though the overall financial year can be considered one of great satisfaction.

Adoption of international accounting principles

When the European Regulation 1606 / 2002 of July 19th 2002 came into force, starting with the financial year 2005, the companies possessing stock which had been put up for negotiation on the market governed by the countries which are members of the European Union had to draw up a consolidated annual report in conformity with the international accounting principles (IAS/IFRS) issued by the International Standard Boards (IASB) and approved by the Union.

In compliance with these regulations, starting on January 1st 2005 the El. En. Group adopted the international accounting principles (IAS/IFRS).

The present annual report closed on December 31st 2005 was therefore formulated applying the criteria of evaluation and determination established by the IAS/IFRS, and adopted by the European Commission.

For the purpose of making it possible to compare results with those of the preceding year, El.En. Group has provided a document called Appendix I – Reconciliation Tables for Italian and International Accounting Principles, attached to the explanatory notes of the consolidated annual report, which contains the methods and quantities applied for the transition to the IFRS in the annual report of December 31st 2004 in comparison with the report drawn up using the Italian accounting principles, as shown from the application of the IFRS1 (First Time Adoption of International Financial Reporting Standard).

The data in the consolidated annual report for the financial year ending December 31st 2004 shown for comparative purposes, are those highlighted in the above mentioned document attached to the explanatory notes for the annual report closed on December 31st 2005. All amounts are expressed in thousands of Euros unless otherwise specified.

Description of the Group

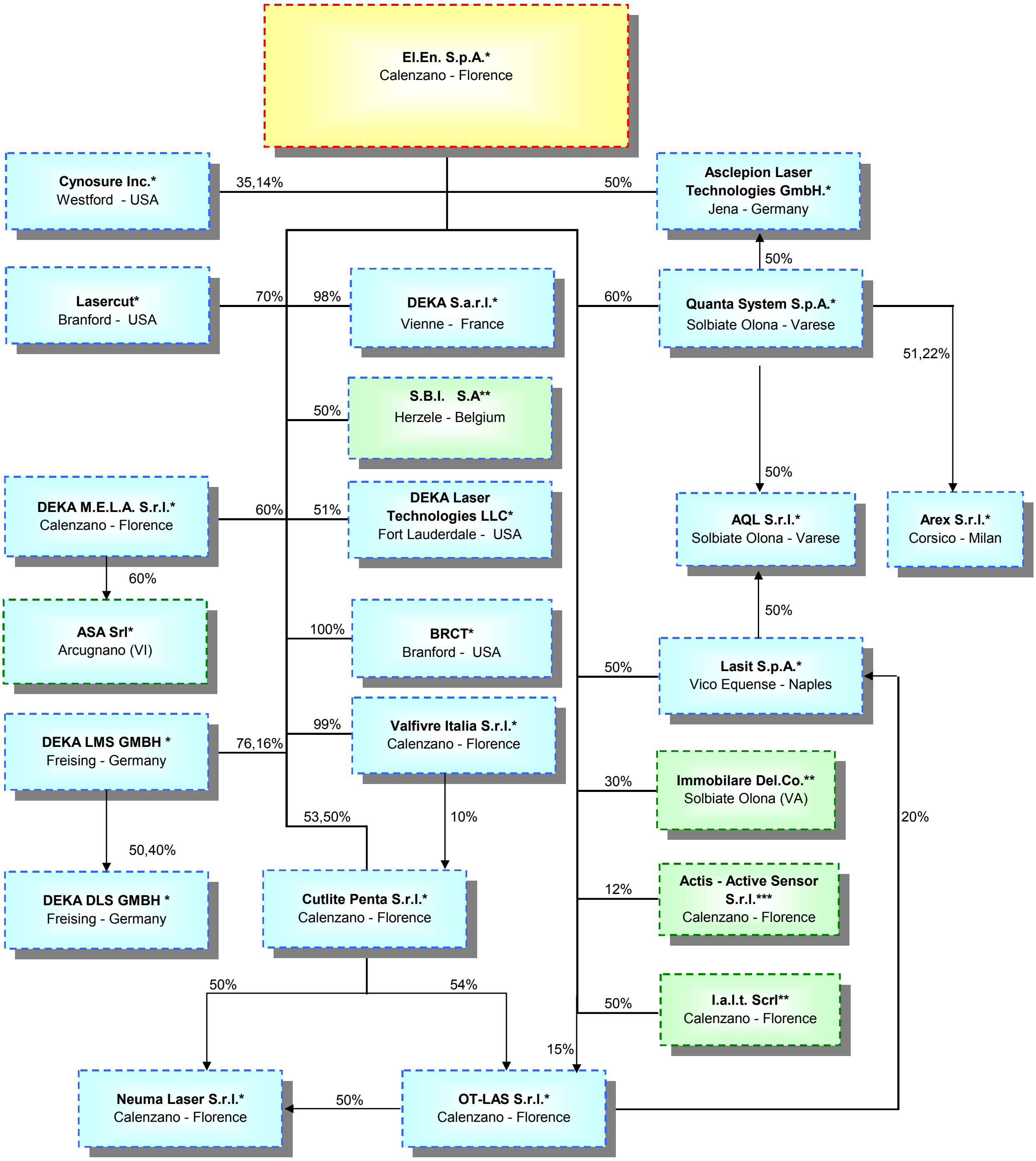
El.En. SpA controls a group of companies which operate in the field of laser technology, and each of which supplies a particular type of laser application or function. The structure of the group is made up of companies which are active in the design, manufacture and distribution of laser sources and systems for a variety of different uses. To each of these companies a specific role has been assigned on the basis of the commercial field and geographical area in which it operates: Cynosure Inc. and Asclepion Laser Technologies GmbH develop, manufacture and distribute medical laser systems, ASA Srl produces laser equipment for physical therapy, Deka M.E.L.A. Srl, Deka Sarl, Deka Lms GmbH, Deka Dls GmbH and Deka Laser Technologies LLC distribute medical laser equipment, Cutlite Penta Srl and Lasercut Inc. develop laser systems for flat cutting, Ot-Las Srl systems for marking large surfaces, Lasit Srl for marking small surfaces, Neuma Laser Srl conducts sales and service activities abroad, Valfivre Italia Srl develops and engineers special laser systems for industrial cutting, marking and welding applications, AQL Srl designs, manufactures and distributes laser systems for the industrial business field, Quanta System SpA develops, manufactures and distributes laser systems for medicine, industry and scientific research.

As of December 31st 2005 El.En. SpA holds an equity in companies such as Immobiliare Del.Co. Srl, I.A.L.T. Scrl and SBI – Smartbleach International SA , which, however, it does not control; the results of these companies therefore have not been wholly consolidated into the annual report of the Group, but have been consolidated using the shareholders' equity method.

The equity in Actis Srl has been entered at cost since the inclusion into the area of consolidation would be irrelevant for the purpose of representing the financial position of the Group.

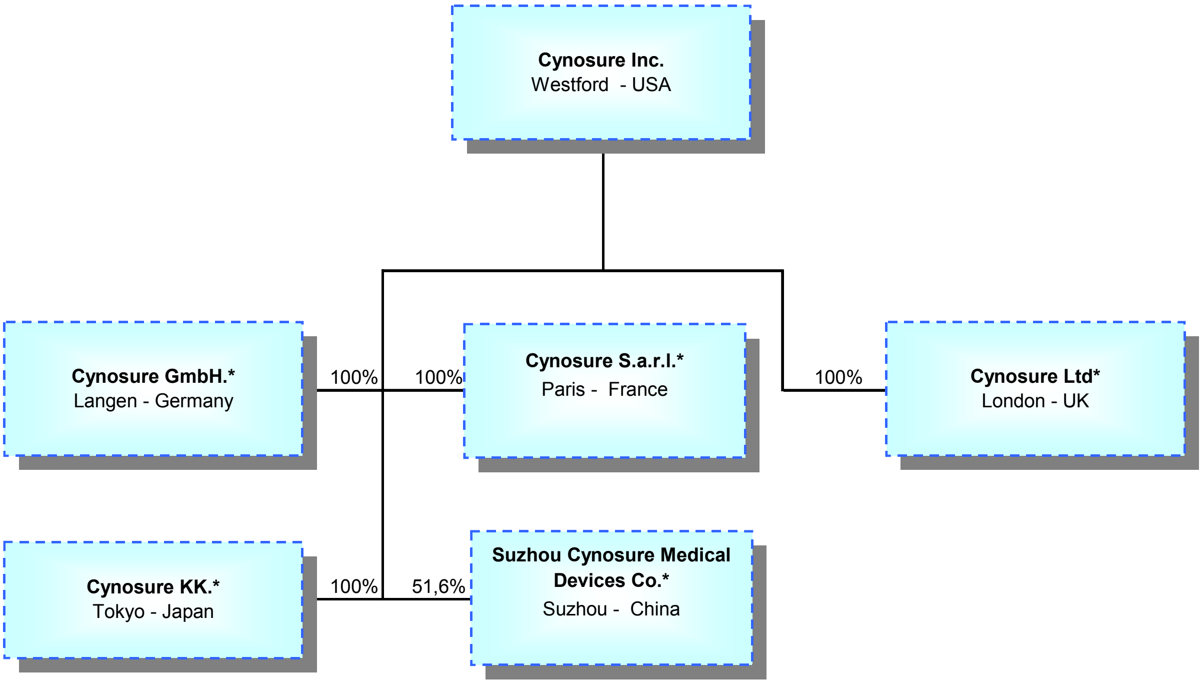
During this financial year no significant variations in the activities of the companies belonging to the El.En. Group occurred.

As of December 31st 2005 the structure of the Group is as follows:



* *Entirely consolidated*
** *Consolidated using the equity method*
*** *Kept at cost*

Cynosure Inc. in turn controls a Group of companies. As of December 31st 2005 the structure of the Cynosure group was as follows:



* *Entirely consolidated*

Main economic and financial data

The field in which the Group operates has not changed during this last financial period: during 2005 the Group was active in the design, manufacture and distribution of laser sources and systems; as in the preceding financial years, the main markets for these products were for medical and aesthetic laser equipment and laser systems for industrial applications.. Besides these two main sectors, the Group also received income from after-sales technical assistance and supplying spare parts to the clientele, and received proceeds in relation to research and development activities.

Revenue registered for the financial year 2005, for an amount of 118 million Euros, markedly superior to the 110 million which had been forecast, was evidence of the positive trend of business during this period. The excellent trend in sales determined an increase in profits, which, also in this case, were well over those which had been forecast at the beginning of the year for the operating revenue. In this situation of rapid growth of their activities, the Group completed the quotation on the Nasdaq market of the stock of the American subsidiary Cynosure, thus considerably reinforcing their financial position and creating the base necessary for their further expansion. Moreover, the sale of the Cynosure shares which took place as part of the same operation gave the Group the opportunity to achieve an important capital gains for which the results before taxes are evident; they are, in fact, double the results before taxes of the preceding financial year which were considered at the time an exceptionally good.

The following table shows the division of amounts invoiced among the various sectors of activity of the Group during the financial period 2005, compared with the same data for the same period last year.

	31/12/2005	Inc%	31/12/2004	Inc%	Var%
Industrial systems and lasers	19.395	16,39%	16.302	17,25%	18,97%
Medical and aesthetic lasers	84.017	70,99%	63.133	66,79%	33,08%
Research and Development	87	0,07%	536	0,57%	-83,83%
Service	14.845	12,54%	14.549	15,39%	2,03%
Total	118.343	100,00%	94.519	100,00%	25,21%

The consolidated growth rate therefore is over 25%, well above the estimated growth rates for comparable markets.
The excellent trend in the medical and aesthetic sector in any case is also reflected by significant progress in the industrial sector which, during 2005 began again to give satisfactory results.
The growth rate of 33% in the medical sector, and in particular in that of aesthetic applications, shows how this field is going through a particularly favourable phase; our main competitors in this sector have also shown excellent results, and the success in placing the Cynosure shares on the market demonstrates, through the interest of the financial market, the excellent state of health and the potential for development that exists in this particular market.

The trend in the industrial sector, as earlier mentioned, was also satisfactory; and although we started with a sales volume that was well below what it should have been, it showed an increase of 19% which would tend to indicate, thanks in part to a greater vitality on this particular market, a positive outlook for development in the next few months.

In the sector of after-sales service, the volume of sales has shown a slight increase, though it is essentially stable with respect to last year. We expected a higher volume of sales for this sector in consideration of the fact that the continual increase in the number of units installed generates revenue for technical assistance and for spare parts; the main reason for the lack of growth in this type of revenue was the drop in volume of "revenue sharing" developed by Cynosure with its client Sona, after the revision of the contract which determined a decrease in the amount of revenue from rentals and, at the same time, an increase in the revenue from direct sales of the laser systems.

The revenue derived from research projects and from the relative reimbursements in accordance to contracts signed with the institutes financed by MIUR is negligible for this period; in any case, we are displaying the amount because it must be entered with the amounts registered among other revenue: during this year the amount entered into accounts was 1.200 thousand Euros; in 2004 the amount was 860 thousand Euros.

The table below shows the sales volume for this financial period by geographic distribution:

	31/12/2005	Inc%	31/12/2004	Inc%	Var%
Italy	20.769	17,55%	21.705	22,96%	-4,31%
Europe	35.514	30,01%	27.622	29,22%	28,57%
Rest of the world	62.060	52,44%	45.192	47,81%	37,32%
Total	118.343	100,00%	94.519	100,00%	25,21%

The tendency towards globalization of sales showed no sign of abating, and sales are, in fact, increasingly less dependent on the Italian market and more dependent on markets outside of Europe. Sales volume for the rest of the world in 2005 represented half of our consolidated sales.

In the medical-aesthetic sector, which represented about 70% of the sales of the Group, the table below shows the individual areas of activity and the amount of sales volume.

	31/12/2005	Inc%	31/12/2004	Inc%	Var%
Surgical CO2	2.345	2,79%	2.538	4,02%	-7,59%
Physiotherapy	1.049	1,25%	609	0,96%	72,27%
Aesthetic	66.004	78,56%	45.414	71,93%	45,34%
Dental	6.797	8,09%	5.977	9,47%	13,73%
Other medical lasers	7.232	8,61%	7.787	12,34%	-7,14%
Accessories	590	0,70%	808	1,28%	-26,98%
Total	84.017	100,00%	63.133	100,00%	33,08%

The aesthetic sector pushed the growth rate of the entire sector to over 30% notwithstanding the decrease in sales shown in other areas.
The request for non-invasive aesthetic applications continues to be high and pushes the sales of laser equipment for this type of specialised application: hair-removal, photo-rejuvenation, vascular treatments, treatments for cellulitis represent the main markets for the equipment that is offered by the various companies belonging to the Group. In particular, the results obtained by Cynosure have been outstanding; this company has been able to take advantage of the domestic market in the United States where the request for aesthetic treatments continues to be very strong and increasingly directed to the use of laser technology. Deka, Asclepion and Quanta System have also been able to profit from this favourable situation and have shown considerable growth in sales volume and good revenue results.

The extraordinary leap forward shown in the physical therapy sector is in reality due to the consolidation of the results of ASA Srl, a company of which the group acquired control at the end of the year. ASA in fact, is specialized in the production of physical therapy systems and, starting in the month of December, its results were wholly consolidated with those achieved by other companies of the Group working in the same sector. Without this external growth net results for the sales volume would be stable.

The sales volume in the dental sector also grew by two figures, +14%, a brilliant result, at the end of the financial period. In other sectors however, a decrease in sales volume was shown. It should be pointed out that in the category “Others”, the second in terms of sales volume, the drop in sales was mostly due to the need for Cynosure to renew the range of Dye devices for vascular applications; during 2005 Cynosure placed on the market a new product, Cynergy, which should solve this problem and for which there is a good outlook for development.

For the field of industrial applications, the table below shows the break-down of sales according to the market sectors in which the Group operates.

	31/12/2005	Inc%	31/12/2004	Inc%	Var%
Cutting	9.244	47,66%	7.812	47,92%	18,33%
Marking	6.841	35,27%	5.981	36,69%	14,40%
Laser sources	2.869	14,79%	1.903	11,67%	50,77%
Welding	441	2,27%	606	3,72%	-27,27%
Total	19.395	100,00%	16.302	100,00%	18,97%

Growth in this sector reached almost 19% and, it is hoped, represents a turning point in the trend of the industrial sector of the Group, by demonstrating a return of interest in our products and an outlook for development that is more optimistic than the results of the last two years have led us to believe.
The growth in sales of laser sources is important, both in consideration of the amount involved, +50%, as well as for the significance that the manufacture of laser sources has for the Group. It should be recalled, in fact, that the role of the parent company is, in fact, dedicated to the development and manufacture of laser sources, and it is on the basis of this that the subsidiary companies have developed, using technologies created by El. En to produce laser systems for their manufacturing activities.

As far as the various types of applications are concerned, the main sector is that related to industrial cutting, in which Cutlite Penta and Lasercut operate: the growth rate of 18% has also been responsible for the improvement in the revenue results of the two companies. During the last year new systems have been developed, in particular systems with linear motors for cutting sheet metal, and on these new products are based our hopes for a further development of the sales volume in this sector.
The marking sector has also started growing again and has shown good results both in the field of large surfaces as well as the standard one of small surfaces. In particular, this latter sector is now in a phase in which the demand continues to be high because of the growing need to identify products and parts of products so that they can be traced. The group has reorganized its structures in order to be able to meet this demand by creating new technical structures for development and sales that are specific to this sector. Sales in the residual sector have fallen off, in particular as a consequence of the drop in sales volume in the scientific sector on the part of Quanta System, an amount that is included in this category.

Reclassified consolidated profit and loss account as of December 31st 2005

The table below shows the reclassified consolidated profit and loss account closed on December 31st 2005 compared with that of the preceding year, 2004.

Profit and loss account	31/12/05	Inc.%	31/12/04	Inc.%	Var.%
Revenues	118.343	100,0%	94.519	100,0%	25,2%
Change in inventory of finished goods and WIP	4.003	3,4%	3.198	3,4%	25,2%
Other revenues and income	1.978	1,7%	1.511	1,6%	30,9%
Value of production	**124.324**	**105,1%**	**99.228**	**105,0%**	**25,3%**
Purchase of raw materials	50.220	42,4%	39.438	41,7%	27,3%
Change in inventory of raw material	(1.722)	-1,5%	(1.308)	-1,4%	31,6%
Other direct services	10.995	9,3%	9.006	9,5%	22,1%
Gross margin	**64.831**	**54,8%**	**52.091**	**55,1%**	**24,5%**
Other operating services and charges	23.354	19,7%	19.426	20,6%	20,2%
Added value	**41.477**	**35,0%**	**32.665**	**34,6%**	**27,0%**
For staff costs	26.589	22,5%	22.621	23,9%	17,5%
EBITDA	**14.888**	**12,6%**	**10.044**	**10,6%**	**48,2%**
Depreciation, amortization and other accruals	4.938	4,2%	4.172	4,4%	18,4%
EBIT	**9.950**	**8,4%**	**5.872**	**6,2%**	**69,4%**
Net financial income (charges)	923	0,8%	(2)	-0,0%	
Share of profit of associated companies	4	0,0%	150	0,2%	-97,2%
Other Income (expense) net	19.643	16,6%	3.344	3,5%	487,3%
Income before taxes	**30.520**	**25,8%**	**9.364**	**9,9%**	**225,9%**
Income taxes	4.407	3,7%	2.957	3,1%	49,0%
Income for the financial period	**26.113**	**22,1%**	**6.407**	**6,8%**	**307,5%**
Minority interest	1.409	1,2%	1.761	1,9%	-20,0%
Net income	**24.704**	**20,9%**	**4.646**	**4,9%**	**431,7%**

The gross margin is 64.831 thousand Euros, a considerable increase (+24,5%) with respect to last year even though there was a slight drop in terms of incidence on the sales volume which decreased from 55,1% in 2004 to 54,8%. The margin of sales is, however, substantially unchanged with respect to last year.

The amount expended for services and operating costs is 23.354 thousand Euros, and their incidence on the sales volume decreases from 20,6% to 19,7%. Development of sales therefore is sustained by major promotional expenses and the usual efforts in research and development; as a consequence there is an increase of 20% in this cost aggregate which, in any case, increases its productivity with respect to the sales volume.

Similar considerations can be made for personnel expenses which increased by 17,5%, less than the sales volume, for an amount of 26.589 thousand Euros. By the end of the year, the staff was composed of 548 people, which was 84 more than last year (December 31st 2004); 18 of these additional staff members are due to the entry into the area of consolidation of ASA Srl, which, in fact, on December 31st had 18 staff members. Part of the personnel expenses is due to the figurative costs entered into accounts in relation to the stock options offered to the employees. These costs amounted to 761 thousand Euros in 2004 and rose to 1.104 thousand Euros in 2005; most of the expenses are related to the stock option issued by the subsidiary Cynosure Inc. (787 thousand Euros for 2005), which, in accordance with American accounting principles enters into accounts only a portion, and will be required to adapt its accounting to the same principles used for this document, and therefore to the total entry of the costs starting in the first quarter of 2006.

A considerable part of personnel expenses went towards the research and development costs, for which the Group receives grants and reimbursements in accordance with specific contracts stipulated with the institutions. These grants make it possible to broaden the field of research since the limit their economic impact. As mentioned above, the grants received and entered into accounting amount to approx. 1.200 thousand Euros.

The EBITDA, at approximately 14.888 thousand Euros, almost reaches 15 million, showing an increase of 48% over the preceding year thanks to the combined effect of the cost aggregates described above.

The costs for amortizations and accruals also increased, to 4,9 million approx. Besides the amortizations normally set aside on amortizable fixed assets, some accruals for potential risks on the assets and for product guarantee are part of this cost aggregate. The incidence of amortizations and accruals on the sales volume however decreased to 4,2% from 4,4%

Consequently, the operating result shows a strong growth of +69,4% with respect to last year.

The result of the net financial income has also improved considerably. This change is not so much due to the interest earned on cash at hand, but rather to the differences in the exchange rates generated by the positive assets in dollars and by the strengthening of the US dollar which, at the end of December was exchanged at 1,1797 dollars per Euro as opposed to 1,3621 dollars per Euro at the beginning of 2005.

The other financial income and charges are strongly influenced by the capital gains registered as a result of the sale of stock made by the Group as part of the IPO of Cynosure. In order to facilitate the Nasdaq quotation of the subsidiary, the Group, in fact, sold a million ordinary shares of Cynosure, Inc., and for this sale showed a capital gains of approx. 7 million Euros. Moreover, in the profit and loss account we entered the capital gains generated by the increase in common stock which occurred in Cynosure as a result of IPO which, according to the prevailing opinion, should be compared to the partial sale to the minority shareholders of subsidiary companies of which control is maintained. The capital gains, which amount to 13 million Euros, derives, in fact, from the increase in the common stock of Cynosure entirely underwritten by third parties, and takes into consideration the increase in the shareholders' equity per share which occurred for the remaining shares on account of the payment of the capital increase on behalf of third parties. It should be noted that a different interpretation of the same accounting principle, which was, in fact, used for the quarterly report on December 31st 2005, would have, in any case, caused an identical increase of the shareholders' equity of the Group, without, however, having this rectification entered in the profit and loss account. Beyond the representation in accounts, the quotation of Cynosure on the Nasdaq market constituted a reinforcement of the financial position of the Group and revealed an increase in the value of the Cynosure shares still held by El. En.

A substantial capital gains was also shown for the financial year 2004 as a consequence of the sale by Cynosure of their equity in the associated company, Sona International.

The result before taxes amounts to 30.520 thousand Euros. This figure is extraordinary for its entity and a source of great satisfaction for the management; it was obtained thanks to an operating revenue that was far above expectations and to the capital gains acquired with the sale of the Cynosure shares as part of the Nasdaq listing.

The tax load for this financial period increased, in overall value, with respect to the preceding year as a result of the increase in revenue. The tax rate for 2005 was 14,44% (31,58% in 2004) and it is relatively limited on account of the effects of: the application of deferred tax assets by Cynosure Inc., which, to return to the question of profitability, was able to show the effects of detained fiscal losses; of the "PEX" exemption from which a large part of the capital gains earned as part of the sale of the Cynosure shares benefited; and, finally, for the total absence of tax on the rectification of the representative value of the increase in the net financial position for the Cynosure shares still held by El. En. Spa.

Consolidated balance sheet and statement of net financial position as of December 31st 2005

The reclassified financial position below is shown in comparative form with that of the preceding year.

	31/12/2005	31/12/2004	Var.
Balance Sheet			
Intangible assets	7.354	11.107	-3.752
Tangible assets	11.322	10.118	1.204
Equity investments	774	1.393	-619
Deferred tax assets	3.466	1.318	2.148
Other non current assets	193	247	-54
Total non current assets	**23.109**	**24.182**	**-1.073**
Inventories	32.797	25.462	7.335
Accounts receivables	30.587	21.912	8.675
Tax receivables	2.963	2.627	337
Other receivables	1.876	2.240	-363
Financial instruments	467	268	199
Cash and cash equivalents	77.071	15.070	62.002
Total current assets	**145.763**	**67.578**	**78.184**
TOTAL ASSETS	**168.872**	**91.761**	**77.111**
Common stock	2.437	2.424	13
Additional paid in capital	35.324	34.954	370
Other reserves	7.998	6.493	1.506
Treasury stock		-256	256
Retained earnings / (deficit)	3.275	31	3.243
Net income / (loss)	24.704	4.646	20.058
Parent company's stockholders' equity	**73.738**	**48.293**	**25.445**
Minority interest in consolidated subsidiaries	50.385	5.610	44.774
Total equity	**124.123**	**53.904**	**70.219**
Severance indemnity	2.173	1.720	453
Deferred tax liabilities	723	518	205
Other accruals	4.046	2.800	1.246
Financial liabilities	1.961	2.580	-619
Non current liabilities	**8.904**	**7.618**	**1.286**
Financial liabilities	2.192	4.044	-1.852
Accounts payables	20.251	15.915	4.336
Tax payables	3.680	3.553	127
Other payables	9.722	6.727	2.995
Current liabilities	**35.845**	**30.239**	**5.606**
TOTAL LIABILITES AND STOCKHOLDERS' EQUITY	**168.872**	**91.761**	**77.111**

The net financial position of the Group as of December 31st 2005, is as follows:

Net financial position		
	31/12/2005	**31/12/2004**
Financial mid and long term debts	(1.961)	(2.580)
Financial mid and long term debts	*(1.961)*	*(2.580)*
Financial liabilities due within 12 months	(2.192)	(4.044)
Cash and cash equivalents	77.539	15.338
Net financial short term position	*75.346*	*11.294*
Total financial net position	**73.385**	**8.714**

The amount of cash on hand has increased thanks to the revenue from the Cynosure IPO, which earned about 64 million dollars for the Cynosure accounts, net of the placement commissions and the costs directly related to the placement itself, and about 14 million for the accounts of the controlling company, net of placement commissions and before taxes.
Net of this operation, which is of an extraordinary nature, the net financial position is approx. 7 million Euros.

Among the most significant operations which have contributed to the expenditure of cash during this year, we should mention the distribution of dividends by El.En. SpA and, as far as the third party quota is concerned, by Deka M.E.L.A. Srl and Deka Lms GmbH for a total of about 1,9 million Euros.

During the month of November, the acquisition of a further 20% of the associated company ASA required an expenditure on behalf of DEKA M.E.L.A. Srl of about 390 thousand Euros. On the same date El.En. SpA sustained an expense of 225 thousand Euros to acquire 15% of Ot-las Srl. Moreover, Lasit SpA effected an increase in capital which brought 750 thousand Euros into the coffers of the company, 600 thousand of which were paid by the companies of the Group, El.En. SpA and Ot-las Srl, and 150 thousand Euros paid by third party companies.

For the rest, the variation of the net financial position is due to the current management and in particular, the variations in the net circulating capital.

Results of the subsidiary companies

El.En. SpA controls a group of companies which operate in the same overall field of laser technology, with each company occupying a different sector and having a particular role on the market.

The following table summarises the results of the companies belonging to the Group which are included in the area of consolidation. The table is followed by brief descriptions explaining the activity of each company with a comment on the results for the financial year 2005.

	Net Turnover 31-dic-05	Net Turnover 31-dic-04	Var. %	Net income 31-dic-05	Net income 31-dic-04
Cynosure (*)	44.960	33.358	34,78%	2.970	3.926
Deka Mela Srl	19.731	18.028	9,44%	536	1.170
Cutlite Penta Srl	8.218	7.334	12,05%	11	-27
Valfivre Italia Srl	420	439	-4,40%	17	-1
Deka Sarl	1.238	931	32,95%	-147	-203
Deka Lms GmbH	1.169	1.201	-2,66%	-212	76
Deka Dls GmbH	435	527	-17,55%	-93	11
Deka Laser Technologies LLC	2.118	1.650	28,38%	192	12
Quanta System SpA	10.368	8.277	25,27%	417	-44
Asclepion Laser Technologies GmbH	11.140	8.781	26,87%	171	386
Asa Srl	629	0		29	
Arex Srl	811	523	55,11%	7	2
AQL Srl	1.723	529	225,43%	-9	-13
Ot-Las Srl	2.786	2.467	12,92%	5	-70
Lasit Spa	3.791	3.768	0,60%	-9	-102
Lasercut Inc.	2.279	1.673	36,21%	-518	-591
BRCT Inc.	0	0		841	0
Neuma Laser Srl	230	208	10,19%	59	4

(*) consolidated data

Cynosure Inc.

This company operates in the field of design, manufacture and sales of laser systems for medical and aesthetic applications. During the past financial year of 2005, headquarters of the company were transferred from Chelmsford, Massachusetts (USA) to the nearby town of Westford, to premises more suitable for its current production capacity; the company also has international offices in Europe and Asia. Cynosure is one of the world leaders in the sector of medical lasers and has reached its present size thanks to the superior performance and the high quality of its products, in particular the dye laser (DYE) for vascular applications, and the alexandrite laser for hair removal.

The company does its own sales and marketing for their products on the American and international markets by using their subsidiary companies and a network of distributors. Manufacturing takes places almost entirely at Westford, as does research and development, a key factor for success in this field.

Cynosure Inc. , in turn, controls a Group of companies which operate on an international level in the laser market: the Cynosure companies, Sarl in France, Cynosure Ltd in Great Britain, Cynosure GmbH in Germany and Cynosure KK in Japan are 100% subsidiary and act as local distributors and provide after-sales service; Suzhou Cynosure in the Peoples Republic of China is 52% controlled and also manufactures special dermatological equipment.
Cynosure was purchased in 2002 during a difficult phase of operation when it was showing negative revenue results. The company was restructured, several El. En Group products were introduced into their range of products, and some of the management staff was replaced. In particular, at the end of 2003, the CEO was replaced as well as some of the executives responsible for key areas in the company, thus determining a major change in the management of the firm.
The first results of the reorganization of Cynosure became evident during 2004, when the company began to show a profit again, and were confirmed by further increases in operating revenue in 2005.
The major acceleration of the revenue and the increase in operating profits made it possible to attract risk capital to be used for further financing the expansion of the company by increasing the amount of capital at the service of the IPO which took place in the month of December. Behind the IPO the company holds cash on hand for about 64 million dollars, which allows it to look with determination and ample means towards all prospects of development which the relative markets continue to offer, and to the investments necessary to keep the growth rate and profitability high. The sales volume of Cynosure in 2005 was 56 million dollars.

Deka M.E.L.A. Srl
This company is involved in the distribution in Italy and abroad of the medical laser equipment manufactured by El.En. SpA, in particular that related to dermatology, aesthetics, and surgery, and has established profitable relationships of collaboration with the dental sector in Italy (Anthos Impianti). The company has also taken control (60%) of ASA Srl, the company which, among those in the Group, has been assigned the field of physical therapy.
In 2005 the sales volume grew by 9% and came close to 20 million thanks to the positive trend of the aesthetic sector, as well as that of the dental and CO_2 laser surgery fields.
In overall terms, the margin of contribution diminished, as a consequence of the reduction of the profit margin on sales, which is an effect of the pressure on selling prices and the mix of sales which is less favourable in that sense.

The decrease in the result, which had been earlier caused by the reduction of the margins, was then further amplified by a sizeable accrual for potential losses on debts made upon the closing of the financial year.

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 movements controlled by CNC.
Cutlite Penta benefited from the situation of an improved market and showed a two figure growth rate and a positive net result after several years in the red.

Valfivre Italia Srl
As in preceding years, this company conducted manufacturing activity and provided technical assistance for special laser systems for industrial applications besides service activity for the companies of the Group. It ended the financial year with a modest profit, notwithstanding the decrease in sales volume with respect to last year.

Ot-Las Srl
Ot-Las designs and manufactures special laser systems for CO_2 laser marking of large surfaces, a field where it operates by offering the advanced technological solutions thanks to its close technical collaboration with the parent company, El.En. for the development of strategic components.
The positive results of the final months of the year made it possible to break even at the close of the year which had begun with numerous difficulties. The sales volume, which increased by about 12% and the return to profitability in the last quarter would tend to suggest that the cycle of years with decreased sales and operating losses has now come to an end.

Lasit SpA
The company designs and manufactures laser marking systems complete with controls and software which can be used for marking not only metals, but also wood, glass, leather, and fabrics.
Lasit is, at this time, concluding the reorganization of its range of products as well as that of its commercial distribution network, which is now also based in Italy on the associated company, AQL.
Although Lasit did not show an actual increase in sales, the company increased its revenue from systems and limited their losses with respect to those of the preceding year. In order to sustain the phase of development of new products and the costly research conducted in the expectation of increased business, the shareholders underwrote an increase in capital, thus bringing the share capital to 1 million Euros.

Neuma Laser Srl
Neuma Laser conducts activity of after-sales technical assistance as well as a service of technical support in the Far East and in South America, for the laser equipment and industrial systems sold by the Group and in particular on the systems manufactured by the controlling companies, Cutlite Penta Srl and Ot-Las Srl. The excellent results of the activities of the group on the markets in which Neuma operates have brought the company back into the black.

Deka Sarl
In France Deka Sarl distributes the medical-aesthetic laser equipment and relative accessories manufactured by El.En. and provides after-sales service for medical and aesthetic lasers. This company is now a point of reference in France and has numerous units installed and an excellent brand-name position, but in 2005 was unable to reach an economic equilibrium and to limit the losses which, in any case, were sizeable.

Deka Lms GmbH
In Germany Deka Lms GmbH distributes the medical and aesthetic laser equipment manufactured by El.En. SpA. The volume of business in 2005 was below expectations and was also accompanied by a reduction in margins and this caused the company to show considerable losses. The reorganization of the activities of Deka Lms, which is aimed at a better penetration of the German market and a more efficient cost of commercialization, should start showing results by the beginning of 2006. An improvement in the economic conditions of the German area would help sustain the efforts

which have been made to return to profitability. During the past financial year, in accordance with agreements made with the minority shareholder, the company voted to distribute a dividend for the amount of 136 thousand Euros.

Deka Dls GmbH
Deka Dls GmbH, controlled by Deka Lms, distributes laser systems for the dental sector in Germany. The company showed a strong drop in their sales volume, and consequently, considerable losses.

Deka Laser Technologies LLC
This company, which is now in its third year, uses a particularly efficient distribution system to market the laser systems manufactured by El.En. SpA for the dental market in the United States. The company has been organized in such a way as to take advantage of the potential of the domestic market in the U.S. and has shown positive results – the only one among all the branches for foreign distribution.

Lasercut Inc.
Lasercut is an American company with headquarters in Branford (CT), acquired in the month of April 2003; it designs, manufactures and sells laser systems for flat cutting.
The problems of this company in reaching a financial equilibrium have continued and this result still seems to be in the distant future, although losses have decreased. El.En. continues to finance the company and support the research and development which have been lacking up to now and which remain as the main goal for opening an important market like the American one.

Asclepion Laser Technologies GmbH
This company, which was acquired from Carl Zeiss Meditec has their headquarters in Jena, the birthplace of electro-optics and one of the most important international centers for this kind of technology. Thanks to the quality of its products and the prestige of the brand name on the international markets, Asclepion achieved brilliant results in 2004. Although these results were not confirmed in 2005, the outcome was still satisfactory especially in consideration of the excellent profits shown for the last quarter. As explained in the paragraph on Deka Lms, a confirmation of a revival of the German economy would permit an improvement in the results, considering the importance of the local distribution of Asclepion. The company is owned 50% by the Group and 50% by the subsidiary Quanta System SpA.

Quanta System SpA
Quanta System became part of the area of consolidation of the Group in 2004; the company has obtained satisfactory results, with an increasing sales volume and profitability thanks in particular to the medical and aesthetic sectors. For innovation and technological research, Quanta System is one of the most vital companies in the laser sector; its highly qualified research team participates in important development projects, often in partnership with other companies of the Group and with the most prestigious Italian and foreign research centres.

Arex Srl
This company became part of the Group in April of 2004, and is involved in the management of a medical centre in Milan; the activities it conducts have given satisfactory results.

ASA Srl
Control of this company was acquired in November of 2005; it operates in the field of physical therapy and has closed this financial year with a strong increase in sales volume and revenue, thanks mostly to the introduction of laser equipment produced by El. En. SpA into its range of products.

AQL Srl
AQL Srl, is a company that was created in Milan in June of 2004, for the design, manufacture and sale of laser systems for the "Industrial business" sector, as well as research and development of industrial processes and products, manufacturing processes and creation of new technologies in the photonic sector. The company is still in the start-up phase, but has essentially broken even in this financial year. AQL acts as distributor for the products manufactured by its subsidiaries, Quanta System e Lasit.

BRCT Inc.
BRCT Inc. is the owner of the real estate in Branford, Connecticut, previously held by El.En. SpA, which is the property where the premises of Lasercut Inc. are located. In 2005 the company showed an extraordinary financial result on account of the operations on the Cynosure shares which were made to sustain the IPO of our subsidiary.

Research and Development activities

In 2005 the Group conducted intense Research and Development activities for the purpose of creating new applications for laser technology both in the medical and industrial sector and to place innovative products on the market.

The global market requires, especially for highly technological products, 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 research and development programs must be conducted and organized according to brief and mid-term schedules.
Research which is conducted in order to obtain results according to a mid-term schedule are characterized by the fact that they are oriented towards higher risk subjects inspired by intuitions which arise within the company and by prospects indicated by the scientific work in our laboratories and in advanced research centres around the world.

On the other hand, research which is dedicated to achieving results according to a short-term schedule, above all for new products and applications, work 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 characteristic and specifications. The elements for this activity are determined on the basis of information obtained from the work of specialists working for 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.

The research which is conducted is mainly applied and forms the foundation for some of the specific subjects. 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 Instruction and Research (MIUR) and the European Union, as well as directly with the Research Institutions.
A brief summary of the research activities of the Group in 2005 is shown below:

<u>Systems and applications for lasers in medicine.</u>

We continued our activity for the development of equipment and devices for mini-invasive micro-surgery assisted by a robot; this activity is developed as part of the a project on the New Medical Engineering program of FIRB (Investment Fund for Basic Research) financed in part by MIUR (*Ministero Istruzione Università e Ricerca*) after a selection process based on the opinions of a jury of international experts.
Theoretical and experimental studies also continued on the determination of the doses for cutting and ablation processes on soft tissue and cauterization of small blood vessels.
Studies are now at an advanced state for the development of a directable micro-tweezer and a multiple-way catheter for endoscopes, endoluminal photo-dynamic therapy, and for diagnostics with opto-acoustical micro-probes
The first operations with live use of laser for attaching the cornea without stitches were performed after the research conducted in collaboration with IFAC of the CNR by the associated company Actis Active Sensors.
An important research project was conducted for the development of a technique and for the relative devices for performing the anastomosis of blood vessels assisted by laser.
We continued the development of instruments and clinical experimentation for innovative laser devices for use in physical therapy and orthopaedics and agreements were made with for conducting research in the USA and at the Lahey Clinic in Boston in collaboration with the Rizzoli Institutes of Bologna, who has been our partner now for several years.

Research is also now being conducted on new devices and methods for the percutaneous laser ablation of the liver and thyroid, as part of the cooperative activity with IALT (Image Aided Laser Therapy) which was recently created between El.En. and Esaote.
A project financed by the European Union on new methods of diagnosis using nano-particles and laser systems with ultrasound inter-agents has been approved. For this project we are collaborating with prestigious European institutions like Fraunhofer IBMT.
We have designed a new laser for use with a new technique for the conservation therapy of the saphena vein, for which a new European patent has recently been granted.
A development project has been initiated on new laser systems for uses in eye surgery..
The development program for a new laser system for depilation called Synchro HP has been concluded; for its high performance, this device can be considered at the top of the range of similar products on the international market.
The development of a new laser system for the conservative therapy of the saphena vein has been completed.
Five new patents for the protection of intellectual property have been registered.
At the same time, active clinical experimentation has continued in Italy and in qualified European and American centres in order to confirm and document the effectiveness of innovative therapeutic laser treatments in various fields of medicine: odontostomatology, cardiac surgery, gasteroenterology, oculistics, phlebology, eco-located interstitial

hyperthermia, dermatology and aesthetics. A patent is being developed for a new type of low flow radiator with isoptropic emissions interstitial laser hyperthermia for use in mini-invasive micro-surgery on the thyroid and liver guided by ultra-sound imaging. This activity has been directed in particular towards the development of technologies for the creation of prototypes which can be used on animals.
A research program has been initiated on the development of a laser for ophthalmology to execute photo-coagulation of the retina with the use of slot lamps, on the basis of an agreement with an important firm specialised in the production and distribution of diagnostic and therapeutic equipment in the ophthalmology field.
The research activity aimed at developing a diode laser for neurosurgery applications with mini-invasive techniques was continued.
With a grant from the European Union a research program on mechatronic and micro-technological applications for the biomedical industry is now in progress.

For industrial systems and applications

A project related to excimer laser systems for use in the nano-manufacture of electronic and optical-electronic devices continued.

Two projects co-financed by the Region of Tuscany with European funds were approved: the first is related to the development by El.En. of " New laser scanning systems for wide angles" and the second for the development, by the subsidiary, Ot-las of a "Method for treating surfaces of railway tracks still in use with lasers".
Moreover, applied research continued for the development of large mirrors for scanning the laser beam for the purpose of marking or treating surfaces of different kinds of materials for the aesthetic enhancement of garments and craft products with laser power of over 1kW were continued.

A project is now in progress for the development of the electronics based on a Digital Signal Processor to translate into HW the results of the theoretical research on the numerical control of galvanometers for scansion heads.

Algorithms, calculus programs and hardware were developed for artificial vision systems to be used for the decoration of leather and other materials using laser marking and for cutting and marking of various objects laid out on a work table.
Development of a new ultra compact CO_2 laser source pumped by radio frequency was brought to a conclusion.
Research activity as part of a project for a solid state high power laser source with active material in an amorphous ceramic support is now in progress.
The development of new laser equipment for use in diagnosing the condition of art objects has been continued as part of the PON (Piani Operativi Nazionali) for the development of strategic sectors in Southern Italy.

As part of the same program, the development of a new system of sensors and memorization of environmental stress on works of art while being moved from a museum to a place of display has continued; the creation of a "black box" for recording the transfer of works of art has been completed and a patent for it has been requested.

A new system for representing thermal transistors for the study of the sate of conservation of works of art and of industrial products in the start-up in the manufacturing process is now being developed and a patent has been requested.
A project regarding the diagnosis of works of art using fluorescent induced spectrometry has been approved.
Work on the development of a new diagnostic system using lasers on the paper of antique books has continued and recently been granted a patent.

The following table shows the expenses incurred for Research and Development during this year.

thousands of euros	**31/12/2005**
Costs for staff and general expenses	6.029
Equipment	266
Costs for testing and prototypes	888
Consultancy fees	643
Other services	82
Intangible assets	5
Total	**7.912**

For the entry "Personnel and general expenses" the amount shown corresponds to the expenses incurred for research and development; for El.En. SpA this amount has been increased at a flat rate of 60% of the expenses sustained for personnel, according to the percentage increase recognized by the institutions financing the research and development, and thus make it possible, within the area of the particular project, to recover at a flat rate the general expenses which in this way have been quantified.

As for the entries for sales volume and revenue, the contribution of Cynosure is considerable also in the case of research and development expenses, considering the intense activity which they conduct in this sector. The amount of the expenses for research and development incurred by Cynosure during this financial year was about 3 million dollars. Research and development activity is also conducted in other companies of the Group, in particular by Asclepion and Quanta System for the medical sector and by Lasit, Quanta System and Ot-las for the industrial sector.

As has always been the policy in the past, the expenses listed in the table have been entirely entered into the operating costs.

The amount of expenses incurred corresponds to 7% of the consolidated sales volume of the Group. The amount spent by Cynosure, as mentioned above, was for 3 million dollars, which is 6% of its sales volume; the rest of the expenses were sustained almost entirely by El.En. SpA and amounts to 12% of its sales volume. During this period El.En. has entered into accounts revenue in the form of grants for an amount of 1.078 thousand Euros. These figures demonstrate the considerable entity of the efforts being made in this direction and the extent of the resources being expended.

Structure of the company administration

In compliance with Art. 19 of the company statutes, the company is administered by a Board of Directors with a number of members which may vary from a minimum of three to a maximum of fifteen.

The present Board of Directors is composed of nine members who will remain in office until the assembly is called for the approval of the financial statement closed on December 31st 2005. These members are as follows:

NAME	POSITION	PLACE AND DATE OF BIRTH
Gabriele Clementi	President and CEO	Incisa Valdarno (FI), 8th July 1951
Barbara Bazzocchi	Board Member and director	Forlì, 17th June 1940
Andrea Cangioli	Board Member and director	Firenze, 30th December 1965
Francesco Muzzi	Board Member	Firenze, 9th September 1955
Marco Canale	Board Member	Napoli, 12th November 1959
Paolo Blasi*	Board Member	Firenze, 11th February 1940
Michele Legnaioli*	Board Member	Firenze, 19th December 1964
Angelo Ercole Ferrario	Board Member	Busto Arsizio, 20th June 1941
Alberto Pecci	Board Member	Pistoia, 18th September 1943

* Independent administrators, as per art. 3 of the Codice di Autodisciplina delle Società Quotate

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

On November 13th, 2003, the Board of directors assigned to the President of the Board, Gabriele Clementi and to the Board members, Andrea Cangioli and Barbara Bazzocchi, separately from each other and with free signature, all of the powers of ordinary and extraordinary administration for conducting the activities related to the company business, and excluding only, those powers which cannot be delegated in compliance with art. 2381 of the Civil Code and company statutes,

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

a) On August 31st 2000 the Board of Directors presented two independent administrators among its members, in compliance with Art. 3 of the Self-disciplining code mentioned above. These independent administrators are now Prof. Paolo Blasi and Michele Legnaioli.

b) On September 5th , 2000 the Board created the following committees composed mainly by non-executive administrators:

1) the "Nomination committee", which has the task of proposing nominations, receiving them from the shareholders, and verifying that the procedures outlined in the company statutes for the selection of the candidates are followed;

2) the "Compensation committee" which has the task of supplying information and clarification regarding the fees paid to the members of the Board of Directors;

3) the "Internal controls committee" which has the task of acting as consultant and support for the Board in relation to the creation and monitoring of the internal controls system.

c) On September 5th 2000 the Board designated a provost for internal controls.

The Board of Directors meets at least every quarter in order to guarantee adequate information for the Board of Auditors concerning the activities and the most important operations conducted by the Company.

Internal auditing of the company is conducted by the parent company of the Group in collaboration with the personnel of the subsidiary companies. From an organisational point of view, the administrators of the parent company of the Group attend the board meetings of the subsidiary companies as board members and have the office of single administrator, or else, the administrative organ of the subsidiary supplies the fully detailed information required for establishing the organisation of the activities of the Group.

As far as the accounting information is concerned, before the end of the month following the quarter being considered, the subsidiaries are required to supply to the parent company of the Group all the information necessary for drawing up the consolidated financial and economic reports.

On February 24th 2006 those adhering to the auditing pact stipulated in the year 2000 and renewed in 2003, and for which ample information was given in the report on the management in the financial statement closed on December 31st 2004, agreed that the Pact should be dissolved in advance of the established date and with immediate effect.

Ethics code related to internal dealing

In compliance with Articles 2.6.3 and 2.6.4.of the regulations described by the "*Regolamento dei Mercati organizzati e gestiti da Borsa Italiana SpA*" on January 1st 2003, the company adopted an ethics code with reference to those operations involving so-called "internal dealing" or inside trading, by relevant personnel, to regulate the obligations of disclosing information and the types of behaviour to be observed in order to guarantee complete transparency and homogeneity of information in relation to the market.

This document sets down the temporal and quantitative limits in which such persons are required to communicate:

a) within the third day of open market after the closure of each report period (every solar quarter): the operations effected on the stock of the company during that quarter which, even cumulatively, are for more than twenty-five thousand Euros;
b) immediately and, in any case, before the market opens the next day after the operation involving the stock of the company or that in which the amount was exceeded, as follows: the operations which, individually or cumulatively with operations effected during the report period, but not declared, amount to or exceed one hundred and fifty thousand Euros.

As per European Union law 2004 (L. 18th April 2005, n. 62) which, in response to the European Union directives on market abuse, modified with the Legislative Decree of the 24th of February 1998, n. 58 and the later regulating activities now being implemented by Consob, as of April 1st 2006 the company is required to adopt the rules related to internal dealing respectively in "*Article 114, comma 7, Testo Unico sulla Finanza e da 152-sexies a 152-octies Regolamento Consob* 11971/1999" as it was modified by vote 15232 on November 29th 2005.
Starting on April 1st 2006 therefore, it will be obligatory by law to divulge to the public the operations effected by relevant persons and by persons closely tied to them on financial instruments of the company, and, consequently, the regulations related to internal dealing contained in the *Regolamento dei Mercati* organized and managed by the Borsa Italiana SpA. are abrogated.

Equities held by administrators, auditors and general directors

Some of the Board Members hold other positions in the subsidiary and associated companies of the Group, as shown below:

Name	Position
Gabriele Clementi	- CEO of Valfivre Italia Srl (company owned 99% by El.En. SpA) - Board Member of Quanta System SpA (company owned 60% by El.En. SpA) - President, Board of Directors of AQL Srl (company indirectly controlled through Quanta System SpA and Lasit SpA) - Board Member of I.A.L.T. Scrl (consortium in which El.En SpA holds a 50% equity)
Barbara Bazzocchi	- CEO of Cutlite Penta Srl (company owned 53,50% by El.En. SpA) - President of the Board of Directors of Actis – Active Sensor Srl (company owned 12,00% by El.En. SpA)
Francesco Muzzi	- President of the Board of Directors of Deka M.E.L.A. Srl (company owned 60% by El.En. SpA)
Andrea Cangioli	- CEO of Neuma Laser Srl (company indirectly controlled through Cutlite Penta Srl and Ot-Las Srl) - Board Member of Quanta System SpA (company owned 60% by El.En. SpA) - Board Member of Cynosure Inc. (company owned 35,14% by El.En. SpA) - Board Member of Ot-las Srl (company controlled directly and indirectly through Cutlite Penta Srl) - Board Member of A.S.A. Srl (company owned 60% by the subsidiary Deka M.E.L.A. Srl) - CEO of Asclepion Laser Technologies (company owned 50% by El.En. SpA and 50% by Quanta System SpA) - CEO of Deka Lms GmbH (company owned 76,16% by El.En. SpA) - Board Member of Lasercut Inc. (owned 70%) - President of the Board of Directors of S.B.I. SA (company owned 50% by El.En. SpA)
Angelo E. Ferrario	- President of the Board of Directors of Quanta System SpA (company owned 60% by El.En. SpA - Board Member of AREX Srl (company indirectly controlled through Quanta System SpA) - Board Member of AQL Srl (company indirectly controlled through Quanta System SpA and Lasit Srl)

The acting members of the Board of Auditors of El.En. SpA are also on the Board of Auditors of subsidiary companies as shown on the following table:

Name	Position
Vincenzo Pilla	- President of the Board of Auditors of Lasit Srl since December 3rd 2003 (ex acting auditor) - President of the Board of Auditors of Deka M.E.L.A. Srl - Acting auditor of Cutlite Penta Srl
Paolo Caselli	-President of the Board of Auditors of Cutlite Penta Srl - Acting auditor of Deka M.E.L.A. Srl - Acting auditor of Lasit Srl
Giovanni Pacini	- Acting auditor of Cutlite Penta Srl - Acting auditor of Deka M.E.L.A. Srl

In compliance with Art. 79 of the Consob regulations adopted with vote n.11971 on May 14th 1999, the equities held in the company administrators, auditors and members of their families are shown below:

Name	*Company*	*No. of shares on 31/12/2004*	*No. of shares acquired*	*No. of shares sent*	*No. of shares on 31/12/2005*
Andrea Cangioli	El.En. S.p.A.	624.460			624.460
Barbara Mazzocchi	El.En. S.p.A.	494.824			494.824
Gabriele Clementi	El.En. S.p.A.	495.650			495.650
Francesco Muzzi	El.En. S.p.A.	486.724		-16.125	470.599
Immobiliare del Ciliegio Srl (*)	El.En. S.p.A.	312.412			312.412
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
Alberto Pecci	El.En. S.p.A.	172.187	184.540	-2.000	354.727

(*) The Immobiliare del Ciliegio Srl is a company with headquarters in Prato, with a capital stock of 2.553.776 Euros. Andrea Cangioli has the property without usufruct of 25% of the capital stock.

Debenture Loan

On November 7th, 1996 in a special assembly the company approved the emission of a debenture loan for an amount of up to 619,748 Euros by the issuance of 120,000 bonds with a nominal value of 5.16 Euros each. The entire debenture loan was underwritten for a portion of 412,133 Euros by: Autilio Pini, Andrea Cangioli, Francesco Muzzi, Barbara Bazzocchi, Carlo Raffini and Gabriele Clementi, for a portion of 123,950 Euros by Gabriele Clementi and his wife, and for a portion of 10,329 Euros by. Carlo Raffini and his wife. The remaining part of the loan, for the sum of 73,336 Euros was underwritten by a third party. The duration of the loan is for ten years, and it will be reimbursed by December 31st 2006. The annual rate of interest is 9.75%, payable in yearly instalments deferred until January 1st of each year. Upon expiration the bonds will be reimbursed at their nominal value.

Treasury Stock

During the month of February 2005, in accordance with the vote of approval by the Shareholders' Assembly of April 24th 2002, El. En SpA put back into circulation the treasury stock which they had previously purchased, also in accordance with the vote of the same assembly, and in full respect of the laws which govern this type of transaction. The 22.714 shares owned, and registered at the time of purchase for a value of 255.937 Euros, at an average price of 11,2678 Euros, were sold at an average price of 25,05 Euros, reaching a gross capital gains equal to 313 thousand Euros which, in accordance with the accounting principles now in use, was entered among the amounts of the shareholders' equity, net of the relative fiscal effect.

Adaptation of the company statutes in compliance with Legislative Decree 6/2003

The company, in accordance with the modifications introduced by the Legislative Decree no. 6 of January 17th 2003 and later variants, after a vote by the Special Assembly on September 29th 2004, modified its company statutes in order to adapt their content to the new regulations now in force and to take advantage of this opportunity to improve and refine the formulation of some of the statutory dispositions.

Adoption of the rules relating to the protection and guarantee of personal data (privacy)

In order to comply with the new laws relating to privacy, the company up-dated the Privacy document "*Documento Programmatico sulla Sicurezza*", which had been used up to that time.

Events of importance which occurred after the closing of the financial year

No events of particular importance for the Group took place after the closure of the financial year 2005.

Predictable trends for the financial year now in progress

During the approval of the annual report, the management confirmed their operating forecasts for the financial year 2006, which include a further expansion of activities. For the consolidated sales volume, the objective is a growth rate of slightly under 20% in order to exceed 140 million in sales. The objective for the consolidated operating revenue is just over 12 million Euros. These forecasts have been formulated in the expectation that the exchange rate for the US dollar be about 1,24 Euro, that is, equivalent to the average exchange rate for the financial year 2005.

For the Board of Directors
The President – Gabriele Clementi

EL.EN. GROUP

CONSOLIDATED FINANCIAL TABLES AND COMMENTS

Consolidated Balance Sheet

	Note	31/12/2005	31/12/2004	Var.
Balance Sheet				
Intangible assets	1	7.354.173	11.106.800	-3.752.627
Tangible assets	2	11.321.697	10.117.544	1.204.153
Equity investments	3	774.050	1.393.065	-619.015
Deferred tax assets	4	3.466.113	1.318.281	2.147.832
Other non current assets	4	193.052	246.652	-53.600
Total non current assets		**23.109.085**	**24.182.342**	**-1.073.257**
Inventories	5	32.797.138	25.462.346	7.334.792
Accounts receivables	6	30.587.069	21.911.845	8.675.224
Tax receivables	7	2.963.348	2.626.558	336.790
Other receivables	7	1.876.466	2.239.913	-363.447
Financial instruments	8	467.233	267.811	199.422
Cash and cash equivalents	9	77.071.374	15.069.818	62.001.556
Total current assets		**145.762.628**	**67.578.291**	**78.184.337**
TOTAL ASSETS		**168.871.713**	**91.760.633**	**77.111.080**
Common stock	10	2.436.963	2.424.367	12.596
Additional paid in capital	11	35.324.009	34.954.351	369.658
Other reserves	12	7.998.342	6.492.515	1.505.827
Treasury stock	13		-255.937	255.937
Retained earnings / (deficit)	14	3.274.815	31.471	3.243.344
Net income / (loss)		24.704.214	4.646.298	20.057.916
Parent company's stockholders' equity		**73.738.343**	**48.293.065**	**25.445.278**
Minority interest in consolidated subsidiaries		50.384.545	5.610.489	44.774.056
Total equity		**124.122.888**	**53.903.554**	**70.219.334**
Severance indemnity	15	2.173.430	1.719.963	453.467
Deferred tax liabilities	16	722.923	518.385	204.538
Other accruals	17	4.046.235	2.799.861	1.246.374
Financial liabilities	18	1.960.970	2.579.511	-618.541
Non current liabilities		**8.903.558**	**7.617.720**	**1.285.838**
Financial liabilities	19	2.192.170	4.043.958	-1.851.788
Accounts payables	20	20.251.139	15.914.837	4.336.302
Tax payables	21	3.680.064	3.553.221	126.843
Other payables	21	9.721.894	6.727.343	2.994.551
Current liabilities		**35.845.267**	**30.239.359**	**5.605.908**
TOTAL LIABILITES AND STOCKHOLDERS' EQUITY		**168.871.713**	**91.760.633**	**77.111.080**

Consolidated Profit and Loss Account

Profit and loss account	Note	31/12/05	Inc.%	31/12/04	Inc.%	Var.%
Revenues	22	118.343.061	100,0%	94.519.282	100,0%	25,2%
Change in inventory of finished goods and WIP		4.002.923	3,4%	3.197.544	3,4%	25,2%
Other revenues and income	23	1.977.971	1,7%	1.511.009	1,6%	30,9%
Value of production		**124.323.955**	**105,1%**	**99.227.835**	**105,0%**	**25,3%**
Purchase of raw materials	24	50.219.683	42,4%	39.437.926	41,7%	27,3%
Change in inventory of raw material		(1.721.746)	1,5%	(1.307.877)	1,4%	31,6%
Other direct services	25	10.995.259	9,3%	9.006.317	9,5%	22,1%
Other operating services and charges	25	23.354.025	19,7%	19.426.263	20,6%	20,2%
For staff costs	26	26.588.832	22,5%	22.621.376	23,9%	17,5%
EBITDA		**14.887.902**	**12,6%**	**10.043.830**	**10,6%**	**48,2%**
Depreciation, amortization and other accruals	27	4.938.251	4,2%	4.172.000	4,4%	18,4%
EBIT		**9.949.651**	**8,4%**	**5.871.830**	**6,2%**	**69,4%**
Net financial income (charges)	28	922.805	0,8%	(2.406)	0,0%	
Share of profit of associated companies		4.202	0,0%	150.392	0,2%	-97,2%
Other Income (expense) net	29	19.643.242	16,6%	3.344.398	3,5%	487,3%
Income before taxes		**30.519.900**	**25,8%**	**9.364.214**	**9,9%**	**225,9%**
Income taxes	30	4.407.151	3,7%	2.956.958	3,1%	49,0%
Income for the financial period		**26.112.749**	**22,1%**	**6.407.256**	**6,8%**	**307,5%**
Minority interest		1.408.535	1,2%	1.760.958	1,9%	-20,0%
Net income		**24.704.214**	**20,9%**	**4.646.298**	**4,9%**	**431,7%**

Basic net (loss) income per share		5,30		1,01		
Diluted net (loss) income per share		5,20		1,00		
Basic weighted average common shares outstanding		4.662.999		4.618.978		
Diluted weighted average common shares outstanding		88.986		24.224		

Consolidated cash flow statement

Financial statement (cash flow)	31/12/2005	31/12/2004
Cash flow generated by operating activity:		
Profit (loss) for the financial period	24.704.214	4.646.298
Amortizations and depreciations	2.825.694	2.420.509
Change of employee severance indemnity	256.924	234.482
Change of provisions for risks and charges	1.242.532	513.879
Change of provisions for deferred income taxes	-1.969.241	-135.701
Stocks	-6.883.178	-3.843.770
Receivables	-7.967.719	-4.037.895
Tax receivables	-262.105	241.033
Other receivables	441.898	-915.167
Payables	3.911.338	1.803.241
Tax payables	-36.602	2.092.114
Other payables	2.879.892	1.546.728
	-5.560.567	-80.547
Cash flow generated by operating activity:	19.143.647	4.565.751
Changes in non current assets:		
(Increase) decrease in tangible assets	-3.651.098	-3.322.925
(Increase) decrease in intangible assets	3.858.281	-3.872.173
(Increase) decrease in equity investments and non current assets	222.301	-331.587
	429.484	-7.526.685
Cash flow from purchase of subsidiary companies	-266.891	-574.724
Cash flow from financial activity:		
Increase (decrease) in non current financial liabilities	-643.449	-128.584
Increase (decrease) in current financial liabilities	-1.866.726	1.431.285
Increase (decrease) in financial receivables	-39.117	6.973
(Increase) decrease investments which are not permanent	211.668	656.653
Change in Capital and Reserves	2.372.849	1.121.968
Change in Capital and Reserves of third parties	44.291.876	-72.741
Dividends distributed (31)	-1.631.785	-1.149.607
	42.695.316	1.865.947
Increase (decrease) in cash at bank and on hand	62.001.556	-1.669.711
Cash and cash equivalents at the start of the financial period	15.069.818	16.739.529
Cash and cash equivalents at the end of the financial period	77.071.374	15.069.818

Table showing changes in the Stockholders' equity

STOCKHOLDERS' EQUITY:	**Balance 31/12/2003**	**Net income allocation**	**Dividends distributed**	**Adjustments**	**Other operations**	**Balance 31/12/2004**
Common stock	2.402.992				21.375	2.424.367
Additional paid-in capital	34.462.053				492.298	34.954.351
Legal reserve	537.302					537.302
Reserve for own shares						
Own shares	-255.937					-255.937
Others reserves:						
Extraordinary reserves	5.486.618	583.043				6.069.661
Reserve for contribution on capital account	426.657					426.657
Reserve for translation adjustments	-1				-579.790	-579.791
Other reserves	4.568				34.118	38.686
Retained earnings	56.200	-29.089	-1.149.607		1.153.967	31.471
Profits (loss) of the year	553.954	-553.954			4.646.298	4.646.298
Capital and reserves	43.674.406	-	-1.149.607	-	5.768.266	48.293.065
Capital and reserves of third parties	5.638.086	45.144	-120.000		-1.668.555	3.849.531
Profit (loss) of third parties	45.144	-45.144			1.760.958	1.760.958
Minority interests	5.683.230	-	-120.000	-	92.403	5.610.489
Total Stockholders' equity	49.357.636	-	-1.269.607	-	5.860.669	53.903.554

STOCKHOLDERS' EQUITY:	**Balance 31/12/2004**	**Net income allocation**	**Dividends distributed**	**Adjustments**	**Other operations**	**Balance 31/12/2005**
Common stock	2.424.367	-	-	-	12.596	2.436.963
Additional paid-in capital	34.954.351	-	-	-	369.658	35.324.009
Legal reserve	537.302	-	-	-	-	537.302
Reserve for own shares	-	-	-	-	-	-
Own shares	-255.937	-	-	-	255.937	-
Others reserves:						
Extraordinary reserves	6.069.661	269.390	-	-	-	6.339.051
Reserve for contribution on capital account	426.657	-	-	-	-	426.657
Reserve for translation adjustments	-579.791	-	-	-	919.262	339.471
Other reserves	38.686	-	-	-	317.175	355.861
Retained earnings	31.471	4.376.908	-1.631.785	-	498.221	3.274.815
Profits (loss) of the year	4.646.298	-4.646.298	-	-	24.704.214	24.704.214
Capital and reserves	48.293.065	-	-1.631.785	-	27.077.063	73.738.343
Capital and reserves of third parties	3.849.531	1.760.958	-259.172	-	43.624.693	48.976.010
Profit (loss) of third parties	1.760.958	-1.760.958	-	-	1.408.535	1.408.535
Minority interests	5.610.489	-	-259.172	-	45.033.228	50.384.545
Total Stockholders' equity	53.903.554	-	-1.890.957	-	72.110.291	124.122.888

COMMENTS

INFORMATION ON THE COMPANY

El.En. SpA is a corporation which was founded and is registered in Italy. Headquarter of the company is in Calenzano (Florence), Via Baldanzese n. 17.
Ordinary stock of the company is quoted on the MTAX which is managed by Borsa Italiana SpA.
The consolidated annual report of El. En group was examined and approved by the Board of Directors on March 30th 2006.
The statement is drawn up in Euros, which is the currency in use by the parent company of the Group and by many of its subsidiaries.

CRITERIA USED FOR DRAWING UP THE STATEMENTS

The consolidated financial statement has been drawn up on the basis of the original cost, except for the financial assets held for sale, which are entered at fair value.
The consolidated financial statement of the El. En. Group as of December 31st 2005 was drawn up in conformity with the International Financial Reporting Standards adopted by the European Union.
The consolidated annual report compiled on December 31st 2005 is the first annual report of the El. En Group made applying the International Accounting Principles promulgated by the International Accounting Standard Board (IASB) and approved by the European Union, including among them also all of the international principles which are subject to interpretation (International Accounting Standards - IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and by the former Standing Interpretations Committee (SIC).
In order to make it possible to compare the economic information for the financial year 2004 and the financial information as of December 31st 2004, the same principles have been adapted, where applicable.
The document which is titled "Appendix 1 – Reconciliation Tables for Italian and International Accounting Principles" which has not been changed with respect to the one attached to the consolidated report for the quarter ending June 30th 2005, illustrates the effects derived from the transition to the IFRS on the data relative to the period between January 1st 2004 and December 31st 2004; the reconciliation of the data as indicated by IFRS 1- First Use of International Financial Reporting Standards is also reported and contains the relative explanatory notes.

In the compilation of this consolidated financial statement no exceptions have been made in the application of the International Accounting Principles.

In 2005, IASB issued a series of amendments to the accounting principles which will become effective over the next few years. The main documents issued are listed below:

- IAS 19 – Benefits to employees: amendment issued in December 2004, will take effect starting January 1st 2006;
- IAS 39 – Financial instruments: a first amendment was issued in April 2005. The IASB later issued a final amendment in June of 2005 which will become effective on January 1st 2006;
- IFRS 7 – Financial instruments: additional information: issued in August of 2005, it will become effective on January 1st 2007;
- IAS 1 – Presentation of the financial statement: additional information related to capital: issued in August 2005, it will become effective starting on January 1st 2007;
- IAS 39 – Financial instruments: issued in August 2005, it will become effective starting in January of 2006;
- IFRS 4 – Insurance contracts: issued in August of 2005, it will become effective starting in on January 1st 2006.

The Group is evaluating the possible impact that these changes may have on future financial statements.

The present consolidated financial statement consists of the following documents:

- Balance Sheet,
- Profit and Loss Account,
- Cash flow Statement,
- Table of variations in the Stockholders' Equity,
- Comments on the Consolidated Financial Tables.

The financial information provided refers to the financial years 2005 and 2004. The statement of financial position, however, refers to December 31st 2005 and December 31st 2004.
The parent company, El.En. SpA hired the auditing firm of Reconta Ernst & Young SpA to make a complete accounting revision of the reconciliation tables required by the IFRS 1 for January 31st 2004 and for December 31st 2004 and included in Appendix 1, as well as the accounting revision of the consolidated financial statement on December 31st 2005.

AREA OF CONSOLIDATION

SUBSIDIARY COMPANIES

The consolidated financial statement of the El. En. Group includes the statements of the Parent Company and those of the Italian and foreign firms in which El. En. SpA controls directly or indirectly the majority of votes which can be given in an ordinary assembly, or, in the case of Cynosure Inc. , has the power to nominate or to remove the majority of the members of the Board of Directors. The companies that are, as of this date, included in the area of consolidation are shown on the following table:

					Percentage held:			Consolidated
Company name:	**Notes**	**Headquarters**	**Currency**	**Subscr. capital**	**Direct**	**Indirect**	**Total**	**Percentage**
<u>**Parent company:**</u>								
El.En. SpA		Calenzano (I)	EURO	2.436.963				
<u>**Subsidiary companies:**</u>								
Deka M.E.L.A. Srl		Calenzano (I)	EURO	40.560	60,00%		60,00%	60,00%
Cutlite Penta Srl	1	Calenzano (I)	EURO	103.480	53,50%	10,00%	63,50%	63,40%
Valfivre Italia Srl		Calenzano (I)	EURO	47.840	99,00%		99,00%	99,00%
Deka Sarl		Vienne (F)	EURO	76.250	98,00%		98,00%	98,00%
Deka Lms GmbH		Freising (D)	EURO	51.129	76,16%		76,16%	76,16%
Deka Dls GmbH	2	Freising (D)	EURO	50.000		50,40%	50,40%	38,38%
Deka Laser Technologies LLC		Fort Lauderdale (USA)	USD	1.000	51,00%		51,00%	51,00%
Ot-las Srl	3	Calenzano (I)	EURO	57.200	15,00%	54,00%	69,00%	49,24%
Lasit Srl	4	Vico Equense (I)	EURO	1.000.000	50,00%	20,00%	70,00%	59,85%
Neuma Laser Srl	5	Calenzano (I)	EURO	46.800		100,00%	100,00%	56,32%
Lasercut Inc.		Branford (USA)	USD	1.000	70,00%		70,00%	70,00%
BRCT Inc.	A	Branford (USA)		no par value	100,00%		100,00%	100,00%
Quanta System SpA	B	Solbiate Olona (I)	EURO	364.000	60,00%		60,00%	60,00%
Asclepion Laser Technologies GmbH	6	Jena (D)	EURO	1.025.000	50,00%	50,00%	100,00%	80,00%
Arex Srl	7 C	Corsico (I)	EURO	20.500		51,22%	51,22%	30,73%
AQL Srl	8 D	Solbiate Olona (I)	EURO	100.000		100,00%	100,00%	59,92%
ASA Srl	9 E	Arcugnano (VI)	EURO	46.800		60,00%	60,00%	36,00%
Cynosure Inc.		Westford (USA)	USD	11.065	35,14%		35,14%	35,14%
Cynosure GmbH	10	Langen (D)	EURO	25.565		100,00%	100,00%	35,14%
Cynosure Sarl	10	Paris (F)	EURO	114.336		100,00%	100,00%	35,14%
Cynosure KK	10	Tokyo (J)	YEN	10.000.000		100,00%	100,00%	35,14%
Cynosure UK	10	London (UK)	GBP	1		100,00%	100,00%	35,14%
Suzhou Cynosure Medical Devices Co.	10	Suzhou (China)		no par value		51,60%	51,60%	18,13%

(1) owned by El.En SpA (53,50%) and Valfivre Italia Srl (10%)
(2) owned by Deka Lms GmbH
(3) owned by El.En SpA (15%) and Cutlite Penta Srl (54%)
(4) owned by El.En Spa (50%) and Ot-las (20%)

(5) owned by Cutlite Penta Srl
(50%) and Ot-las Srl (50%)
(6) owned by El.En SpA (50%)
and Quanta System SpA (50%)
(7) owned by Quanta System SpA
(8) owned by Quanta System SpA
(50%) and Lasit Srl (50%)
(9) owned by Deka Mela Srl
(10) owned by Cynosure Inc.

(A) C/E consolidated in January 2005
(B) C/E consolidated in January 2004
(C) C/E consolidated in April 2004
(D) founded on the 25th of June 2004
(E) C/E consolidated in November 2005

In the month of January 2005 El. En. SpA transferred title of the real estate property it owns in Branford, Connecticut, to the subsidiary BRCT Inc, which it owns 100%, for the purpose of simplifying the bureaucratic management of the property which serves as the operating premises for Lasercut Inc.

As part of the operation which was initiated at the end of the last financial year, and for which full information is given in the Appendix to the annual report closed on December 31st 2004, during the first few months of the financial year 2005 the parent company completed payment in full for the repurchase of the shares of their subsidiary Cynosure Inc. from the minority shareholders. We also closed the sale to the management of the company, and to subjects close to the management, of 495.000 shares at the same price at which they were purchased ($ 3,00). Of these shares 450.000, for an amount of 1.350.000 dollars, were entered into accounts on December 31st 2004 as current assets belonging to El.En. SpA, while the remaining 45.000 were entered among the financial non current assets.

Also in reference to the subsidiary Cynosure, on October 1st 2005, 1.000.000 shares were sold to the subsidiary BRCT, who settled the corresponding net amount of 12 million US dollars ($12 per share) in the days that followed. Afterwards, on December 9th 2005 Cynosure concluded the initial public offer for the underwriting and sale of its own shares on the Nasdaq market. As part of this operation Cynosure Inc. offered 4 million of its newly issued shares on the market reaching a gross price of 15 dollars per share, which was well in excess of the amount which had originally been forecast; moreover, during the first few days in which the stock was negotiated, the sponsors of the operation (Citigroup, Needham, Jeffries) picked up the "Greenshoe" option which had been granted to them and purchased 750,000 newly issued shares from Cynosure. This operation resulted in a considerable capitalization of Cynosure, and an increase in the value of the equity held by El. En.
As a result of this operation El. En. SpA now holds 3.888.628 shares of Cynosure, an amount which corresponds to 35,14% of the capital. Due to a special change in the statute, which created two types of shares, with one class of shares having the specific power to appoint and to remove the majority of members of the Board of Directors of the company, El.En. maintains control of Cynosure "*de iure*" and continues therefore to wholly consolidate the results of the American firm.

On November 2nd the parent company, El.En. SpA acquired an equity of 15% of the capital of Ot-Las Srl, a company which was already indirectly controlled through the subsidiary Cutlite Penta Srl which holds a 54% share of the capital.

Moreover, on November 2nd the extraordinary assembly of Lasit Srl voted to transform the company into a corporation and also voted to increase the capital stock which was originally 234 thousand Euros, to one million Euros by increasing it for 16 thousand Euros by means of conversion of retained earnings, and the remaining 750 thousand Euros with payment. The increase in capital was underwritten *pro-quota* by all of the partners. This operation came as a natural result of the program of development and consolidation instituted over the past few years by the company, whose role is increasingly important in its particular sector of the market.

Moreover, on November 2nd the Deka M.E.L.A. Srl acquired a further quota of 20% of ASA Srl, a company in the Veneto region which manufactures medical devices for MLS laser therapy and magnetotherapy for a cost of 390 thousand Euros. The operation thus brings the equity of the El. En. Group in ASA to 60%; consequently, starting from the date of purchase, the results of ASA were wholly consolidated into the Annual Reports of the El. En. Group. ASA Srl has recently received two important recognitions at the international level: from the FDA, for the sale on the American market of innovative MLS laser equipment for the treatment of muscular and tendon pathologies like lombo-sciatica and epicondolitis, and from the SFDA for the sale in China of equipment for magnetotherapy for curing osteo-articulation pathologies like osteoporosis and arthritis.

The value of the assets and liabilities of ASA Srl at the moment of purchase were as follows:

Balance Sheet

Intangible assets	334.686
Tangible assets	149.717
Deferred tax assets	1.060
Total non current assets	**485.463**
Inventories	451.614
Accounts receivables	707.505
Tax receivables	74.685
Other receivables	39.334
Financial instruments	411.090
Cash and cash equivalents	83.001
Total current assets	**1.767.229**
TOTAL ASSETS	**2.252.692**
Shareholders' Equity	**1.282.386**
Severance indemnity	196.543
Deferred tax liabilities	27.007
Other accruals	3.842
Financial liabilities	24.908
Non current liabilities	**252.300**
Financial liabilities	14.938
Accounts payables	424.964
Tax payables	163.445
Other payables	114.659
Current liabilities	**718.006**
TOTAL LIABILITES AND STOCKHOLDERS' EQUITY	**2.252.692**

These amounts have been considered representative of the fair value of each liability and asset acquired and consequently the goodwill has been determined by comparing the price paid with the difference between the assets and liabilities shown above.

ASSOCIATED COMPANIES

El. En. SpA holds, directly and indirectly, equities in several companies which, however, it does not control. These companies have been evaluated using the shareholders' equity method. The equities held in associated companies are as follows.

			Percentage held:			**Consolidated**
Company name:	**Headquarters**	**Subscr. capital**	**Direct**	**Indirect**	**Total**	**percentage**
Immobiliare Del.Co. Srl	Milan	24.000	30,00%		30,00%	30,00%
SBI SA	Herzele (B)	300.000	50,00%		50,00%	50,00%
IALT Scrl	Florence	10.000	50,00%		50,00%	50,00%

Capital stock is expressed in Euros unless otherwise specified.

On December 6th 2005, in accordance with Belgian law a company was founded and called "SBI – Smartbleach International", with a capital stock of 300 thousand Euros, held for 50% by the Parent Company El. En. SpA. The business of this company will be the world distribution of laser systems for teeth whitening, for which FDA authorization has recently been obtained for sale in the United States.

PRINCIPLES OF CONSOLIDATION

The financial statements used for the consolidation are the annual reports of the single companies. These statements have been opportunely reclassified and adjusted for the purpose of standardizing the accounting principles and the IFRS evaluation criteria chosen by the Parent Company.
In drawing up the consolidated statement the assets and liabilities as well as the revenue and operating charges of the companies included in the area of consolidation have been entirely reported. Payables and receivables, revenue and charges, profits and losses which originated from operations made between consolidated companies have been eliminated.
The accounting value of the equity held in each of the subsidiary firms has been eliminated in the place of the corresponding value of the shareholders' equity of each of the subsidiary companies including any adaptation to fair value on the date of purchase; the difference which emerges is treated like start-up expenses or goodwill, and as such is entered into accounts in accordance with IFRS 3, as illustrated below.
The amount of capital and reserves of the subsidiaries corresponding to equities held by third parties is entered under a heading in the shareholders' equity which is called "capital and reserves of third parties"; the part of the consolidated economic result which corresponds to equities held by third parties is entered under the heading "profit (loss) pertaining to minority interest".

CONVERSION OF CURRENCY

The accounting situation for each consolidated company is drawn up using the functional currency which is related to the economic context in which it operates. In this accounting situation, all of the transactions which occur using currency different from the functional one are reported at the exchange rate in effect on the date of the operation. Monetary assets and liabilities existing in a currency other than the functional one are consequently adapted to the exchange rate in effect on the closing date for the period being reported. Non-monetary assets and liabilities existing in currency and entered at the original cost are converted using the exchange rate in effect at the time the operation was first reported. The non-monetary assets and liabilities in currency and entered at the fair market value are converted using the exchange rate in effect at the time that their value was determined.

CONVERSION OF CURRENCY

For the purpose of drawing up the consolidated financial statement, the results, the assets and the liabilities are expressed in Euros, which represent the functional currency of the parent company, El. En. SpA. For the purpose of organizing the consolidated financial statement, the financial situations with functional currency which is not the Euro, have been converted to Euros by applying, to the assets and liabilities, including start-up and adjustments made during the consolidation phase, the exchange rate in effect on the day that the financial period was closed and to the entries in the profit and loss account, the average rates of the period which are closest to the exchange rates in effect on the date of the relative operations. The relative differences in rates are reported directly in the net shareholders' equity and are shown separately in a special reserve of the latter. The differences in rates are reported in the profit and loss account at the moment of sale of the subsidiary.
When the IFRS were first used, the cumulative conversion differences generated by the consolidation of the foreign firms with functional currencies other than Euros were reclassified as the results of the preceding financial years as is permitted by the IFRS 1; for this reason, only the differences of conversions accumulated and entered into accounting after January 1st 2004 are involved in the determining of the capital gains and losses which are a result of their sale.
The Dollar/ Euro exchange rates used for converting the statements of Cynosure, Lasercut and Deka Laser Technologies are as follows: final exchange 1,1797; average exchange 1,24409.

INFORMATION ON THE DIVISION INTO SECTORS

The "sector" is a distinct part of the Group which supplies a homogeneous set of products and services (activity sector) or supplies products and services in a defined economic area (geographic sector). Within the El. En. Group two primary levels of activity have been defined: i) "medical" and, ii) "industrial" and a third residual area iii) "others". As a secondary category, the sectors have been divided by geographical location, with the net profits from sales divided according to the location of the clients.

USE OF ESTIMATES

The creation of the consolidated financial statement with application of the IFRS, requires the use of estimates and assumptions which influence the value of the assets and the liabilities in the report and the relative information on the potential for the period being reported. The results which are actually achieved may differ from these estimates. Estimates are used to report the provisions for credit risks, for obsolescence of warehouse inventory, amortizations, devaluation of assets, benefits to employees, taxes and other accruals and funds. The estimates and assumptions are periodically re-evaluated and the effects of each variation are reflected in the profit and loss account.
Goodwill is subjected to an impairment test on a yearly basis in order to verify any losses in value which may have occurred.

EVALUATION CRITERIA

A) FIXED ASSETS WITH DEFINED AND UNDEFINED LIFE SPAN

The intangible fixed assets are activities which do not have an identifiable physical consistency and are capable of producing future economic benefits. They are entered into accounts at the original cost of purchase and shown net of amortizations made during the financial period and ascribable to the single entries. The Group uses the cost criteria, as opposed to fair value, as the criteria for evaluating the intangible fixed assets. In the case where, independently from the amortization which has already been entered into accounts, a loss of value is shown, the asset will be correspondingly devaluated; if, during the following financial periods, the assumptions of the devaluation do not occur, the asset will be returned to an amount within its original value adjusted only by the amortizations.
The costs sustained by the company for the development of new products and services represent, depending on the individual case, internally generated intangible assets or tangible assets and the costs sustained are entered as assets only when all the following conditions have been met: 1) the existence of the technical possibility or the intention to complete the activity in such a way as to make it available for use; 2) capacity of the Group to sell or use the activity; 3) existence of a market for the products or services which are derived from the activity or rather, the utility for company purposes; 4) capacity of the activity to generate future economic benefits; 5) existence and availability of adequate technical and financial resources to complete the development and the sale or use of the products and services which are derived from it; 6) reliability of evaluation of the costs attributed to the activity during its development. The costs of development which are capitalized include only the expenses sustained which can be attributed directly to the development process. The costs of research are entered in the profit and loss account for the period in which they are sustained. The other intangible assets with a defined life span are evaluated at the price of purchase or manufacture and amortized at a constant quota for all of their estimated life span.
Start-up and other activities which have an indefinite life span are not subject to systematic amortization, but are subject to an annual impairment test.

Goodwill
All acquisitions are entered into accounting using the *"purchase method"*.
Goodwill, which is derived from the acquisition of subsidiary or associated companies or *joint ventures,* represents the excess of the purchase price with respect to the *fair value* of the activities acquired net of the current or potential liabilities assumed and has been allocated to each of the *"cash generating units"* (CGU) identified. The identification of the CGUs coincides with each juridical subject. After the initial entry, goodwill is not amortized and is reduced for potential reductions in value, as determined in accordance with the method described below. The goodwill which is related to the equity in associated companies is included in the value ascribed to each company. In the case in which a negative goodwill has emerged, it is immediately entered in the profit and loss account.
The goodwill deriving from the acquisitions made before January 1st 2004 is entered at the value registered under that heading in the last consolidated financial statement drawn up according to the previous accounting principles (December 31st 2003).

B) TANGIBLE ASSETS

The assets are entered at the price of purchase or manufacture including accessory charges, and net of depreciations. The ordinary maintenance expenses are entirely entered into the profit and loss account. Maintenance expenses of an incremental nature are attributed to the source of reference and amortized in function of the residual possibility of utilizing that source.
The Group uses the cost method as opposed to the fair value system, as criteria for evaluating the tangible assets. In particular, according to that principle, the value of the real estate and buildings which are part of it are separated and only the buildings are subject to depreciation.
The aliquots used for amortization are shown on the table below:

Description	*Amortization 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 and décor	12.00%

C) FINANCIAL CHARGES

Financial charges are entered into the profit and loss account at the time that they are sustained.

D) LOSS OF ASSET VALUE

For each date of reference in the financial period being reported, the tangible and intangible assets with a defined life span are analyzed for the purpose of determining if their has been a reduction in their value. The recoverable amount spent for goodwill and for intangible assets with a undefined life span, when present, is estimated at each date of reference. If there is an indication of a reduction in value, we proceed to the estimate of the recoverable value

The presumed worth is represented by either the net sale price or the use value, whichever is greater. For purposes of determining the use value, the expected future financial flows are implemented by utilizing a pre-tax discount rate which reflects the current market value of the cost of money in relation to the time of the investment and the specific risks of he activity. For an activity which does not generate financial flow which is fully independent, the cost price is determined in relation to the *cash generating unit* to which the activity belongs. A reduction in the value is recognized in the profit and loss account when the amount entered for the activity or for the relative *cash generating unit* to which it belongs is greater than the presumed cost price. With the exception of Goodwill, the reductions in value are returned when the reasons that generated it no longer exist.

E) FINANCIAL ASSETS: EQUITIES

The financial assets which consist of equities in associated companies are evaluated using the shareholders' equity method, that is, for an amount equal to the corresponding fraction of the net capital and reserves shown in the last statement of the same companies, after having subtracted the dividends and made the adjustments required by the principles used for formulating the consolidated annual report in conformity with the IFRS in order to make them consistent with the accounting principles used by the parent company.
The companies with joint control (*joint-ventures*) are evaluated in the consolidated annual report using the shareholders' equity method, starting on the date in which the joint venture was initiated and ending when the joint venture ceases to exist.

F) FINANCIAL INSTRUMENTS

Equities in other companies

Equities in companies which are not subsidiaries or associated (generally with less than 20% ownership) are classified at the time of purchase among the financial assets which are "held for sale" or among the assets which are evaluated at the fair value through the profit and loss account as part of the current or non-current assets.
The equities described above are evaluated at the fair market value or else at cost in the case of equities which are not quoted or of equities for which the fair value is not reliable or not determinable, adjusted for loss of value, according to the rules described in IAS 39. The variations in the value of equities classified as "held for sale" are entered in a reserve of the shareholders' equity which will be entered into the profit and loss account at the time of sale. The variations in the value of the equities classified at fair market value through the profit and loss account are entered directly into the profit and loss account.

Stocks
The financial assets which are not included among the equities classified among the current assets are included in the category called "held for negotiation" and evaluated at "fair value through the profit and loss account ".

Trade accounts receivable
Receivables are entered at cost (identified by their nominal value) net of any reduction in value, which corresponds to their presumed sale value.

Other financial assets
Financial assets are reported in the financial statement on the basis of the date of negotiation and are initially evaluated at cost, including the charges directly related to the acquisition. On the following statement dates, the financial assets which are to be held until expiration date are reported at the amortized cost according to the method of the actual interest rate, net of any devaluations made in order to reflect loss in value.
The financial assets which are not of the kind to be held until the expiration date are classified as "held for negotiation" or "available for sale" and are evaluated at the fair value for each period with the effects being entered, respectively, either in the profit and loss account under the heading of "Financial charges/income" or in the special reserve of the shareholders' equity, in this latter case until they are sold or have suffered a reduction in value.

Cash at bank and in hand and other equivalent assets
Cash and checking accounts at banks and other short term financial investments which are easily convertible into cash with no significant risk of change in value are included in this category.

Treasury stock
The company's own shares are entered in reduction of the shareholders' equity. No profit or loss is recorded in the profit and loss account for the purchase, sale, issue or cancellation of treasury stock.

Accounts payables
Trade debts with due dates which fall within the usual commercial limits are not implemented and are entered at cost (identified by their nominal value).

Financial liabilities
Financial liabilities are initially reported at fair value net of the costs of the transactions directly related to them. Afterwards, financial liabilities are evaluated using the criteria of the amortized cost with the actual interest rate method.

G) INVENTORY

Residual stock of raw materials and finished products are evaluated at the cost or the market value, whichever is less. The cost is determined with the weighted average cost method. The evaluation of warehouse stock include the costs directly related to materials and labour and the indirect costs of manufacture (variable and fixed). Funds are also accrued for depreciation of materials, finished products, spare parts and other supplies considered obsolete or with slow turnover, and considering their expected future use and sale price.
Stocks of semi-finished products are evaluated on the basis of the cost of manufacture, with reference to the calculated average cost.

H) EMPLOYEE BENEFITS

FUND FOR SEVERANCE INDEMNITY (TFR).
Severance indemnity is classified as a type of "post-employment benefit", of the kind called "defined benefit plan", the matured amount of which is projected in order to estimate the amount which must be paid when employment is terminated and afterwards, using the "Projected unit credit method". This method is based on hypotheses of a demographic and financial nature in order to make a reasonable estimate of the amount of benefits which each employee has accumulated in relation to the work he/she has performed.
Through the actuarial evaluation under the heading of "cost of labour" the current service cost (which defines the amount of the benefits matured during the financial period by the employees) is entered in the profit and loss account., and, under the heading of Financial Charges/income, the interest cost which constitutes the figurative charge that the company would sustain by requesting an amount equal to the severance pay from the financial market.
The actuarial profits and losses are recorded *pro-quota* in the profit and loss account for the rest of the average working life of the employees, within the limits of which the net value not recorded at the end of the preceding financial year is in excess by 10% of the liabilities (the so-called corridor system).

STOCK OPTION PLANS
The cost of the labour of the employees paid by means of the stock option plan is determined on the basis of the fair value of the options that are granted to the employees on the date in which they are acquired.
The method used to calculate the *fair value* takes into account all of the characteristics of the options (duration of the option, price and conditions, etc.) as well as the date on which they are assigned, the volatility of the stock and the curve of the interest rates on the date of assignment in consistency with the duration of the plan. The pricing model used is Black & Scholes.
The cost is recognized in the profit and loss accounts through the period of maturation of the options that have been granted taking into account the highest possible estimation of the number of options that will be picked up.
In accordance with the regulations outlined by the IFRS 1, this principle has been applied to all options assigned after November 7th 2002 which had not yet matured by January 1st 2005.

I) PROVISIONS FOR CONTINGENCIES AND OTHER LIABILITIES

The Group reports the funds for contingencies and other liabilities when, in the presence of a legal or implicit obligation on behalf of a third party, it is likely that the use of resources of the Group will have to be implemented in order to meet the obligation, and when it is possible to make a reliable estimate of the amount of this same obligation. Variations in the estimated amount are reflected in the profit and loss account for the period in which the variation occurred.

L) RECOGNITION OF REVENUE

Revenue from sales of goods is recorded when the significant risks and benefits of the property are transferred to the purchaser.
The financial income and charges are recorded on the basis of the interest matured on the net value of the relative financial assets and liabilities using the actual interest rate.

M) GRANTS IN CAPITAL ACCOUNT AND IN OPERATING ACCOUNT

Grants from public institutions as well as from third parties are registered when there is a reasonable certainty that they will actually be received and that the conditions for obtaining them will be satisfied. Grants received as payment for specific expenses are recorded with the other liabilities and credited to the profit and loss account when the conditions for entering them have been satisfied. Grants received for specific goods the value of which is entered among the tangible and intangible assets are recorded either by direct reduction of the assets themselves or among the other liabilities and credited to the profit and loss account on the basis of the period of amortisation of the goods to which they refer. Operating grants are registered entirely in the profit and loss account as soon as they have satisfied the conditions required for entry.

N) FINANCIAL LEASING

Financial leasings are entered into accounts in accordance with the financial method which requires the entering into accounts of the asset which has been acquired and of the relative financing. The relative amortization quoted and financial charges related to the financing are entered into the profit and loss account.

O) TAXES

Current taxes on income for the period are determined on the basis of the estimate of the taxable income and in conformity with the laws in effect at the time. Deferred income tax assets and liabilities are calculated on the temporary differences between the capital value and the corresponding values recognized for tax purposes by applying the fiscal aliquot in effect at the time or substantially valid on the referral date. Deferred tax assets are entered when their recovery is likely, i.e., when it is expected that taxable revenue that is sufficient to recover the asset will be available in the future. The possibility of recovering the deferred tax assets is re-examined at the closure of each financial period.
On the cost of labour registered in relation to the salary programs as equities in the capital of the parent company El. En. No fiscal effect has been registered since the shares which will be assigned to the employees will arise from the increase in capital.

P) PROFIT PER SHARE

The base profit per ordinary share is calculated by dividing the quota of the economic result of the Group attributed to ordinary shares by the weighted average of the ordinary shares in circulation during that financial period, excluding treasury stock. For the purpose of calculating the profit diluted by ordinary shares, the diluted weighted average of the common shares outstanding is modified assuming the underwriting of all the potential shares deriving from the conversion of bonds and the exercising of a warrant having a diluting effect. The net result of the Group is also rectified in order to adjust for the effects, net of taxes, of these operations.

STOCK OPTION PLANS

A stock option plan has been created by the company in order to provide the Group with an instrument for promoting employee incentive and loyalty.

El.En. SpA

The following table illustrates the essential elements of the stock option plan for El. En. SpA stock, implemented in the financial year 2005

	Max. expiration date	Existing options at 01.01.05	Options issued from 01.01.05 to 31.12.05	Options cancelled from 01.01.05 to 31.12.05	Options picked up from 01.01.05 to 31.12.05	Expired option not picked up from 01.01.05 to 31.12.05	Existing options at 31.12.05	Options which can be picked up at 31.12.05	Pick up price
Plan 2004/2005	December 31, 2005	24.224	0	0	24.224	0	0	0	€ 15,78
Plan 2006/2007	July, 16 2007	0	140.000	0	0	0	140.000	0	€ 24,23
		24.224	140.000	0	24.224	0	140.000	0	

For the purpose of determining the fair value using the pricing model “Black & Scholes”, the following hypotheses have been formulated:

a) plan 2004/2005
- market interest rate for no-risk investments: 3%
- historic volatility: 21,67%
- time interval used for calculating the volatility: 1 year before date of issue

b) plan 2006/2007
- market interest rate for no-risk investments: 2,5%
- historic volatility: 26,20%
- time interval used for calculating the volatility: 1 year before date of issue

During 2005 the average price registered for El.En. S.p.A. stock during the period in which it was possible to pick up the option was approx. 30 Euros.

For the characteristics of the individual stock option plans used by El. En. SpA., as well as the increases in capital voted in order to implement them, see the description contained in the chapter concerning the composition of the capital.

Cynosure Inc.

The following table shows the stock option plans of Cynosure Inc. which were effective in 2005

Existing options at 01.01.05	Options issued from 01.01.05 to 31.12.05	Options cancelled from 01.01.05 to 31.12.05	Options picked up from 01.01.05 to 31.12.05	Expired options which were not picked up from 01.01.05 to 31.12.05	Existing options at 31.12.05	Options which can be picked up from 31.12.05
1.480.258	408.700	31.582	36.198	0	1.821.178	574.828

The table which follows shows the pick-up prices and the average lifespan of the options in circulation on December 31st 2005

Pick up price	Existing Options at 31.12.05	Options which can be picked up at 31.12.05	lifespan Average
$3,00	1.382.342	509.842	8,77
$3,25	31.901	31.901	4,42
$3,50	7.438	7.438	5,60
$4,00	7.647	7.647	3,61
$4,50	369.350	18.000	9,38
$15,00	22.500	0	9,94
	1.821.178	574.828	8,80

On December 31st 2005 the hypotheses for the calculation used by Cynosure to determine the fair market value are the following:

Market interest rate for no-risk investments: 3,88%
volatility: 75%

COMMENTS ON THE MAIN ASSETS

Assets which are not current

Intangible fixed assets (note 1)

Changes registered in this financial period for intangible assets are the following

Categories	Balance 31/12/04	Variation	Revaluation (Devaluation)	Other Operations	(Amortizations)	Translation Adjustments	Balance 31/12/05
Goodwill	10.339.388	-4.355.133		289.833			6.274.088
Costs of research, development	23.100			2.557	-8.137		17.520
Patents and rights to use patents of others	250.031	45.000		66	-54.580	36.494	277.011
Concessions, licences, trade marks and similar rights	211.573	60.318		329.528	-146.515	11.063	465.967
Other	23.455	11.852		1	-19.800	9	15.517
Intangible assets in progress and payments on account	259.253	4.739				40.078	304.070
Total	**11.106.800**	**-4.233.224**		**621.985**	**-229.032**	**87.644**	**7.354.173**

The amount entered under the heading "Goodwill" includes:
a) the amount resulting from the acquisition by El.En. of 51,55% of Deka Lms GmbH, which took place in 2001 and the later acquisition of a further share of 24,61%, which took place in the month of April 2003. The amount entered on the 31st of December was for 50 thousand Euros;
b) the amount resulting from the acquisition of Cynosure in 2002 by the parent company of 60% of the Cynosure Group. This amount has been justified by the sale of 2,5% of the Cynosure made by El. En. SpA as part of the plan to buy Quanta System SpA; it is also influenced by the increase in the equity after the operations on the capital made at the end of the financial year 2004, and the effects of the sale of part of the stock to the management of the company and to subjects close to the management, as described in detail in the introduction of this report; the sale of 1.000.000 shares which occurred in October also determined a further decrease in the value, which, on December 31st 2005 was approx. 3.240 thousand Euros;
c) The amount which resulted from the purchase of 30% of the shares of Quanta System SpA made during the last financial year by the parent company. The amount entered into accounts on December 31st 2005 was for 2.079 thousand Euros;
d) the amount which resulted from the acquisition during the last financial year of the subsidiary Valfivre Italia Srl for a quota of 6% of Cutlite Penta Srl. The amount entered into accounts on December 31st 2005 is for 211 thousand Euros;
e) the amount paid during the financial year 2001 by the subsidiary Deka Lms GmbH for the purchase of the business of distributing medical equipment in Germany. The amount entered into accounts on December 31s 2005 was for approx. 119 thousand Euros;
f) the amount paid for Goodwill by the subsidiary Asclepion Laser Technologies GmbH for the purchase of the dermatology and odontoiatric business belonging to Carl Zeiss Meditec. The amount entered into accounts on December 31st 2005 was for approx. 73 thousand Euros;
g) the amount resulting from the purchase of two branches of companies operating in the same macro-sector by Arex Srl in this financial period. The amount entered into accounts on December 31st 2005 was for 55 thousand Euros;
h) the amount which resulted from the purchase by the parent company El.En. SpA of 15% of Ot-Las Srl, a company which was already controlled indirectly through Cutlite Penta Srl. The amount entered into accounts on December 31st 2005 was for approx. 7 thousand Euros;
i) the amount resulting from the purchase of ASA Srl by the subsidiary Deka MELA Srl. The amount entered into accounts on December 31st 2005 was for approx. 439 thousand Euros.

The estimate of the recoverable value of the Goodwill entered into accounts was made using the *Discounted Cash Flow* model which, for determining the use value of an asset uses the estimate of the future cash flow and the application of the appropriate actualization rate. In particular, the rate used (WACC) was for 8,6% and the explicit time range in which the cash flows were implemented was 10 years.

The “costs of research and development” are related to the capitalization of the costs sustained in the past financial years by the subsidiaries ASA Srl, Quanta System SpA and its subsidiary Arex Srl.

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

Under the heading “concessions, licenses, trade marks and other similar rights” the overall costs sustained by the parent company for the acquisition of new management software – implementation of which was terminated in 2002 – was entered into accounts among other items; the costs sustained by the company for the license to use a patent related to a safety device to be applied to laser systems. Under the heading “other “ there are also brand names for which revaluations were made by the subsidiary ASA Srl during the financial period ending December 31st 2000 as per law 342/2000.

The residual heading “other” also includes the costs sustained, in particular by the parent company, for the purchase of “generic software”.

Among the “intangible assets in progress” we have entered the costs sustained by the subsidiary Cynosure for the purchase of new management software which is still in the implementation phase.

Tangible assets (note 2)

The table below shows the changes which have taken place in the tangible assets during the last financial year:

Cost	Balance 31/12/04	Increments	Revaluations and devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31/12/05
Lands	1.407.755					4.253	1.412.008
Buildings	3.074.687	9.487				11.854	3.096.028
Plants and machinery	960.499	83.386		75.885	-50.578	18.447	1.087.639
Industrial and commercial equipment	8.610.188	2.546.705		45.530	-1.696.721	871.013	10.376.715
Other goods	5.598.384	1.244.226		358.851	-169.209	223.957	7.256.209
Tangible assets under construction	124.928	151.262		-30.760		4.266	249.696
Total	**19.776.441**	**4.035.066**		**449.506**	**-1.916.508**	**1.133.790**	**23.478.295**

Amortisation provisions	Balance 31/12/04	Amortizations amount	Devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31/12/05
Lands							
Buildings	404.069	89.702		-7.777		703	486.697
Plants and machinery	483.023	100.851		-6.059	-50.323	17.075	544.567
Industrial and commercial equipment	5.631.022	1.552.883		52.304	-989.697	634.519	6.881.031
Other goods	3.140.783	853.226		295.145	-201.390	156.539	4.244.303
Tangible assets under construction							
Total	**9.658.897**	**2.596.662**		**333.613**	**-1.241.410**	**808.836**	**12.156.598**

Net value	Balance 31/12/04	Increments	Revaluations and other operations	(Amortizations and devaluations)	(Disposals)	Translation Adjustments	Balance 31/12/05
Lands	1.407.755					4.253	1.412.008
Buildings	2.670.618	9.487	7.777	-89.702		11.151	2.609.331
Plants and machinery	477.476	83.386	81.944	-100.851	-255	1.372	543.072
Industrial and commercial equipment	2.979.166	2.546.705	-6.774	-1.552.883	-707.024	236.494	3.495.684
Other goods	2.457.601	1.244.226	63.706	-853.226	32.181	67.418	3.011.906
Tangible assets under construction	124.928	151.262	-30.760			4.266	249.696
Total	**10.117.544**	**4.035.066**	**115.893**	**-2.596.662**	**-675.098**	**324.954**	**11.321.697**

According to the current accounting principles, the value of the land has been separated from that of the buildings that are located on it, and the lands have not been amortized as they are considered elements with an unlimited useful lifespan. The value of the lands on December 31st 2005 was 1.412 thousand Euros.

The most valuable single fixed asset is the real estate complex in Via Baldanzese at Calenzano (FI) where the parent company and three of the subsidiaries operate. Moreover, the subsidiary BRCT Inc., after it was created by the parent company, holds the real estate in Branford, Connecticut, where the Lasercut Inc. factory is located. Another important item in this table is the equipment owned by the subsidiary Cynosure, which include laser systems used for sales demonstrations and for "revenue sharing", even net of the sales made in 2004 and in 2005 by Cynosure of a part of the equipment used by Sona for its laser aesthetic treatments.

The investments during this financial year have mostly involved new laser equipment for experiments and demonstrations in both the industrial and medical sectors especially as far as El.En. SpA and Cynosure are concerned. Moreover, although not to the extent they were last year, among the assets which continue to be entered into accounts were the laser systems that Cynosure uses for revenue sharing through Sona. Also, the number of motor vehicles owned by some of the companies in the Group was increased.

Among the "assets in progress and payments on account" we have entered the costs sustained by the parent company for the architectural and structural design and planning, as well as the charges for the construction permit, for enlarging the buildings in Via Baldanzese at Calenzano, Florence.

Equities (note 3)

The analysis of the equities is shown on the following table:

	31-Dec-05	31-Dec-04	Variation	Var. %
Equity investments in:				
associated companies	428.241	1.014.185	-585.944	57,78%
other companies	345.809	378.880	-33.071	-8,73%
Total	774.050	1.393.065	-619.015	44,44%

The associated companies, Immobiliare Del.Co. Srl, SBI SA and IALT Scrl have been consolidated using the shareholders' equity method. At the end of the financial year reported in this statement, the associated company M&E, the value of which had been completely devaluated in 2001, was dissolved by unanimous decision of the partners.

The table below shows some of the basic data related to the associated companies:

	Assets	Liabilities	Revenues	Charges
Immobiliare Del.Co. Srl	148.431	36.385	52.894	38.889
S.B.I. SA	300.000			
IALT Scrl	139.910	129.910	104.991	104.991

Among the "other companies" the equity in the RTM SpA, company, entered at cost, increased in the first few months of this financial year due to the effects of the underwriting of a further 62.625 shares worth approx. 31 thousand Euros; the amount entered into accounting was later subject to direct devaluation for the purpose of adapting it to the corresponding fraction of the net capital and reserves of the company.

Deferred tax assets/Other non-current assets (note 4)

Other non current assets	31/12/2005	31/12/2004	Variation	Var. %
Deferred tax assets	3.466.113	1.318.281	2.147.832	162,93%
Other non current assets	193.052	246.652	-53.600	-21,73%
Total	3.659.165	1.564.933	2.094.232	133,82%

For the analysis of the entry “Deferred tax assets”, see the next chapter relative to the “deferred tax assets and liabilities”.

Current assets

Inventory (note 5)

Analysis of inventory is shown on the table below:

Stocks:	**31-dic-05**	**31-dic-04**	**Variation**	**Var. %**
Raw materials and consumables	13.778.952	11.455.590	2.323.362	20,28%
Work in progress and semi finished products	6.269.023	5.954.103	314.920	5,29%
Finished products and goods for sale	12.749.163	8.052.653	4.696.510	58,32%
Total	32.797.138	25.462.346	7.334.792	28,81%

The increase in inventory this year mainly involved finished products, especially as a consequence of Cynosure’s strategy to increase the number of products available to their sales network for preliminary sales demonstrations.

Accounts receivables (note 6)

The table slow shows the trade receivables:

Debtors:	**31-dic-05**	**31-dic-04**	**Variation**	**Var. %**
Trade debtors	30.569.776	21.825.055	8.744.721	40,07%
Associated debtors	17.293	86.790	-69.497	-80,08%
Total	30.587.069	21.911.845	8.675.224	39,59%

Trade debtors:	**31/12/2005**	**31/12/2004**	**Variation**	**Var. %**
Italy	9.620.210	10.390.775	-770.565	-7,42%
European Community	8.263.108	5.997.737	2.265.371	37,77%
Outside of European Community	14.868.750	6.785.320	8.083.430	119,13%
minus: devaluation provision for debtors	-2.182.292	-1.348.777	-833.515	61,80%
Total	30.569.776	21.825.055	8.744.721	40,07%

The rapid growth of the sales volume of the Group, and in particular that of Cynosure, caused the expansion in the number of trade receivables and in particular those of Cynosure, as shown in the above table. In particular, the outstanding increase in sales volume in the month of December obviously had an influence on the dynamics of the receivables from clients.

The increase in the entry “devaluation provision for debtors” is justified by some accruals made for potential credit risks.
For a detailed analysis of the trade receivables and financial receivables (shown in note 7) towards associated firms, see the following chapter relative to “Correlated parties”.

Tax credits/other receivables (note 7)

The table below shows the subdivision of the other receivables:

	31/12/2005	31/12/2004	Variation	Var. %
Financial credits				
Financial credits v. associated companies	92.682	53.565	39.117	73,03%
Total	92.682	53.565	39.117	73,03%
Tax debtors				
VAT credits	2.634.983	2.408.657	226.326	9,40%
Income tax credits	328.365	217.901	110.464	50,69%
Total	2.963.348	2.626.558	336.790	12,82%
Other credits				
Security deposits	156.140	426.562	-270.422	-63,40%
Down payments	466.945	501.293	-34.348	-6,85%
Other credits	1.160.699	1.258.493	-97.794	-7,77%
Total	1.783.784	2.186.348	-402.564	-18,41%
Total other credits	4.839.814	4.866.471	-26.657	-0,55%

For a detailed analysis of the financial receivables towards associated firms, see the following chapter relative to “Correlated parties” .

The financial year was closed with a VAT credit of over 2 million Euros which was due to the intense export activity. Tax credits were mostly derived from the difference between advances and the tax debt which had matured by the date of this statement.

Financial instruments (note 8)

Investments which are not permanent:	31/12/2005	31/12/2004	Variation	Var. %
Other investments	467.233	267.811	199.422	74,46%
Total	467.233	267.811	199.422	74,46%

The amount entered under the heading of “Other investments” is made up of temporary use of cash by the subsidiary Lasit SpA in monetary funds for an amount of 55 thousand Euros and by the subsidiary ASA Srl in CCT, maturing April 1st and October 1st , for 412 thousand Euros.

In accordance with the requirements of the of accounting principle IAS 39 the “other investments” are evaluated at “fair value”; the effects of this evaluation are entered in the profit and loss account. The “fair value” is the market value.

Cash at bank and in hand (note 9)

Cash at bank and in hand is composed as follows:

Cash at Bank and in hand:	31/12/2005	31/12/2004	Variation	Var. %
bank and postal current accounts	77.020.977	15.033.309	61.987.668	412,34%
cash in hand	50.397	36.509	13.888	38,04%
Total	77.071.374	15.069.818	62.001.556	411,43%

For the analysis of the variations in cash in hand, see the table of the financial statement.

COMMENTS ON THE MAIN LIABILITIES

Capital and reserves

The main items making up the capital and reserves are as follows:

Capital stock (note 10)

On December 31st 2005 the capital stock of the El. En. Group, coinciding with that of the parent company was as follows:

Authorised	euro	2.509.763
Underwritten and deposited	euro	2.436.963

Nominal value of each share	***0,52***

Categories	**31/12/2004**	**Increase.**	**(Decrease.)**	**31/12/2005**
No. of Ordinary Shares	4.662.244	24.224		4.686.468
Total	**4.662.244**	**24.224**		**4.686.468**

The increase in the number of shares with respect to December 31st 2004, derives from the underwriting of the capital stock after the employees exercised their right to pick up the stock option as part of the “2004/2005 incentive plan” which is described in the chapter dedicated to the increases in capital.

The shares are nominal and indivisible; each of them assigns the right to vote in all of the ordinary and extraordinary assemblies as well as financial and administrative rights in accordance with the laws and the Statutes. The net operating profit must be destined for at least 5% for the legal fund, as per Art. 2430 of the Civil Code. The residual amount is divided up among the shareholders, unless the assembly decides otherwise. Advance payments on dividends are not authorized by the Statutes. Dividends which are not cashed within five years of the date of emission are turned over to the company. There are no particular clauses in the Statutes related to the equity of shareholders in the residual assets in the case that the company is liquidated. There are also no clauses in the Statutes which grant special privileges.

Increases in the capital for use in the stock option plan
During the extraordinary assembly of El.En. SpA held on the 16th of July 2002, in compliance Art. 2443 of the Civil Code, the Board of Directors voted to increase the capital stock of the company through one or more payments, and for a maximum period of five years after the date of approval, for a maximum amount of 124.800 nominal Euros, by issuing a maximum of 240.000 ordinary shares with a nominal value of 0,52 Euros each with maturity the same as that of the ordinary shares of the company at the date of the underwriting, to be released with the payment of a price determined by the Board of Directors in accordance with the regulations contained in Art. 2441, comma VI, c.c. – that is, on the basis of the shareholders' equity and in consideration of the trend of the quotation on the stock market during the last quarter– and for a unit value, including share premium equal to the greater of the following: a) the value per share determined on the basis of the consolidated net capital and reserves of El. En. Group on December 31st of the year preceding the date of issue of the options; b) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the 6 months preceding assignment of the options; c) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the 30 days preceding assignment of the options; d) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the period of time preceding the assignment of the options established by the Board of Directors in the regulations of the incentive plan.

On September 6th 2002, the Board of Directors voted to partially implement the proposal of the shareholders' assembly of July 16th 2002 and voted for an increase in capital stock of 31.817,76 Euros to be used for the stock option plan of 2003/2004 and approved the relative regulations. Option rights were assigned exclusively to the category of management, executives and white collar workers of the Group who at the time of assignment of the options were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase, for a maximum of 30.600 shares could be picked up by those having the right from November 18th to December 31st 2003, from August 15th to September 30th 2004, and from November 18th to December 31st 2004; the second phase, for a maximum of 30.588 shares could be picked up by the assignees from August 15th to September 30th 2004 and from November 18th to December 31st 2004.
In reference to this plan, as of December 31st 2004 (the last day the option could be picked up) 61.188 option rights had been assigned.

The Board of Directors, on November 13th 2003 voted to partially implement the approval of the shareholders' assembly of July 16th 2002 by voting to increase the capital stock by 13.145,60 Euros for use in the stock option plan of 2004/2005 and approved the relative regulations. The option rights were assigned exclusively to the category of management, executives and white collar workers of the Group who, at the time of assignment of the options, were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase for a maximum of 12.640 shares could be picked up by those having the right from November 18th to December 31st 2004, from August 15th to September 30th 2005 and from November 18th to December 31st 2005; the second phase, for a maximum of 12.640 shares could be picked up from August 15th to September 30th 2005 and from November 18th to December 31st 2005.
In reference to this plan, as of December 31st 2005 (the last day the option could be picked up) 25.280 option rights had been assigned in all, of which 1.056 picked up in 2004.

The Board of Directors, with the vote given on May 13th 2005 and the later modification of May 13th 2005, partially implemented the decision made by the Shareholders' assembly of July 16th 2002 to increase the Capital stock by 72.800 Euros to be used for the stock option plan for 2006/2007 and approved the relative regulations. The option rights were assigned exclusively to the category of Management, executives and white-collar workers who at the time of assignment of the options were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase, for a maximum of 70.000 shares can be picked up by those having the right from May 16th 2006 until the date on which the annual report for 2006 is approved and from May 29th 2007 to July 16th 2007; the second phase, for a maximum of 70.000 shares can be picked up by the assignees from May 29th 2007 to July 16th 2007.

Share premium account (note 11)

On December 31st 2005 the share premium account which corresponds to that of the parent company, amounted to 35.324 thousand Euros, an increase with respect to December 31st 2004 on account of the effect of the increase in capital stock caused by the picking up of stock options described in note 10, above.

Other reserves (note 12)

Other reserves	31/12/2005	31/12/2004	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	6.339.051	6.069.661	269.390	4,44%
Reserve for translation adjustments	339.471	-579.791	919.262	-158,55%
Stock options reserve fund	355.861	38.686	317.175	819,87%
DIFF3 contribution on capital account	150.659	150.659		0,00%
CESVIT contribution on capital account	3.099	3.099		0,00%
CCIAA contribution on capital account	3.892	3.892		0,00%
EU contribution on capital account	269.007	269.007		0,00%
Total	7.998.342	6.492.515	1.505.827	23,19%

On December 31st 2005 the "extraordinary reserve" was 6.339 thousand Euros; the variation which took place during the financial year is related to the accrual of the residual quota of the operating profit for 2004, as per the vote of the shareholders' assembly of May 13th 2005.

The stock option reserve fund includes the costs determined in accordance with IFRS 2 of the stock option plan assigned by El.En. SpA, for the quota which matures on December 31st 2005.

Treasury stock (note 13)

On December 31st 2005 the entry "treasury stock" related to 22.714 of their own stock belonging to the parent company and subsequently cancelled on account of the sale of the same which took place in February of 2005, at an average price of 25,05 Euros. The capital gains which was earned for a gross amount of 313 thousand Euros was entered into accounts in accordance with the accounting principles now in effect, among the entries of the net capital and reserves, net of the relative fiscal effect.

Profit/loss brought forward (note 14)

Under this heading we have entered, starting on January 1st 2004, as a consequence of the use of the IFRS accounting principles a negative adjustment of the net capital and reserves for an amount of 350 thousand Euros (for further details, see Appendix 1). This category includes, under the heading "other movements" the entry of a reserve fund on the capital gains earned from the sale of the treasury stock described in the preceding note, beyond the effects of the stock option plan voted by the subsidiary Cynosure Inc.

Table showing reconciliation between the annual report of the parent company and the consolidated annual report

	Profit and loss account	**Capital and reserves**	**Profit and loss account**	**Capital and reserves**
	31/12/2005	**31/12/2005**	**31/12/2004**	**31/12/2004**
Balance as shown in the financial statement of the parent company ITA – GAAP	**9.579.550**	**54.643.532**	**1.901.175**	**46.313.513**
Elimination of depreciation on the value of land	20.210	195.497	13.251	174.248
Inventory – change in the cost determination criteria	(7)	159.329	36.300	159.337
Severance indemnity – application of current value	8.908	(32.577)	10.848	(40.449)
Stock Option	(317.175)	0	(34.118)	0
Elimination of amortisation on formation and expansion expenses	0	0	232.231	0
Treasury stock	0	0	0	(255.937)
Earnings on sales of treasury stock	(209.757)	0	0	0
Balance as shown in the financial statement of the parent company IAS/IFRS	**9.081.729**	**54.965.781**	**2.159.687**	**46.350.713**
Elimination of equity investments in:	0	0	0	0
Entirely consolidated companies	14.602.991	11.290.910	2.740.118	(7.770.207)
Companies consolidated using the shareholders' equity method	4.202	(2.200)	19.917	(10.805)
Differences arising from consolidation	0	6.027.095	0	10.147.395
Elimination of dividends for the financial period	(426.747)	0	(180.000)	0
Elimination of internal profits on inventories	(65.301)	(958.786)	(48.811)	(890.182)
Elimination of internal profits from sales of assets	29.767	(19.683)	12.965	(49.450)
Value adjustments on equity investments	1.477.573	2.435.225	282.873	607.207
Effects of early amortizations	0	0	(340.451)	0
Other	0	0	0	(91.606)
Balance as shown in the consolidated financial statement – group quota	**24.704.214**	**73.738.343**	**4.646.298**	**48.293.065**
Balance as shown in the consolidated financial statement – third party quota	**1.408.535**	**50.384.545**	**1.760.958**	**5.610.489**
Balance as shown in the consolidated financial statement	**26.112.749**	**124.122.888**	**6.407.256**	**53.903.554**

Non-current liabilities

Employee severance indemnity fund (note 15)

The following table shows the changes which occurred this year:

Balance 31/12/2004	Provision	Utilization	Other	Balance 31/12/2005
1.719.963	528.739	-265.983	190.711	2.173.430

The amount shown in the column called "other" is a consequence of the consolidation of ASA Srl.

For IAS purpose the correspondence of the severance indemnity represents a "long-term benefit which takes place after employment has ceased"; this is considered an obligation with "defined benefit" which comports the entry of a liability analogous to that which arises in "defined benefit" pension plans.

It should be noted that the company has used the so-called "corridor method" on the basis of which the net accumulated value of the actuarial profits and losses is not recorded until it exceeds the overall value of 10% of the present value of the debenture loan. On December 31st 2005, the net accumulated value of the actuarial profits and losses not recorded was for an amount of approx. 130 thousand Euros. The value of the debenture loan as of December 31st 2005 was 2.303 thousand Euros.

The hypotheses used in order to determine the plan are summarized in the table below:

Financial hypotheses	Year 2004	Year 2005
Annual implementation rate	4,25%	4,00%
Annual inflation rate	2,00%	2,00%
Annual growth rate of severance indemnity	3,00%	3,00%
Annual increase rate of salaries (including inflation)	Executives 4,50% White collar workers 3,00% Blue collar workers 3,00%	Executives 4,50% White collar workers3,00% Blue collar workers3,00%

Analysis of deferred tax assets and liabilities (note 4) (note 16)

Deferred tax assets and liabilities have been accrued based on the temporary difference between assets and liabilities recognized for fiscal purposes and those that have been entered into accounts.

The analysis is as follows:

	Balance 31/12/2004	Provision	(Utilization)	Other	Translation Adjustments	Balance 31/12/2005
Deferred tax assets on loss account from subsidiary companies						
Deferred tax assets on stock devaluations	344.055	220.682	-3	40.549		605.283
Deferred tax assets for provisions on guarantee products	50.287	32.781		13.037		96.105
Deferred tax assets on credit devaluation	116.577	169.255		18.027		303.859
Deferred tax assets on loss brought forward from the previous years	80.130	707.344	-53.854		38.632	772.252
Deferred tax assets on intercompany profits	580.543	37.414	-17.670			600.287
Deferred tax assets on actualization of severance indemnity accruals	17.457	2.990	-10.624			9.823
Other deferred tax assets	129.232	1.165.090	-6.375	-269.729	60.286	1.078.504
Total	1.318.281	2.335.556	-88.526	-198.116	98.918	3.466.113
Deferred tax liabilities on advanced amortizations	264.819	20.738	-14.652			270.905
Deferred tax liabilities for contributions on capital account	405		-405			
Other deferred tax liabilities	253.161	225.280	-46.230	19.807		452.018
Total	518.385	246.018	-61.287	19.807	0	722.923
Net amount	799.896	2.089.538	-27.239	-217.923	98.918	2.743.190

The credits for deferred tax assets amount to approx. 3.466 thousand Euros and refer to deferred tax assets calculated during the preceding financial periods and the current one on the fund for obsolescence of warehouse stock, on the product guarantee fund, on the fund for the depreciation of non-deductible receivables and on the implementation of the severance indemnity fund. Deferred tax assets on the elimination of the inter-group profits effected in the consolidation and deferred tax assets entered among the fiscal losses by the subsidiary Cynosure on detained fiscal losses were also recorded.
There is however, a use of deferred tax assets entered among the fiscal losses registered earlier by the subsidiary Ot-las Srl and Cutlite Penta Srl. Under the heading “other movements” most of the entries refer to the effects derived from the consolidation of ASA and deferred tax assets on the stock options of the subsidiary Cynosure.

There is also a use of funds for deferred taxes on the contributions on capital account; moreover, there is an increase in the overall value of the deferred taxes on early amortizations.

Other provisions (note 17)

The following chart shows the movements which have taken place during this financial year:

	Balance 31/12/2004	Provision	(Utilisation)	Other	Translation Adjustments	Balance 31/12/2005
Reserve for pension costs and similar	197.450	55.549	-25.999	2.535		229.535
Others:						
Reserve for guarantee on the products	1.499.548	401.963			213.693	2.115.204
Reserve for risks and charges	327.237	900.512		9.000		1.236.749
Other minor reserves	775.626	425.147	-736.026			464.747
Total other reserves	2.602.411	1.727.622	-736.026	9.000	213.693	3.816.700
Total	2.799.861	1.783.171	-762.025	11.535	213.693	4.046.235

The agents and clients indemnity fund included in the entry "provisions for pensions and similar obligations" on December 31st 2005 amounted to approx. 228 thousand Euros as opposed to the 181 thousand Euros for December 31st 2004.
According to the IAS 37, the amount due must be calculated using implementing techniques in order to estimate, as closely as possible, the overall costs to be sustained for the payment of benefits to agents after severance.

The technical evaluations have been made on the basis of the hypotheses described below:

Financial hypotheses	**Year 2004**	**Year 2005**
Annual rate of implementation	4,25%	2,00%
Annual rate of inflation	2,00%	2,00%
Annual rate of increase in commission (not including inflation)	3,50%	

The product warranty fund is calculated on the basis of the costs of spare parts and assistance given under warranty, which have been sustained during the last financial period, adjusted for the sales volume of the period.

The fund called "other risks and charges" includes, among other items, a provision made by the parent company for a bonus to be paid to two administrators and the President of the Technical-Scientific Commission.

The entry "other minor funds", in observance of the relative accounting principle which describes it in detail, includes a provision related to the subsidiary Lasercut intended to cover the losses of third parties, when an explicit declaration of willingness to cover the losses made by these same parties is lacking.

Financial debts and liabilities (note 18)

Financial m/l term debts	**31/12/2005**	**31/12/2004**	**Variation**	**Var. %**
Bonds		619.748	-619.748	-100,00%
Amounts owed to banks	24.908	206.583	-181.675	-87,94%
Amounts owed to other financiers	1.936.062	1.753.180	182.882	10,43%
Total	1.960.970	2.579.511	-618.541	-23,98%

Among the non-current "Financial debts and liabilities" we have included debts towards other financiers which is constituted, among other things, by the amounts which are not due by this year, as follows:

a)IMI facilitated financing for applied research, divided as follows:
   Reference DIFF 3
   Multi-annual financing for 487.095 Euros at a fixed rate of 3,70% annually, last instalment July 1st 2008
   Reference TMR 4
   Multi-annual financing granted for 492.431 Euros at a fixed rate of 3,70% annually, last instalment July 1st 2006

b) Facilitated MPS financing for applied research, reference TRL01, granted for 681.103 Euros, at an annual rate of 2%, last instalment July 1st 2012.

c) Facilitated IMI financing for applied research, issued to the subsidiary Quanta System SpA, granted for 929.157 Euros at the annual rate of al 2% , to be paid back in 16 bi-annual instalments, postponed and starting on July 1st 2003.

d) Centrobanca financing, issued to the subsidiary Lasit Srl, granted for 57.765 Euros, at the annual rate of 0,96% to be paid back in 9 annual instalments.

e) Amounts owed to the leasing companies for 807 thousand Euros (391 thousand Euros on December 31st 2004).

Debts guaranteed by real estate collateral

The building in Via Baldanzese, 17, Calenzano has a ten-year mortgage on it which was issued by Cassa di Risparmio di Firenze described in the preceding paragraphs.

Current liabilities

Financial debts (note 19)

Financial debts are shown on the table which follows:

Financial short term debts	31/12/2005	31/12/2004	Variation	Var. %
Bonds	619.748		619.748	0,00%
Amounts owed to banks	800.617	1.545.602	-744.985	-48,20%
Amounts owed to other financiers	771.805	2.498.356	-1.726.551	-69,11%
Total	2.192.170	4.043.958	-1.851.788	-45,79%

The entry called "bonds" refers to the debenture loan issued by the parent company for 619 thousand Euros, and payable in a single instalment on December 31st 2006, which has a fixed interest rate of 9,75% adjusted annually on December 31st.
The entry "amounts owed to banks" refers to overdrafts on checking accounts which were granted to subsidiary companies by credit institutions. 206 thousand Euros refer instead to the remainder of a ten-year mortgage loan issued by the Cassa di Risparmio di Firenze, contracted by the parent company for 1.652.662 Euros to be paid back in constant bi-annual instalments of 103.291 Euros starting on March 31st 1999, with an interest rate equal to that of the quarterly EURIBOR plus a spread of 0,95%, with interest paid quarterly.
The entry "amounts owed other financiers" which includes the short-term amounts of the financing described in the preceding paragraph, shows a considerable decrease with respect to December 31st 2004 on account of the closure of the financial operations for the repurchase of the Cynosure shares from the minority partners which took place during the first part of this year. The entry also includes the short-term amounts of the debts towards leasing companies for an amount of 335 thousand Euros (110 thousand Euros on December 31st 2004).

The Group shows a positive net financial position. The financial debts are shown at the variation of the interest rates because no covering operations were put into effect.

Trade debts (note 20)

Trade debts:	31/12/2005	31/12/2004	Variation	Var. %
Amounts owed to suppliers	20.098.929	15.718.435	4.380.494	27,87%
Amounts owed to associated companies	152.210	196.402	-44.192	-22,51%
Total	20.251.139	15.914.837	4.336.302	27,25%

For a detailed analysis of the trade debts towards associated companies, see the next chapter relative to the "Correlated parties".

Tax debts/Other short term debts (note 21)

	31/12/2005	31/12/2004	Variation	Var. %
Tax debts				
Taxes on profit	2.412.303	1.598.838	813.465	50,88%
Debts owed to tax administration for VAT	526.109	1.211.532	-685.423	-56,57%
Debts owed to tax administration for deductions	741.652	742.851	-1.199	-0,16%
Total	3.680.064	3.553.221	126.843	3,57%
Social security debts				
Debts owed to INPS	955.556	742.767	212.789	28,65%
Debts owed to INAIL	94.773	37.180	57.593	154,90%
Debts owed to other Social Security Institutions	50.114	38.835	11.279	29,04%
Total	1.100.443	818.782	281.661	34,40%
Other debts				
Owed to staff for wages and salaries	3.238.282	2.584.939	653.343	25,27%
Down payments	1.480.167	1.256.834	223.333	17,77%
Other debts	3.903.002	2.066.788	1.836.214	88,84%
Total	8.621.451	5.908.561	2.712.890	45,91%
Total	13.401.958	10.280.564	3.121.394	30,36%

The debts owed for taxes on profits which have matured for several companies of the Group, are entered net of the relative pre-payments and deductions.
The amounts owed to staff include, among other things, the debt on deferred salaries matured by the employees by December 31st 2005.
The entry “down payments” includes down payments received from clients for an amount of 1.361 thousand Euros.
Included in the entry “other debts” there are the advanced revenues related to the subsidiary Cynosure Inc. for service contracts entered among the revenues on the basis of the duration of the same.

SECTORIAL INFORMATION

Primary sectorial information

In conformity with the IAS 14 regulations regarding sectorial information, the table below shows the gross margin of contribution for the two activity sectors, medical and industrial, considered “primary”, and the remaining sectors, classified as “Others”.

31/12/05	Total	Medical	Industrial	Other
Revenues	118.343	96.217	22.040	87
Other revenues and income	1.978	534	197	1.248
Margin	64.831	54.356	9.269	1.206
Inc.%	*54%*	*56%*	*42%*	*90%*
Not assigned charges	54.881			
EBIT	9.950			
Net financial income (charges)	923			
Share of profit of associated companies	4	0	0	4
Other Income (expense) net	19.643			
Income before taxes	30.520			
Income taxes	4.407			
Income for the financial period	26.113			
Minority interest	1.409			
Net income	24.704			

31/12/04	Total	Medical	Industrial	Other
Revenues	94.519	75.372	18.562	585
Other revenues and income	1.511	219	393	899
Margin	52.091	43.044	7.898	1.149
Inc.%	*54%*	*57%*	*42%*	*77%*
Not assigned charges	46.220			
EBIT	5.872			
Net financial income (charges)	(2)			
Share of profit of associated companies	150	151	0	(1)
Other Income (expense) net	3.344			
Income before taxes	9.364			
Income taxes	2.957			
Income for the financial period	6.407			
Minority interest	1.761			
Net income	4.646			

31/12/2005	Total	Medical	Industrial	Other
Assets assigned	142.580	120.151	22.429	
Equity investments	502	373	129	
Assets not assigned	25.790			
Total assets	168.872	120.524	22.558	0
Liabilities assigned	25.928	18.469	7.459	
Liabilities not assigned	18.821			
Total liabilities	44.749	18.469	7.459	0

31/12/2004	Total	Medical	Industrial	Other
Assets assigned	74.142	56.004	18.138	
Equity investments	1.125	934	191	
Assets not assigned	16.493			
Total assets	91.761	56.938	18.329	0
Liabilities assigned	18.318	13.031	5.287	
Liabilities not assigned	19.539			
Total liabilities	37.857	13.031	5.287	0

Other information:	Total	Medical	Industrial	Other
Changes in fixed assets:				
- assigned	(2.215)	(2.645)	430	0
- not assigned	(333)			
Total	(2.548)	(2.645)	430	0

The tables also show, as part of the medical and industrial sectors, the revenue earned from spare parts and technical assistance related to the same sector; these revenues, in the table of analysis of the revenues shown in the Appendix, are considered a single, separate category.

As in the preceding year, the EBITDA for the medical sector was far greater than that shown for the industrial sector.

The marginal character of the residual sector "Others" is typically very high, especially since they are made up mostly of revenues which are offset by the costs of personnel and general expenses, like the revenue from research and development.

Secondary sectorial information

31/12/05	Total	Italy	Europe	Row
Revenues	118.343	20.769	35.514	62.060

31/12/04	Total	Italy	Europe	Row
Revenues	94.519	21.705	27.622	45.192

31/12/2005	Total	Italy	Europe	Row
Assets assigned	168.098	71.958	6.152	89.987
Equity investments	774	556		218
Assets not assigned	0			
Total assets	168.872	72.514	6.152	90.205
Liabilities assigned	44.749	27.427	2.354	14.968
Liabilities not assigned	0			
Total liabilities	44.749	27.427	2.354	14.968

31/12/2004	Total	Italy	Europe	Row
Assets assigned	90.368	61.821	6.391	22.156
Equity investments	1.393	1.204		189
Assets not assigned	0			
Total assets	91.761	63.025	6.391	22.345
Liabilities assigned	37.857	26.226	2.720	8.911
Liabilities not assigned	0			
Total liabilities	37.857	26.226	2.720	8.911

Other information:	Total	Italy	Europe	Row
Changes in fixed assets:				
- assigned	(2.548)	(4.179)	(138)	1.769
- not assigned	0			
Total	(2.548)	(4.179)	(138)	1.769

The tendency towards globalisation of sales continues strong, and consequently the Group is increasingly less dependent on sales in Italy and more dependent on those abroad, including those outside of Europe. In 2005, sales volume for the rest of the world represented more than half of the consolidated sales volume.

COMMENTS ON THE MAIN ENTRIES IN THE PROFIT AND LOSS ACCOUNT

Revenue from sales and services (note 22)

The sales volume for this financial period was in excess of 118 million Euros showing an increase of 25% over the same period last year, and decidedly superior to the amount of 110 million Euros forecast by the management.

	31/12/2005	31/12/2004	Variation	Var. %
Sales of industrial laser systems	19.395.203	16.301.958	3.093.245	18,97%
Sales of medical laser systems	84.016.513	63.132.539	20.883.974	33,08%
Consulting and research	86.673	536.038	-449.365	-83,83%
Service and sales of spare parts	14.844.672	14.548.747	295.925	2,03%
Total	118.343.061	94.519.282	23.823.779	25,21%

Along with the excellent results in the medical and aesthetic sector, important progress was also made in the industrial sector which, during 2005, again started giving satisfactory results.
The medical sector, with a growth rate of around 33%, is going through an extremely favourable phase; our main competitors in the field are also achieving excellent results, and the success in placing the Cynosure shares on the market demonstrates, through the interest shown by the financial market, the state of health and the potential for development of this particular market.
The industrial sector also showed satisfactory results: although it started from a sales volume that was well below what it should have been, it showed a growth rate of 19%, which would tend to suggest concrete prospects for development during the next dew months.
In the sector of after-sales service, sales volume showed a slight increase although it is essentially stable with respect to last year. A faster growth had been expected for this sector considering that the continual increase in the number of units installed generates revenue for technical assistance services and spare parts; one of the main reasons which determined a lack of growth in this type of revenue was the fall in sales volume from "revenue sharing" which Cynosure showed in relation to its client, Sona, after the revision of the contract which comported a decrease in the revenue from rentals in favour of the revenue earned from direct sales of the laser systems.
The sales volume derived from research projects and the relative reimbursements made in accordance with contracts signed with the managing institutes financed by MIUR is negligible for this period; we are maintaining the category heading also because this amount must be integrated, since the amount of revenue for research activity which is entered among the sales is normally smaller than that which entered into accounts among the other sources of income. During this year the income was 1.200 thousand Euros; in 2004 income in this category was 860 thousand Euros.

As far as seasonal variations are concerned, this business is not subject to particular oscillations in its operations, except for a larger concentration of sales in the fourth quarter.

Other revenue and income (note 23)

The analysis of the other types of revenue and income is shown on the table below:

	31/12/2005	31/12/2004	Variation	Var. %
Recovery for accidents and insurance reimbursements	77.420	23.112	54.308	234,98%
Expense recovery	554.279	326.223	228.056	69,91%
Capital gains on disposal of fixed assets	86.815	260.371	-173.556	-66,66%
Other income	1.258.557	900.403	358.154	39,78%
Contribution on fiscal year account and on capital account	900	900	-	0,00%
Total	1.977.971	1.511.009	466.962	30,90%

Under the heading of "Other income" grants for research projects for an amount of 1.078 thousand Euros have been entered into accounts by the parent company El.En. SpA .

Costs for purchase of goods (note 24)

The following table shows the analysis of the purchases:

	31/12/2005	31/12/2004	Variation	Var. %
Purchase of raw materials and finished products	49.069.888	38.626.672	10.443.216	27,04%
Purchase of packaging	336.764	224.684	112.080	49,88%
Shipment of purchases	492.988	367.076	125.912	34,30%
Other purchase expenses	143.213	111.853	31.360	28,04%
Other purchases	176.830	107.641	69.189	64,28%
Total	50.219.683	39.437.926	10.781.757	27,34%

The increase in the purchases is a direct result of the increase in the volume of sales and is reflected, among other things, in the increase in final warehouse stock registered at the end of the financial year.

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

This category is composed as follows:

	31/12/2005	31/12/2004	Variation	Var. %
Direct services				
Expenses for work in progress at third parties'	2.645.178	2.619.261	25.917	0,99%
Technical services	434.639	424.435	10.204	2,40%
Shipment on sales	988.339	851.385	136.954	16,09%
Commissions	5.063.746	3.915.187	1.148.559	29,34%
Royalties	226.226	163.181	63.045	38,64%
Travel expenses	1.172.850	887.723	285.127	32,12%
Other direct services	464.281	145.145	319.136	219,87%
Total	*10.995.259*	*9.006.317*	*1.988.942*	*22,08%*
Operating services and charges				
Maintenance	160.144	128.407	31.737	24,72%
Services and commercial consulting	1.083.041	763.233	319.808	41,90%
Insurances	860.960	695.041	165.919	23,87%
Travel and overnight expenses	2.074.673	1.645.944	428.729	26,05%
Promotional and advertising expenses	3.996.622	3.144.051	852.571	27,12%
Utility charges	1.015.551	889.248	126.303	14,20%
Other taxes	193.919	134.378	59.541	44,31%
Expenses for vehicles	393.863	337.499	56.364	16,70%
Rent	2.820.616	2.282.128	538.488	23,60%
Other operating services and charges	10.754.636	9.406.334	1.348.302	14,33%
Total	*23.354.025*	*19.426.263*	*3.927.762*	*20,22%*
Total	34.349.284	28.432.580	7.905.646	27,80%

In the entry "Other operating services and charges" we have included, among other things, the salaries paid to the members of the administrative branches and the auditors commission, as well as the cost of legal consultation and for the auditing of accounts.

Cost for personnel (note 26)

This category of costs can be broken down as follows:

For staff costs	31/12/2005	31/12/2004	Variation	Var. %
Wages and salaries	21.104.129	18.167.398	2.936.731	16,16%
Social security costs	3.927.676	3.270.746	656.930	20,09%
Accruals for severance indemnity	452.877	418.171	34.706	8,30%
Stock options	1.104.150	761.442	342.708	45,01%
Other costs		3.619	-3.619	-100,00%
Total	26.588.832	22.621.376	3.967.456	17,54%

Depreciations, amortizations and other accruals (note 27)

This category of costs can be broken down as follows:

Depreciations, amortizations, and other accruals	31/12/2005	31/12/2004	Variation	Var. %
Amortization of intangible assets	229.032	252.848	-23.816	-9,42%
Depreciation of tangible assets	2.596.662	2.167.661	429.001	19,79%
Devaluations of fixed assets		663.032	-663.032	-100,00%
Accrual for risk on receivables	810.082	418.430	391.652	93,60%
Other accruals for risks and charges	1.302.475	670.029	632.446	94,39%
Total	4.938.251	4.172.000	766.251	18,37%

Financial management (note 28)

This category of costs can be broken down as follows:

	31/12/2005	31/12/2004	Variation	Var.%
Financial incomes:				
Interests from banks	306.872	143.343	163.529	114,08%
Interests from associated company	2.000	2.000	-	0,00%
Interests on investments	11.706	786	10.920	1389,31%
Income from negotiations	622	49.621	-48.999	-98,75%
Other financial incomes	42.346	10.214	32.132	314,59%
Total	363.546	205.964	157.582	76,51%
Financial charges:				
debenture loans	-60.425	-60.425	-	0,00%
bank debts for account overdraft	-183.120	-42.310	-140.810	332,81%
bank debts for medium and long - term loans	-46.355	-56.802	10.447	-18,39%
other financial charges	-160.669	-112.378	-48.291	42,97%
Total	-450.569	-271.915	-178.654	65,70%
Foreign exchange loss or gain:				
Foreign exchange loss	-456.976	-697.915	240.939	-34,52%
Foreign exchange gain	1.466.804	761.460	705.344	92,63%
Total	1.009.828	63.545	946.283	1489,15%
Total	922.805	-2.406	925.211	-38454,32%

In this table we have entered interest and income from negotiations relative to operations involving temporary cash investments.
Interest paid on checking account overdrafts refer mainly to overdrafts granted by credit institutions to subsidiary companies; interest paid to banks (bank debts) for loans and for mid- and long-term financing refer, among other things to the loan issued to the parent company El.En. SpA by the bank Cassa di Risparmio di Firenze and to the facilitated financing granted by MIUR (ex MURST)and issued by IMI and by MPS.

The entry "other financial charges" includes, for an amount of approx. 75 thousand Euros, the bank debt derived from the application of the IAS 19 accounting principle to the severance indemnity fund.

The differences in exchange rates (foreign exchange gain/loss) are due to the adaptation of the amounts in foreign currency at the time that they were actually exchanged, if this occurred during the financial period, or, evaluating the amounts opened at the end of the period, on the basis of their respective exchange rates. On the whole, and as a consequence of the partial recovery of the dollar with respect to the Euro, positive exchange differences are shown for the European companies (El.En. in particular) which have receivables in dollars from American and oriental clients, and negative exchange rate differences on the debts in dollars of some of the European companies (in particular the European subsidiaries of Cynosure).

Other net incomes and charges (note 29)

	31/12/2005	31/12/2004	Variation	Var. %
Other incomes or charges				
Loss on disposal of equity investments	-232.642	-1.352	-231.290	17107,25%
Profit on disposal of equity investments	20.394.611	2.874.833	17.519.778	609,42%
Accrual for losses in group companies	-425.147		-425.147	0,00%
Devaluation of equity investments	-93.580		-93.580	0,00%
Taxes related to the previous years		470.917	-470.917	-100,00%
Total	**19.643.242**	**3.344.398**	**16.298.844**	**487,35%**

The entry "Loss on disposal of equity investments" includes the capital losses which emerged as a consequence of the sale of 495.000 shares of Cynosure Inc. which took place during the first half of the year, and which was described in the introduction of this report. Since the shares were sold for the same price paid for the last purchase, $ 3,00, the capital loss was created by the combined effect of the Euro – Dollar exchange rate, and the reference amount for calculating the capital gains, which, according to international accounting principles, is the average progressive cost of the shares possessed, and not the LIFO as required by the tax regulations.
The other financial income and charges are strongly influenced by the capital gains registered as a result of the sale of stock made by the Group as part of the IPO of Cynosure. In order to facilitate the Nasdaq quotation of the subsidiary, the Group, in fact, sold a million ordinary shares of Cynosure, Inc., and for this sale showed a capital gains of approx. 7 million Euros. Moreover, in the profit and loss account we entered the capital gains generated by the increase in capital which occurred in Cynosure as a result of IPO which, according to the prevailing opinion, should be compared to the partial sale to the minority shareholders of subsidiary companies of which control is maintained. The capital gains, which amount to 13 million Euros, derives, in fact, from the increase in the capital stock of Cynosure entirely underwritten by third parties, and takes into consideration the increase in the net financial position for shares which occurred for the remaining shares on account of the depositing in cash of the increase in the capital on behalf of third parties. It should be noted that a different interpretation of the same accounting principle, which was, in fact, used for the quarterly report on December 31st 2005, would have, in any case, caused an identical increase of the net financial position of the Group, without, however, having this rectification entered in the profit and loss account, but, as stated, with the identical effect on the financial position. Beyond the representation in accounts, the quotation of Cynosure on the Nasdaq market constituted a reinforcement of the financial position of the Group and revealed an increase in the value of the Cynosure shares still held by El. En.
A substantial capital gains was also shown for the financial year 2004 as a consequence of the sale by Cynosure of their equity in the associated company, Sona International.

Income tax (note 30)

Description:	31/12/2005	31/12/2004	Variation	Var. %
IRES and other foreign income taxes	5.664.149	2.599.393	3.064.756	117,90%
IRAP	805.301	836.055	-30.754	-3,68%
IRES and other foreign income taxes - Deferred (Advanced)	-2.033.416	-471.445	-1.561.971	331,32%
IRAP - Deferred (Advanced)	-28.883	-7.045	-21.838	309,98%
Total income taxes	4.407.151	2.956.958	1.450.193	49,04%

The overall fiscal load of the financial period increased with respect to last year as a consequence of the increase in revenue. The tax rate on the other hand fell sharply, thanks in particular to two phenomena: the “PEX” exemption from which part of the capital gains on the sale of the Cynosure shares benefited together with the total fiscal neutrality of the remaining capital gains related to the increase of the quota of net capital and reserves per share; and the registering by Cynosure, as a reduction of current taxes, of the deferred tax assets related to non-deductible costs like the product guarantee fund. The registering of these taxes was made possible only at the time that the stable profitability of the company was confirmed.

	2005	2004
Profit/loss before taxes	30.519.900	9.364.214
Theoretical IRES Aliquot	33%	33%
Theoretical IRES	10.071.567	3.090.191
Higher (lower) fiscal incidence of the foreign companies with respect to the theoretical aliquot	(622.639)	(1.074.721)
Higher (lower) fiscal incidence of Italian companies with respect to the theoretical 'aliquot	(1.608.576)	32.379
Higher (lower) fiscal incidence due to the effects of consolidation	(4.209.619)	80.099
Actual IRES	3.630.733	2.127.948
Actual IRES aliquot	12%	23%

Dividends distributed (note 31)

The Shareholders’ Assembly held on May 14th 2004 voted to distribute 1.149.606,25 Euros as a dividend to be assigned to the shareholders, at the rate of 0,25 Euros for each of the 4.598.425 ordinary shares.
The Shareholders’ assembly held on May 13th 2005 voted to distribute 1.631.785,40 Euros as a dividend to be assigned to the shareholders, at the rate of 0,35 Euros for each of the 4.662.244 ordinary shares.
The dividend proposed by the Board of Directors and submitted for approval to the Assembly that will approve the 2005 annual report, was for 0,55 Euros for each of the 4.686.468 ordinary shares.

Information on the correlated parties

In accordance with the I.A.S. 24 the following subjects are considered correlated parties:

- Subsidiary and associated companies as presented in this document;
- Members of the Board of Directors and the Board of Auditors of the parent company and other management with strategic responsibilities;
- Physical persons who are shareholders of the parent company, El.En. SpA;
- Legal entities in which a significant equity is held 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 Auditors, or by another manager with strategic responsibilities.

One of the Board Members, majority shareholder of the parent company is the outright owner of a quota of 25% of Immobiliare del Ciliegio Srl, which is also a shareholder of the parent company.
All transactions with the correlated parties took place under normal market conditions.

In particular the following should be noted:

<u>Members of the Board of Directors, the Board of Auditors and other strategic management positions</u>

The members of the Board of Directors and of the board of Auditors of the parent company received the following salaries:

Person	***Appointment description***	***Salary***				
Name	*Position*	*Term duration*	*Perquisites*	*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 31.12.05	90.000		200.000	6.500
Barbara Bazzocchi	Deputy member	Until the date of the assembly for the approval of the financials for 31.12.05	90.000			6.500
Andrea Cangioli	Deputy member	Until the date of the assembly for the approval of the financials for 31.12.05	90.000		100.000	6.500
Francesco Muzzi	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Michele Legnaioli	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Marco Canale	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Paolo Blasi	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Angelo Ercole Ferrario	Member	From 13.02.04 until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Paolo Ernesto Agrifoglio	Member	Until the date of the assembly for the approval of the financials for 31.12.05	2.630			
Alberto Pecci	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
	Member	Until the date of the assembly for the approval of the financials for 31.12.05				
Vincenzo Pilla	President of the Board of Statutory Auditors	for three years from Nov. 6th, 2003	15.952			
Giovanni Pacini	Statutory Auditor	for three years from Nov. 6th, 2003	11.279			
Paolo Caselli	Statutory Auditor	for three years from Nov. 6th, 2003	12.825			

Under the heading of Bonus and other incentives, we have entered the exceptional salaries assigned by the Board of Directors and put up for approval to the shareholders' assembly. The other amounts refer to end-of-term (TFM) payments to the administrators accrued during the financial year.
Salaries paid to administrators of the subsidiary companies for carrying out their duties in other companies included in the area of consolidation are as follows: Francesco Muzzi, as President of Deka M.E.L.A. Srl, received in 2005 from this company a salary of 90.000 Euros and for the same period is registered as the beneficiary of an severance indemnity fund of 6.500 Euros; Barbara Bazzocchi, as CEO of Cutlite Penta Srl received a salary from this company of 12.000 Euros; Gabriele Clementi as CEO of Valfivre Italia Srl received a salary from this company for 12.000 Euros, Angelo E. Ferrario as president of the Board of Directors of Quanta System SpA received a salary from this company of 108.000 Euros and as board member of Arex Srl received a salary from the company of 5.000 Euros.

Prof. Leonardo Masotti, President of the Scientific Commission, during this financial year received a salary of 7.600; moreover, the Board of Directors voted to award him and two other administrators a special bonus in consideration of his involvement in a series of activities which determined the particularly brilliant outcome of the company business this year.

The parent company does not have a general director.

Legal entities in which members of the Board of Directors, the Board of Auditors and other strategic management positions possess equities.
The members of the Board of Directors and the Board of Auditors hold the equities which are mentioned in the management report.

Physical persons who hold an equity in El.En. SpA
Besides the members of the Board of Directors, the Board of Auditors and the President of the Scientific-Technical Commission, shareholders Carlo Raffini and Pio Burlamacchi receive compensation from the parent company. In particular:
a) Carlo Raffini to whom El.En. SpA has assigned a consulting position related to "management in compliance with the new regulations EN ISO 13485:2004", received a recompense of 59.393 Euros in 2005;
b) Prof. Pio Burlamacchi, on account of a specific contract, is possessor of an industrial monopoly right consisting of patent application for the invention of a "Support for an optical cavity per adjusting the alignment of the laser beam received a recompense of 36.152 Euros in 2005.

Subsidiary and associated companies
All transactions of debts and receivables, all the costs and revenues, all of the financing and guarantees granted to subsidiary and associated companies during the financial year 2005 are shown clearly and in detail.
Prices of transferral are established on the basis of regular market prices, from which they may differ slightly in accordance with the present sales policy of the Group..

The table below analyses the exchanges which have taken place between the associated companies, both at the level of commercial exchange as well as for the amounts of payables and receivables (credits).

	Financial credits		**Commercial credits**	
Associated companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
SBI SA			4	
Actis Srl	40		9	
Immobiliare Del.Co. Srl	14			
IALT Scrl	39		4	
Total	**93**		**17**	

	Financial payables		**Commercial payables**	
Associated companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
IALT Scrl			52	
Immobiliare Del.Co. Srl			51	
Actis Srl			49	
Total			**152**	

Associated companies:	**Sales**	**Service**	**Total**
Actis Srl	8	1	9
IALT Scrl	3		3
Total	11	1	12

Associated companies:	Other revenues
IALT Scrl	2
Actis Srl	2
SBI SA	4
Total	9

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl	21	25		45
IALT Scrl		52		52
Total	**21**	**77**		**97**

The amounts shown on the table above refer to operations inherent to the typical management policies of the company.

Management procedures for financial risks

The main financial instruments of the Group include short term checking accounts and deposits, short and long-term financial liabilities, financial leasing, and debenture loans.
Besides these, the Group has trade debts and receivables derived from their manufacturing activity.
The main financial risks to which the Group is exposed are those related to currency exchange and credit.

Currency exchange risks
In 2005 about 50% of the consolidated sales were made in markets outside of the European Union: most of these transactions were conducted in US$; it should be remembered that the presence of stable structures within the United States, in particular Cynosure, make it possible to partially cover these risks since both the costs and the revenues are shown in the same currency.

Credit risks
For commercial transactions the Group deals with parties on which credit checks are periodically run. The losses on receivables traditionally recorded therefore are limited on the basis of the sales volume and of an entity which does not require special coverage or insurance.

Other information

Average number of employees subdivided by category

	Average 2005	31/12/2005	Average 2004	31/12/2004	Variation	Var. %
Total	506,0	548	431,5	464	84	18,10%

The increase in the number of employees reflects the increase in the volume of business.

For the Board of Directors
The President – Gabriele Clementi

Appendix 1 – Reconciliation tables of Italian and international accounting principles

1. Changeover to International Accounting Principles (IAS – IFRS)

Following the coming into force of the EC Regulation no. 1606/2002 emanated by the European Parliament and by the European Council in July 2002, companies with shares quoted on a regulated market of the member States of the European Union must draw up their consolidated financial statements in compliance with the international accounting principles (IAS/IFRS) issued by the International Accounting Standard Boards (IASB) and approved at a community level.
The El.En. group has adopted such principles in drawing up its Half-year Consolidated Financial Statement as of 30 June 2005.
The group has applied international accounting principles retrospectively to all the periods included in the first IFRS financial statement and to the opening Statement of Assets and Liabilities (1st January 2004) in compliance with IFRS1, save some exceptions as described in the paragraph below.

2. Reconciliation required by IFRS1

This Appendix provides the reconciliation and relative explanatory notes foreseen by IFRS1- First application of the IFRS- of the Net Assets and Net Result for the period consolidated according to the previous principles (accounting principles) and according to the new principles. With this purpose in mind the following documents have been drawn up:
• the reconciliation tables of the net assets consolidated according to the previous accounting principles and those entered in accordance with IAS/IFRS principles at the following dates:
- date of changeover to IAS/IFRS (1st January 2004);
- date of closing of the last financial year in which the financial statement was drawn up according to the previous principles (31st December 2004);

• the reconciliation tables of the net result shown in the last financial statement drawn up according to the previous accounting principles (financial year 2004) compared to the one in which IAS/IFRS principles have been applied for the same financial year;
• comments on the reconciliation tables;
• the statements of assets and liabilities consolidated according to IAS/IFRS as of 1st January 2004 and as of 31st December 2004 and the profit and loss account consolidated according to IAS/IFRS for the financial year ending 31st December 2004.
As illustrated below in a more analytical manner, the statements of assets and liabilities consolidated according to IAS/IFRS have been obtained by making the appropriate adjustments and IAS/IFRS reclassifications to the consolidated final figures so as to reflect the modifications to the criteria for presentation, identification and estimation required by the IAS/IFRS.

The reconciliation table for the cash flow statement has not been presented given that the effects deriving from the application of IAS/IFRS accounting principles have not had a significant impact.

The adjustments have been made in observance of the IAS/IFRS accounting principles currently in force. The procedure of approval by the Commission and the interpretative and adjustment processes of the official bodies responsible for such is still in progress. At the moment of predisposing the first complete IAS/IFRS consolidated financial statement as of 31 December 2005, new IAS/IFRS principles and IFRIC interpretations may be in force which modify the current ones. For this reason, the figures presented in the accounting and reconciliation tables could change for the purposes of their use as comparative data of the first complete consolidated financial statement drawn up according to the IAS/IFRS:

The effects of the changeover to the IAS/IFRS derive from changes to the accounting principles and, consequently, as required by IFRS1 are reflected in the initial net assets at the moment of changeover (1st January 2004). The transition to the IAS/IFRS has entailed maintaining the estimates previously formulated according to the accounting principles except where the adoption of the IAS/IFRS accounting principles does not require the formulation of estimates using different methods.
The IAS/IFRS accounting principles used starting from 1 January 2005 are shown in the notes to the accounts of the half-year report as of 30th June 2005.

In re-elaborating the opening Consolidated Statement of Assets and Liabilities as of 1st January 2004, the El.En. group has decided to avail of the following exemption for the retrospective application of the IFRS:

- **business combination:** for the purposes of the first application of the IAS/IFRS to all the business combination operations, the method of acquisition foreseen by IFRS 3 has been applied from 1st January 2004 using the forward-looking method; this also entailed stopping the procedure of amortising goodwill and differences arising from consolidation entered as of 1st January 2004;
- **provision for net exchange rate differences deriving from the translation of financial statements under foreign management:** as allowed by IFRS 1, the accumulated net exchange rate differences deriving from the previous translation of financial statements under foreign management are no longer shown under a special entry at the date of changeover (1st January 2004); only those arising thereafter are shown in a special entry;
- **classification and measurement of financial instruments:** IAS 32 (Financial instruments: presentation in the financial statement and supplementary information) and 39 (Financial instruments: recognition and measurement), were adopted, as is permitted, in advance already on 1st January 2004 (rather than starting from the financial statements of the accounting period starting 1st January 2005);
- **employee benefits (severance indemnity)**: IAS 19 permits, in the revaluation of defined benefit plans (which severance payment falls within) the suspension of the actuarial gains/losses which do not exceed a certain limit (so-called "corridor method"). The retrospective application of IAS 19 implies the quantification of the actuarial gains/losses produced from the date of foundation of the company for all the employees present at the date of changeover in separating what should be shown and what should not. IFRS 1 allows the forward-looking application of the corridor approach.

The El. En. Group has chosen the forward-looking application of the corridor approach. Actuarial losses and gains at the date of changeover have therefore been entered fully with their net assets counterpart.

The chosen accounting methods in the sphere of the accounting options foreseen by IAS/IFRS are as follows:

- **inventories:** according to IAS 2, the cost of inventories must be determined using the FIFO method or the weighted average cost method. The El.En.Group has decided to use the weighted average cost method;
- e**valuation of tangible and intangible assets**: subsequent to initial entering at cost, IAS 16 and IAS 38 foresee that such assets may be evaluated (and amortised) at cost or at fair value. The El.En.Group has chosen to use the cost method;
- **evaluation of property investments**: according to IAS 40, property held as an investment must initially be entered at cost, inclusive of the accessory charges directly attributable to it. Subsequent to acquisition, such property may be evaluated at fair value or at cost. The El.En. Group has decided to adopt the cost criteria;
- **financial charges:** for the entering of financial charges directly attributable to the acquisition, construction or production of an asset which may be capitalised, IAS 23 foresees that a company may apply the relevant accounting treatment which foresees the entering of financial charges directly in the profit and loss account or the alternative accounting treatment which foresees in certain conditions the obligation to capitalise the financial charges. The El.En. Group has decided to enter such financial charges in the profit and loss account;
- evaluation in the consolidated financial statement of the equity investment in **joint-ventures:** according to IAS 31, such equity investments may be shown in the accounts using the shareholders' equity method or, alternatively, using the proportional consolidation method. The El.En. Group has decided to adopt the shareholders' equity method.

MAIN IMPACT OF THE APPLICATION OF IAS/IFRS ON THE OPENING STATEMENT OF ASSETS AND LIABILITIES AS OF 1ST JANUARY 2004 AND ON THE CONSOLIDATED FINANCIAL STATEMENT AS OF 31 DECEMBER 2004.

The differences resulting from the application of the IAS/IFRS compared to Italian accounting principles, as well as the choices made by the El.En. Group as regards the accounting options foreseen by the IAS/IFRS illustrated above, entail a re-elaboration of the accounting figures set out according to previous Italian legislation on the matter of financial statements with significant effects, in some cases, on the net assets of the group. For such purposes the IAS/IFRS statement of assets and liabilities compared to the statement of assets and liabilities as per Italian accounting principles are shown, as of 1st January 2004 and 31st December 2004.

	ITA GAAP 01/01/2004	IAS/IFRS 01/01/2004	Adjustments IAS/IFRS	notes
Balance Sheet				
Intangible assets	7.947.294	7.265.418	(681.876)	1)
Tangible assets	7.299.446	7.660.298	360.852	2)
Equity investments	1.768.074	1.768.074		3)
Other non current assets	1.099.495	1.265.178	165.683	4)
Total non current assets	**18.114.309**	**17.958.968**	**(155.341)**	
Inventories	19.927.194	20.169.918	242.724	5)
Accounts receivalbes	15.980.435	15.980.435		
Other receivables	3.704.551	3.694.196	(10.355)	6)
Equity investments	115.000	115.000		
Own shares	354.104		(354.104)	7)
Financial instruments	78.004	88.752	10.748	8)
Cash and cash equivalents	16.739.529	16.739.529		
Total current assets	**56.898.817**	**56.787.830**	**(110.987)**	
Non current assets held for sale				
TOTAL ASSETS	**75.013.126**	**74.746.798**	**(266.328)**	
Parent stockholders' equity	**44.246.385**	**43.674.406**	**(571.979)**	
Minority interest in consolidated subsidiaries	5.703.204	5.683.230	(19.974)	
Total equity	**49.949.589**	**49.357.636**	**(591.953)**	
Severance indemnity	1.118.773	1.192.817	74.044	9)
Deffered tax liabilites	248.008	431.061	183.053	10)
Other accruals	2.236.382	2.238.253	1.871	11)
Financial liabilities	1.843.748	1.887.155	43.407	12)
Non current liabilities	**5.446.911**	**5.749.286**	**302.375**	
Financial liabilities	2.109.998	2.133.248	23.250	13)
Accounts payables	11.712.450	11.712.450		
Other payables	5.794.178	5.794.178		
Current liabilities	**19.616.626**	**19.639.876**	**23.250**	
Non current liabilities held for sale				
TOTAL LIABILITES	**75.013.126**	**74.746.798**	**(266.328)**	

	ITA GAAP 31/12/2004	IAS/IFRS 31/12/2004	Adjustments IAS/IFRS	notes
Balance Sheet				
Intangible assets	10.652.221	11.106.800	454.579	1)
Tangible assets	8.583.937	10.117.544	1.533.607	2)
Equity investments	1.320.542	1.393.065	72.523	3)
Other non current assets	1.547.418	1.564.933	17.515	4)
Total non current assets	**22.104.118**	**24.182.342**	**2.078.224**	
Inventories	25.177.745	25.462.346	284.601	5)
Accounts receivalbes	21.911.845	21.911.845		
Other receivables	4.873.267	4.866.471	-6.796	6)
Equity investments				
Own shares	346.962		-346.962	7)
Financial instruments	256.857	267.811	10.954	8)
Cash and cash equivalents	15.069.818	15.069.818		
Total current assets	**67.636.494**	**67.578.291**	**-58.203**	
Non current assets held for sale				
TOTAL ASSETS	**89.740.612**	**91.760.633**	**2.020.021**	
Parent stockholders' equity	**46.722.215**	**48.293.065**	**1.570.850**	
Minority interest in consolidated subsidiaries	5.539.515	5.610.489	70.974	
Total equity	**52.261.730**	**53.903.554**	**1.641.824**	
Severance indemnity	1.673.259	1.719.963	46.704	9)
Deffered tax liabilites	304.345	518.385	214.040	10)
Other accruals	2.798.264	2.799.861	1.597	11)
Financial liabilities	2.555.126	2.579.511	24.385	12)
Non current liabilities	**7.330.994**	**7.617.720**	**286.726**	
Financial liabilities	4.024.935	4.043.958	19.023	13)
Accounts payables	15.914.837	15.914.837		
Other payables	10.208.116	10.280.564	72.448	14)
Current liabilities	**30.147.888**	**30.239.359**	**91.471**	
Non current liabilities held for sale				
TOTAL LIABILITES	**89.740.612**	**91.760.633**	**2.020.021**	

1) Intangible assets:
In applying IAS 38, in FTA the company has eliminated from its assets the figures referring to intangible assets not recognised and referring mainly to formation and expansion costs incurred for quotation on the New Market in December 2000. The effect of this was approximately 370 thousand Euros as of 1st January 2004. Under the heading of intangible assets differences arising from consolidation generated at the moment of acquisition are also included. Such entries are no longer systematically amortised in the profit and loss account but are subject to verification, performed at least once a year, so as to identify any loss in value (impairment test). To such purpose Cash Generating Units have been identified which the relative goodwill has been attributed to. At the moment of FTA all the goodwill entered in the consolidated financial statement had been subjected to impairment tests. The evaluations made by the management showed a loss of value of the CGU represented by the German subsidiary Deka LMS which entailed the reduction of the relative differences arising from consolidation of approximately 320 thousand euro.
Among the other variations we should remember that in FTA approximately 30 thousand euro of tangible and intangible assets relative to improvements to third party assets were reclassified. In 2004 over 1,170 thousand euro related to improvements to third party assets made to the newly consolidated Quanta System SpA were added to this figure.
As of 31st December 2004, the most significant variations related to the application of IFRS3 to the acquisitions made in 2004. During 2004 the El.En Group made several acquisitions to increase its share of interest in companies which the parent company already had a holding in (Quanta System S.p.a. and Cutlite Penta S.r.l.). According to Italian accounting principles, the difference in value between the net assets purchased and the purchase cost could be offset against the existing consolidation reserve to the maximum amount of the same. According to IFRS3 such difference must be considered totally as goodwill, without the possibility of offsetting consolidated net assets. This difference amounts to approximately 750 thousand euro.
Also in 2004, the impact of the failure to amortise goodwill amounts to approximately 1.1 million Euros. This effect too produced a significant increase in the entry intangible assets. Lastly it should be remembered that in applying IAS 38, the company valorised approximately 240 thousand Euros of patents belonging to the subsidiary Cynosure Inc.

2) Tangible Assets:
According to Italian accounting principles the land which buildings are situated on is amortised along with the buildings themselves while according to IAS/IFRS they must be classified separately and no longer amortised. This different accounting treatment determines an increase in tangible assets of approximately 238 thousand Euros. The other adjustments refer to the inclusion of equipment acquired by means of leasing contracts from the subsidiary Lasit S.r.l. for a value of approximately 87 thousand Euros. The reclassification of improvements to third party assets of the new subsidiary Quanta System SpA contributed significantly to the increase in value occurring in 2004, as indicated in the paragraph above.

3) Equity investments
This figure refers to equity investments in associated companies. The difference between the value invested and the relevant quota of equity is to be attributed to goodwill. As a result of the application of the IAS/IFRS, the lack of amortisation of the relative goodwill produces a positive effect in 2004 of approximately 72 thousand Euros.

4) Other non-current assets
This figure refers to the anticipated taxes entered among the assets which were affected by the IAS/IFRS transition in FTA in 2004.

5) Inventories
The El.En. group has chosen to use the weighted average cost rather than the LIFO criteria used by the group up until the changeover to IAS. IAS 2 bans the use of the LIFO criteria. The most significant effect of the adjustment entered in the table is represented by the parent company. The effect on the consolidated statement of assets and liabilities as of 1st January 2004 is approximately 243 thousand Euros, the effect on the statement of assets and liabilities as of 31st December 2004 is approximately 285 thousand Euros.

6) Other receivables
This feels the effects of the elimination of deferred incomes for maxi-rental fees following the application of IAS 17.

7) Treasury stock
According to Italian accounting principles this is entered among the assets while in the net assets a special restricted reserve must be set up; according to IAS/IFRS principles however such shares are entered in the accounts as a reduction of the net assets. Such different accounting treatment determines as of 1st January 2004 and 31st December 2004 a reduction of the current assets of 350 thousand Euros.

8) Financial instruments
The application of IAS 39 to financial assets valorised at fair value in the profit and loss account produced an increase of approximately 11 thousand euro in the statement of assets and liabilities as of 1st January 2004 and as of 31st December 2004.

9) Severance indemnity
Italian accounting principles require that the liabilities for severance indemnity be entered on the basis of the nominal debt matured in accordance with the dispositions of civil law at the date of closure of the financial statement; according to the IAS/IFRS, the institution of severance payment falls within the type of defined benefit plans subject to measurement of an actuarial nature (mortality, foreseeable wage variations, etc.) expressing the current value of the benefit to be paid at the end of the employment contract which employees have matured at the date of the financial statement. For IAS/IFRS purposes all the actuarial gains and losses have been shown at the date of transition to the IAS/IFRS. Applying the corridor method in a forward-looking perspective, the company has not valorised the net actuarial differences as of 31st December 2004 since lower than 10% of the value of each individual plan. The accounts did however take into consideration the financial component of the cost of severance indemnity. As a result, as of 1st January 2004 the severance indemnity figure rose by approximately 74 thousand Euros compared to calculations based on Italian accounting principles. This figure is lower as of 31st December 2004 on account of Quanta System SpA joining the group. The difference between the IAS/IFRS figure and the ITA Gaap figure for the amount owed as severance indemnity as of 31st December 2004 is approximately 47 thousand Euros.

10) Deferred tax liabilities
The figure for deferred tax liabilities shows both at FTA and as of 31st December 2004 the fiscal effects of the differences entered for the transition.

11) Other accruals
This figure refers to the difference in valorisation of the client indemnity fund which according to criteria IAS 37 has been calculated on an actuarial basis.

12 – 13) Current and non-current financial liabilities
The figure given in FTA and as of 31st December represents the amount owed to leasing companies generated by the application of IAS 17 to the subsidiary Lasit S.r.l. This amounts to approximately 67 thousand Euros (considering both current and non-current liabilities) as of 1st January 2004 and to approximately 43 thousand Euros as of 31st December 2004.

14) Other short term debts
The figure entered as of 31st December 2004 refers to tax debts entered for the amount owed by the subsidiary Cynosure following the entering of patents among the intangible assets as described above.

Below is the profit and loss account consolidated according to the IAS/IFRS principles relative to the financial year 2004 compared with the profit and loss account complying with Italian accounting principles.

	ITA GAAP 31/12/2004	IAS/IFRS 31/12/2004	Adjustments IAS/IFRS	notes
Revenues	94.519.282	94.519.282		
Change in inventory of finished goods and WIP	3.458.748	3.197.544	(261.204)	1)
Other revenues and income	1.511.009	1.511.009		
Value of production	**99.489.039**	**99.227.835**	**(261.204)**	
Purchase of raw materials	(39.437.926)	(39.437.926)		
Change in inventory of raw material	1.320.928	1.307.877	(13.051)	1)
Other direct services	(9.006.317)	(9.006.317)		
Gross margin	**52.365.724**	**52.091.469**	**(274.255)**	
Other operating services and charges	(19.618.629)	(19.426.263)	192.366	
Added value	**32.747.095**	**32.665.206**	**(81.889)**	
For staff costs	(22.218.516)	(22.621.376)	(402.860)	3)
EBITDA	**10.528.579**	**10.043.830**	**(484.749)**	
Depreciation, amortisation and other accruals	(5.624.316)	(4.172.000)	1.452.316	4)
EBIT	**4.904.263**	**5.871.830**	**967.567**	
Net financial income (charges)	66.328	(2.406)	(68.734)	5)
Income from continuing operations	**4.970.591**	**5.869.424**	**898.833**	
Share of profit of associated companies	77.869	150.392	72.523	6)
Extraordinary income (Charges)	3.394.603	3.344.398	(50.205)	7)
Income before taxes	**8.443.063**	**9.364.214**	**921.151**	
Income taxes	(3.001.544)	(2.956.958)	44.586	
Income for the financial period	**5.441.519**	**6.407.256**	**965.737**	
Minority interest	1.816.183	1.760.958	(55.225)	
Net income	**3.625.336**	**4.646.298**	**1.020.962**	

1) Changes in inventories
The figure calculated according to IAS/IFRS criteria produced a negative effect of approximately 274 thousand Euros on account of:

- a positive effect of 42 thousand Euros resulting from the variation of measurement criteria from the LIFO criteria to the criteria of average weighted cost
- a negative effect of 316 thousand Euros caused by the application of IFRS3 to the business combination Quanta System S.p.a. in the month of January 2004. This operation determined the valorisation of the initial inventory purchased according to Fair Value (allocating part of the goodwill to inventories), producing a negative impact on variations during the financial year 2004.

2) General costs
In applying IAS 38, the company deemed it fit to annul the depreciation of the patents adopted by Cynosure during the course of 2004. This led to an improvement in profits of approximately 240 thousand Euros. Some reclassification of operating costs occurred with the shifting of extraordinary management to the specific entries of costs or revenue. The effects of the reclassification as in number 7) led to a worsening of approximately 50 thousand Euros.

3) Staff costs – Stock Option
The fair value of the rights assigned foreseen as maturing at the end of the *Vesting period*, is divided *pro-rata temporis* from the financial year of assignment to the financial year of maturity. As a result in 2004 the cost relating to the financial year, of 447 thousand Euros, was entered. This figure refers to both the parent company and to the subsidiary Cynosure Inc. The application of the principle IAS19 to the severance indemnity fund resulted in a different entry in the accounts of the relative cost with a positive impact on the entry of approximately 45 thousand Euros.

4) Amortisation – reserves
The effect refers mainly to the failure to amortise the difference arising from consolidation as required by the IAS/IFRS and of the intangible assets (mainly formation and expansion costs) no longer recognised on opening on 1st January 2004.

5) Financial management
The entry in the accounts of the severance indemnity in accordance with the regulations of IAS 19 provides for the entering of the financial component in the relevant heading of the profit and loss account. The effect for the financial year 2004 was of approximately 65 thousand Euros.

6) Value adjustments – share of profit of companies evaluated using the shareholder's equity method
The failure to amortise goodwill also produces a positive effect in the goodwill of the associate companies as described in point 3) of the notes to the statement of assets and liabilities.

7) Other income
The difference between the IAS/IFRS and ITA GAAP figures basically refers to the reclassification of extraordinary management.

RECONCILIATION TABLE IFRS 1 OF NET ASSETS AS OF 1ST JANUARY 2004, 31ST DECEMBER 2004 AND THE OPERATING RESULT OF THE FINANCIAL YEAR 2004.

The tables below refer to the relevant figures for the group and are net of fiscal effects.

(Amounts in thousand of euro)	Stockholders' equity as of January 1st, 2004	Stockholders' equity as of December 31st, 2004	P&L account
Italian GAAP consolidated amounts	**44.246**	**46.722**	**3.625**
1. Goodwill	(335)	773	1.126
2. Other intangible assets	(233)	139	337
3. Lands	149	174	25
4. Inventory	140	170	29
5. Own shares	(256)	(256)	-
6. Severance indemnity	(46)	(35)	(14)
7. Business Combination	-	598	(119)
8. Stock Option	-	-	(257)
9. Other	10	8	(106)
Total IAS/IFRS adjustments	**(571)**	**1.571**	**1.021**
IAS/IFRS consolidated value	**43.675**	**48.293**	**4.646**

1. Goodwill (IFRS 3 – IAS 36)
As specified above, this entry is no longer systematically amortised in the profit and loss account but is subject to verification, at least once a year, so as to identify any loss in value (impairment test). To such purpose Cash Generating Units have been identified which the relative goodwill has been attributed to. At the moment of FTA all the goodwill entered in the consolidated financial statement had been subjected to impairment tests. The evaluations made by the management showed a loss of value of the CGU represented by the German subsidiary Deka LMS which entailed the reduction of the relative differences arising from consolidation of approximately 335 thousand Euros.
The impact of lack of amortisation on the differences arising from consolidation and on goodwill accounted for approximately 1,126 thousand Euros in the financial year 204.

2. Other intangible assets (IAS 38)
The figure refers mainly to formation and expansion costs which are no longer recognised as intangible assets according to the dispositions of IAS 38. The positive effect of 2004 represents the impact of the value of patents belonging to the subsidiary Cynosure valorised according to the dispositions of IAS 38.

3. Land (IAS 16)
According to Italian accounting principles the land which buildings are situated on is amortised along with the buildings themselves while according to IAS/IFRS they must be classified separately and no longer amortised. This different accounting treatment determines an increase in tangible assets of approximately 238 thousand euro and the entry of the

relative fiscal effect of approximately 89 thousand Euros, attributable solely to the parent company in FTA. In the profit and loss account 2004 the effect of the changeover produced an improvement of the result of approximately 25 thousand Euros net.

4 Inventories (IAS2)
The El.En. group has chosen to use the weighted average cost rather than the LIFO criteria used by the group up until the changeover to IAS. IAS 2 bans the use of the LIFO criteria. The most significant effect of the adjustment entered in the table is represented by the parent company.

5. Treasury stock (IAS32)
According to Italian accounting principles this is entered among the assets while in the net assets a special restricted reserve must be set up; according to IAS/IFRS principles however such shares are entered in the accounts as a reduction of the net assets. Such different accounting treatment determines as of 1st January 2004 and 31st December 2004 a reduction of the total net assets of 256 thousand euro (entirely attributable to the Parent company) as a result of the charge-off of the treasury stock from the assets for an equal amount.

6. Employee benefits severance indemnity (IAS 19)
The institution of severance payment falls within the type of defined benefit plans subject to valuations of an actuarial nature (mortality, foreseeable wage variations, etc.) expressing the current value of the benefit to be paid at the end of the employment contract which employees have matured at the date of the financial statement. The impact of the transition produced a net effect in FTA of 46 thousand Euros (net of the fiscal and third party effects). The acquisition of Quanta System S.p.a. in 2004 produced a positive effect of approximately 28 thousand Euros given the booking of the severance indemnity fund of the subsidiary according to the criteria required by IFRS3. Such effect did not transit from the profit and loss account (it is part of the impact described in point 7), but produces a reduced negative effect on the net assets of the group as of 31st December 2004 (approx. 35 thousand Euros).

7. Business Combination (IFRS3)
During 2004 the El.En Group made several acquisitions to increase its share of interest in companies which the parent company already had a holding in (Quanta System S.p.a. and Cutlite Penta S.r.l.). According to Italian accounting principles, the difference in value between the net assets purchased and the purchase cost could be offset against the existing consolidation reserve to the maximum amount of the same. According to IFRS3 such difference must be considered totally as goodwill, without the possibility of reducing consolidated net assets. Moreover for the business combination of the financial year 2004 the accounting figures at the moment of purchase were re-verified, determining a new difference arising from consolidation as a result of the fair value acquired (and not of the accounting figures shown in the financial statement). IFRS3 requires the valorisation at fair value of the figures for the subsidiary acquired at the moment of business combination, with particular reference to the inventory acquired and the current value of the severance indemnity as explained above. The effect of these figures on the inventory of the new subsidiary Quanta System (January 2004), produced a reduction of the final result for the financial year 2004 relevant to the parent company of 119 thousand Euros.

8. Stock Option (IFRS2)
The fair value of the rights assigned foreseen as maturing at the end of the *Vesting period*, is divided pro-rata temporis from the financial year of assignment to the financial year of maturity. As a result in 2004 the cost relating to the financial year of 257 thousand Euros, was entered. This figure refers to both the parent company and to the subsidiary Cynosure Inc.

9. Other adjustments
The other adjustments refer to the valorisation of financial instruments at fair value, to the entering of leasing according to the criteria of the IAS 17 and to the valorisation of the supplementary indemnity fund according to current value (IAS 32). The adjustment made in accordance with ITA/Gaap on the exchange rate differences of the subsidiary Cynosure (which has no effect on the net assets as of 31st December 2004) has been eliminated. Such effect, net of third parties, resulted in a worsening of the financial year results of 96 thousand Euros.

EL.EN. S.p.A.

ANNUAL REPORT

El.En. S.p.A.
Report on the financial year ending December 31st 2005

To our shareholders,

The financial year which ended on December 31st 2005 closes with a net profit of 9.580 thousand Euros, net after taxes for 2.673 thousand Euros, the largest profit ever recorded by the Company.
El.En. SpA controls a group of companies all of which operate in the same sector of design, manufacture, and distribution of laser equipment for medical and industrial uses. For this reason, besides its operating activities the Company also has the function of parent company managing the various equities which, on account of the operational involvement of El. En in coordinating the various activities and the management of the cash and financial revenue, has acquired over time an increasingly significant impact on the profit and loss of the company.

The results shown for the financial year 2005 confirmed the considerable growth of the sales volume (+20%) for the most typical activities of the company, thanks also to the sales made by the companies belonging to the Group, which helped improve profitability on the operating level.
As far as the management of the equities is concerned, particular satisfaction was derived from the results achieved by the subsidiary American company, Cynosure Inc., which showed a growth rate of almost 40%, a considerable net profit and above all, an extremely strong financial position thanks to the IPO concluded in the month of December. El. En., by the end of this financial year, held an equity of about 35% in the company, after the decrease which was a result of the IPO and the disposal of one million shares, for which the capital gains greatly benefited the financial results for the year. For the other equities, which were undergoing a more difficult phase, El. En. proceeded with the devaluation of the amount of their load on the budget, with the relative effect on the extraordinary management.

Main economic and financial data

The activities of El.En., as last year, were conducted at the headquarters in Calenzano (FI) and the local branch in Castellammare di Stabia (NA).

The area in which the company operates has not changed since last year: El.En. in fact, operated in three main sectors: that of medical and aesthetic laser equipment, that of power sources for industrial applications and that of post-sales technical assistance and supply of spare parts to their clientele. Along with these sectors, the company also registered revenue and income from their research and development activities.
As mentioned earlier, El.En. also dedicates operational and financial resources to the control of the Group, and coordinates their different activities with an aim to obtaining the maximum synergy possible.

The chart below illustrates the results of sales for the four sectors listed above, shown in comparative form with last year. The amounts indicated in this table and in all the others included in this report are expressed in Euros, unless otherwise indicated.

	31/12/2005	Inc%	31/12/2004	Inc%	Var%
Industrial systems and lasers	5.914	17,45%	4.495	15,99%	31,56%
Medical and aesthetic lasers	24.532	72,37%	20.618	73,34%	18,99%
Research and Development	-		117	0,42%	-100,00%
Service	3.452	10,18%	2.883	10,25%	19,76%
Total	33.898	100,00%	28.112	100,00%	20,58%

The medical aesthetic sector, which shows an increase in sales volume of about 19% with respect to last year, is confirmed as the most important area again in 2005; the sales volume generated in particular by the aesthetic sector, which is now going through a particularly favourable phase, contributed mainly to this increase in sales.

The growth rate of the industrial sector – over 32% - however was even more brilliant and thanks to an increasingly apparent revival of the specific markets, shows excellent prospects for development in the net few months.

Concerning the activities related to after-sales service, the sales volume increased as a direct result of the growing number of installations which are serviced. This sector is of fundamental strategic importance for the company because punctual, efficient and inexpensive after-sales service have a direct influence on the clients' perception of the quality of the "extended-product" which the company offers and characterizes its position on the market.

As far as research is concerned, it should be pointed out that the revenue received for research activity is entered into accounts under the heading of "other revenue and income". In fact, during this financial year the "Other income" amounted to 1.078 thousand Euros, as a consequence of amounts received for research projects; moreover, 119 thousand Euros were entered into accounts as advance payments on research projects and will be entered among the income in the profit and loss account only when the relative recapitulation of costs has received final approval.

The chart below shows the reclassified profit and loss account.

Profit and loss account	**31/12/05**	**Inc.%**	**31/12/04**	**Inc.%**	**Var.%**
Revenues	33.898	100,0%	28.112	100,0%	20,6%
Change in inventory of finished goods and WIP	458	1,3%	1.146	4,1%	-60,1%
Other revenues and income	1.554	4,6%	1.144	4,1%	35,8%
Value of production	**35.909**	**105,9%**	**30.402**	**108,1%**	**18,1%**
Purchase of raw materials	16.815	49,6%	14.411	51,3%	16,7%
Change in inventory of raw material	(686)	-2,0%	(559)	-2,0%	22,8%
Other direct services	3.140	9,3%	2.712	9,6%	15,8%
Gross margin	**16.640**	**49,1%**	**13.838**	**49,2%**	**20,3%**
Other operating services and charges	4.512	13,3%	3.895	13,9%	15,8%
Added value	**12.129**	**35,8%**	**9.943**	**35,4%**	**22,0%**
For staff costs	5.869	17,3%	5.080	18,1%	15,5%
EBITDA	**6.260**	**18,5%**	**4.863**	**17,3%**	**28,7%**
Depreciation, amortization and other accruals	1.209	3,6%	1.386	4,9%	-12,7%
EBIT	**5.051**	**14,9%**	**3.477**	**12,4%**	**45,3%**
Net financial income (charges)	1.623	4,8%	128	0,5%	1167,5%
Income from continuing operations	**6.674**	**19,7%**	**3.605**	**12,8%**	**85,1%**
Value adjustments (Devaluations)	(1.985)	-5,9%	(1.181)	-4,2%	68,1%
Extraordinary income (Charges)	7.563	22,3%	963	3,4%	685,4%
Income before taxes	**12.252**	**36,1%**	**3.387**	**12,0%**	**261,7%**
Income taxes	2.673	7,9%	1.486	5,3%	79,9%
Income for the financial period	**9.580**	**28,3%**	**1.901**	**6,8%**	**403,9%**

The gross margin rises from 13.838 thousand Euros to 16.640 thousand Euros, an increase of +20% over last year, the incidence on the sales volume of which, however, remains constant.

The costs for services and operating charges are 4.512 thousand Euros, and the incidence on the sales volume decreased from 13,9% to 13,3%. The increase with respect to last year (+16%) is due to several different factors including the continuing efforts made in research and development.

The costs of personnel also shows an increase for an amount of 15,5%. The number of regular employees rose from 121 on December 31st 2004 to 132 on December 31st 2005; most of the new employees are involved in manufacturing.

The EBITDA was 6.260 thousand Euros, showing an increase 29% over the 4.863 thousand Euros recorded last year, with an incidence on the sales volume of about 18,5%.

The category of depreciations, amortizations and other accruals shows a decrease, from 1.386 thousand Euros last year to 1.209 thousand Euros in 2005, with an incidence of approx. 4% on the sales volume. This decrease is justified by the elimination of the amortizations of the expenses related to having the company listed on the stock market (Nuovo Mercato) which took place in 2000, since the relative period of amortization was terminated, just as the accruals for potential credit risks was eliminated last year.

The EBIT rose from 3.477 thousand Euros in 2004 to 5.051thousand Euros in 2005, showing an increase of approx. 45% and an incidence of approx. 15% on the sales volume.

The net financial income was positive for an amount of 1.623 thousand Euros. This result is markedly better than last year and is not so much due to the interest matured on cash in the bank as to the entry into accounts of the differences in exchange rates generated on the assets in dollars and by the consistent strengthening of the American dollar, which, at the end of 2005 was being exchanged at a rate of 1,1797 dollars per Euro, as opposed to 1,3621 dollars per Euro at the beginning of 2005.

As shown in the Appendix to this report, the cost entered into accounts among the value adjustments is related to the direct devaluation effected on the value of the equity in the subsidiary Deka LMS and in RTM SpA company for a total amount of 748 thousand Euros and to the indirect devaluation with reference to the subsidiaries Deka Sarl and Lasercut Inc., which was made through the accrual “Fund for losses by subsidiaries” for a total amount of 1.237 thousand Euros.

The extraordinary income contributed to the result of this financial year for an amount of 7.563 thousand Euros. In this category, the capital gains earned as a consequence of the sale of 1.000.000 shares of Cynosure Inc. was the most important entry.

The income before-taxes is about 12.252 thousand Euros, with respect to the 3.387 thousand Euros of last year. Its incidence on the sales volume was 36% as opposed to the 12% shown for 2004.

The income tax related to this financial year was obviously influenced by the before-tax profit that was earned. The overall tax rate, however, has decreased since last year, dropping from 43,87% to 21,81%, also on account of the “PEX” exemption from which most of the capital gains earned from the sale of the above mentioned Cynosure shares benefited.

The reclassified balance sheet which follows shows the results of this year in comparison with those of last year.

	31/12/2005	31/12/2004
Balance Sheet		
Intangible assets	43	82
Tangible assets	4.523	5.127
Equity investments	19.963	21.807
Other investments	3.799	2.638
Total fixed assets (A)	**28.328**	**29.653**
Stocks	11.767	10.882
Trade debtors	15.107	13.031
Other debtors	1.362	792
Other equity investments		994
Own shares		256
Cash in banks and on hand	15.111	6.306
Total current assets (B)	**43.347**	**32.260**
Trade creditors	7.979	6.083
Other debtors	3.322	2.937
Financial liabilities due within 12 months	1.012	2.374
Total current liabilities (C)	**12.313**	**11.394**
Net working capital (D)= B-C	**31.035**	**20.867**
Employee severance indemnity	977	847
Other provisions	3.165	1.896
Net medium and long term financial debts	577	1.463
Mid and long terms creditors (E)	**4.719**	**4.206**
Net invested capital (A + D - E)	**54.644**	**46.314**
Shareholders' equity	54.644	46.314
Shareholders' equity	**54.644**	**46.314**

Net financial position		
	31/12/2005	**31/12/2004**
Financial mid and long term debts	(577)	(1.463)
Financial mid and long term debts	*(577)*	*(1.463)*
Financial liabilities due within 12 months	(1.012)	(2.374)
Cash in banks and on hand	15.111	6.306
Net financial short term position	*14.099*	*3.932*
Total financial net position	**13.522**	**2.469**

The net financial position is in the black for an amount of over 13,5 million Euros.

Besides the financial income, among the operations which have strongly influenced the net financial position, we should point out the payment of dividends in the month of May 2005 for an amount of 1.632 thousand Euros.
The effect of the operations on the capital of the subsidiary Cynosure Inc.: in the first few months of the year, in completion of an operation started in 2004 was also important; 495.000 shares were sold at 3 American dollars per share; on October 1st, 1.000.000 shares at a net price of 12 American dollars were sold as part of an operation which allowed El. En. SpA to anticipate and make sure of the revenue from the IPO of Cynosure which took place on a later date. The sale comported the sizeable capital gains which was entered into the profit and loss account, and the consequent cash which benefited the net financial position.

The cash on hand and in the bank was invested mostly in low-risk temporary uses with high cash availability so that it was essentially available for all the strategic uses which may appear to be opportune.

Income from the subsidiary companies

El.En. SpA controls a group of companies which operate in the same overall sector of laser equipment, each of which has its own particular area of activity and function on the market.

The following table summarizes the results of the companies belonging to the Group which are included in the area of consolidation; for the recently acquired companies the economic data refers to the period between the date of acquisition and the end of the financial year. Brief explanatory notes describing the activities of the individual companies follow the chart, as well as a comment on the results for the year 2005.

	Net Turnover 31-dic-05	**Net Turnover 31-dic-04**	**Var. %**	**Net income 31-dic-05**	**Net income 31-dic-04**
Cynosure (*)	44.960	33.358	34,78%	2.970	3.926
Deka Mela Srl	19.731	18.028	9,44%	536	1.170
Cutlite Penta Srl	8.218	7.334	12,05%	11	-27
Valfivre Italia Srl	420	439	-4,40%	17	-1
Deka Sarl	1.238	931	32,95%	-147	-203
Deka Lms GmbH	1.169	1.201	-2,66%	-212	76
Deka Dls GmbH	435	527	-17,55%	-93	11
Deka Laser Technologies LLC	2.118	1.650	28,38%	192	12
Quanta System SpA	10.368	8.277	25,27%	417	-44
Asclepion Laser Technologies GmbH	11.140	8.781	26,87%	171	386
Asa Srl	629	0		29	0
Arex Srl	811	523	55,11%	7	2
AQL Srl	1.723	529	225,43%	-9	-13
Ot-Las Srl	2.786	2.467	12,92%	5	-70
Lasit Spa	3.791	3.768	0,60%	-9	-102
Lasercut Inc.	2.279	1.673	36,21%	-518	-591
BRCT Inc.	0	0		841	0
Neuma Laser Srl	230	208	10,19%	59	4

Cynosure Inc.
This company operates in the sector of design, manufacture and sale of laser equipment for medical and aesthetic applications. During the financial year 2005 the operating headquarters were transferred from Chelmsford, Massachussets (USA) to the nearby town of Westford, to a building which is better suited to the present volume of business of the company. Cynosure also has international branches in Europe and Asia. It is one of the world leaders in the area of medical lasers and has reached its present size thanks to the superior performance and high quality of its products, in particular the DYE colouring laser for vascular applications and alexandrite lasers for hair removal.
The company manages directly the sales and marketing of its products on the American and international markets using their own subsidiaries and distribution network. Manufacture takes place almost entirely in Westford, as well as the research and development activity which is a key factor in the success of the company.
Cynosure Inc. in turn is head of a group of companies which operate on an international level in the laser field: Cynosure Sarl in France, Cynosure Ltd in Great Britain, Cynosure GmbH in Germany and Cynosure KK in Japan are controlled 100% and act as local distributors and providers of after-sales technical assistance; Suzhou Cynosure In the Peoples' Republic of China is controlled 52% and also conducts manufacturing activity for special dermatological equipment.
Cynosure was purchased in 2002 during a phase of operating difficulty and negative revenue results. The company was entirely re-organized and several products of the El. En. Group were included among the products it offered, and some of the executives were replaced. In particular, at the end of 2003, the CEO was replaced and some of the managers in key positions, thus determining a complete turn around in the management of the company.
The first results of the re-organization of the company became apparent in 2004 when the company again turned a profit and were confirmed by the further increase in operating profits shown for 2005.
The exceptional rise in revenue and the return to a consistent EBIT made it possible to attract substantial amounts of risk capital in order to finance the continued growth of the company through the increase of the capital at the service of the IPO which took place in December.. Backing up the IPO the company holds a cash fund of about 64 million dollars which places it in the position of looking forward with determination and ample means to the development prospects that this particular market continues to offer, and to the investments necessary for maintaining a high level of growth and profits. The sales volume of Cynosure in 2005 amounted to 56 million dollars.

Deka M.E.L.A. Srl
The company distributes the medical laser equipment manufactured by El. En Spa in Italy and abroad, and in particular, operates directly in the fields of dermatology, aesthetics, and surgery, and has established profitable collaborative relations in the dental sector in Italy (Anthos Impianti). Moreover, the company has acquired control (60%) of ASA Srl, the company in the Group to which the physical therapy sector has been assigned.
In 2005 the sales volume grew 9% reaching almost 20 million thanks to the positive results shown in the aesthetic sectors as well as the dental and CO_2 laser surgery fields.
In overall terms a reduction was shown for the margin of contribution as a consequence of the decrease in the profit margin on the sales, which in turn was an effect created by the pressure on the sales prices and the less favourable mix of sales in this sense.
The drop in profits which was caused by the reduction of the margins, was then amplified by a sizeable accrual made for potential losses on debtors implemented as the year was coming to an end.

Cutlite Penta Srl
This company manufactures laser systems for industrial cutting applications, by installing the laser power sources produced by El. En SpA on CNC controlled movements. After several years in the red Cutlite Penta was able to take advantage of an improved market situation and showed a "two digit" growth in sales volume and a positive net result.

Valfivre Italia Srl
As it did last year, the company manufactured and offered technical assistance on special laser systems for industrial applications, besides offering service activity for the Group. The financial year ended with a small profit although the sales volume showed a slight decrease with respect to last year.

Ot-Las Srl
Ot-Las designs and manufactures special laser systems for CO_2 laser marking used for decorating large surfaces; to this end the company is able to offer a series of absolutely innovative technological solutions thanks to its close technological collaboration with the parent company, El. En. for the creation of strategic components.
The positive results achieved during the last months of the year made it possible to close the financial period substantially breaking even after a year that had begun with great difficulty. The sales volume increased by about 12% and the return to profitability during the last quarter would tend to suggest that the cycle of years with falling sales volumes and operating losses has finally come to an end.

Lasit SpA
This company designs and manufactures laser marking systems which include controls and specific software, which can be used both for marking metals as well as other raw materials like wood, glass, leather and fabrics.
Lasit is now in the phase of re-organizing its range of products as well as that of its commercial distribution network which, in Italy, is now also based on the associated company, AQL.
Although the company did not show an actual increase in sales, it increased its revenue for systems and limited the losses with respect to last year. In order to sustain the development phase of the new products and the costly research activity, with an aim to increasing their future business volume, the shareholders have underwritten an increase in capital which brings the capital stock up to one million Euros.

Neuma Laser Srl
Neuma Laser conducts activity of after-sales technical assistance as well as a service of technical support in the Far East and in South America, for the laser equipment and industrial systems sold by the Group and in particular on the systems manufactured by the controlling companies, Cutlite Penta Srl and Ot-Las Srl. The excellent results of the activities of the group on the markets in which Neuma operates have brought the company back into the black.

Deka Sarl
In France Deka Sarl distributes the medical-aesthetic laser equipment and relative accessories manufactured by El.En. and provides after-sales service for medical and aesthetic lasers. This company is now a point of reference in France and has numerous units installed and an excellent brand-name position, but in 2005 was unable to reach an economic equilibrium and to limit the losses which, in any case, were sizeable.

Deka Lms GmbH
In Germany Deka Lms GmbH distributes the medical and aesthetic laser equipment manufactured by El.En. SpA. The volume of business in 2005 was below expectations and was also accompanied by a reduction in margins and this caused the company to show considerable losses. The reorganization of the activities of Deka Lms, which is aimed at a better penetration of the German market and a more efficient cost of commercialisation, should start showing results by the beginning of 2006. An improvement in the economic conditions of the German area would help sustain the efforts which have been made to return to profitability. During the past financial year, in accordance with agreements made with the minority shareholder, the company voted to distribute a dividend for the amount of 136 thousand Euros.

Deka Dls GmbH
Deka Dls GmbH, controlled by Deka Lms, distributes laser systems for the dental sector in Germany. The company showed a strong drop in their sales volume, and consequently, considerable losses.

Deka Laser Technologies LLC
This company, which is now in its third year, uses a particularly efficient distribution system to market the laser systems manufactured by El.En. SpA for the dental market in the United States. The company has been organized in such a way as to take advantage of the potential of the domestic market in the U.S. and has shown positive results – the only one among all the branches for foreign distribution.

Lasercut Inc.
Lasercut is an American company with headquarters in Branford (CT), acquired in the month of April 2003; it designs, manufactures and sells laser systems for flat cutting.
The problems of this company in reaching a financial equilibrium have continued and this result still seems to be in the distant future, although losses have been decreased. El.En. continues to finance the company and support the research and development which have been lacking up to now and which remain as the main goal for opening an important market like the American one.

Asclepion Laser Technologies GmbH
This company, which was acquired from Carl Zeiss Meditec has their headquarters in Jena, the birthplace of electro-optics and one of the most important international centers for this kind of technology. Thanks to the quality of its products and the prestige of the brand name on the international markets, Asclepion achieved brilliant results in 2004. Although these results were not confirmed in 2005, the outcome was still satisfactory especially in consideration of the excellent profits shown for the last quarter. As explained in the paragraph on Deka Lms, a confirmation of a revival of the German economy would permit an improvement in the results, considering the importance of the local distribution of Asclepion. The company is owned 50% by the Group and 50% by the subsidiary Quanta System SpA.

Quanta System SpA
Quanta System became part of the area of consolidation of the Group in 2004; the company has obtained satisfactory results, with an increasing sales volume and profitability thanks in particular to the medical and aesthetic sectors. For innovation and technological research, Quanta System is one of the liveliest companies in the laser sector; its highly

qualified research team participates in important development projects, often in partnership with other companies of the Group and with the most prestigious Italian and foreign research centres.

Arex Srl
This company became part of the Group in April of 2004, and is involved in the management of a medical centre in Milan; the activities it conducts have given satisfactory results.

ASA Srl
Control of this company was acquired in November of 2005; it operates in the field of physical therapy and has closed this financial year with a strong increase in sales volume and revenue, thanks mostly to the introduction of laser equipment produced by El. En. SpA into its range of products.

AQL Srl
AQL Srl, is a company that was created in Milan in June of 2004, for the design, manufacture and sale of laser systems for the "industrial business" sector, as well as research and development of industrial processes and products, manufacturing processes and creation of new technologies in the photonic sector. The company is still in the start-up phase, but has essentially broken even in this financial year. AQL acts as distributor for the products manufactured by its subsidiaries, Quanta System and Lasit.

BRCT Inc.
BRCT Inc. is the owner of the real estate in Branford, Connecticut, previously held by El.En. SpA, which is the property where the premises of the Lasercut Inc. are located. In 2005 the company showed an extraordinary financial result on account of the operations on the Cynosure shares which were made to sustain the IPO of our subsidiary.

Relations with subsidiary and associated companies

On account of the wide variety of products and services offered by the Group, commercial transactions between the various companies belonging to the Group occur frequently. Most of the intercompany sales involve the manufacture by El. En. Spa of medium and high powered CO_2 laser sources which are a fundamental component for the equipment produced by Cutlite Penta Srl, Valfivre Italia Srl, Ot-Las Srl and Lasit Srl. Other intercompany commercial transactions are represented by the manufacture of medical laser equipment by El.En. SpA, part of which are sold to Cynosure, to Deka M.E.L.A. Srl, to Deka Sarl, to Deka Lms GmbH, to Deka Dls GmbH, to ASA Srl and to Asclepion Laser Technologies GmbH which, in turn, distribute them.

The prices for the transfer of these goods are established with reference to the regular market prices. These intercompany transactions therefore reflect the trends of market prices from which they may differ slightly in function of the commercial policies of the Group at the time.

The tables below show an analysis for 2005 of the transactions between the companies belonging to the Group related to sales transactions and related to payables and receivables at the end of the financial year.

	Financial Credits		**Commercial credits**	
Subsidiary companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cynosure			802	
Asclepion Laser Technologies GmbH	104		150	
Deka MELA Srl			3.017	
Cutlite Penta Srl	5		1.747	
Valfivre Italia Srl			244	
Deka Sarl			908	
Deka Lms GmbH		352	565	
Deka Dls GmbH			345	
Deka Laser Technologies LLC		157	426	
Lasercut Inc.		2.386	862	
Lasit Srl	350		120	
Ot-Las Srl			725	
Quanta System SpA			4	
AQL Srl			4	
ASA Srl			154	
Neuma Laser Srl		77	4	
Total	**459**	**2.972**	**10.077**	

Associated companies:	Financial Credits < 1 year	Financial Credits > 1 year	Commercial credits < 1 year	Commercial credits > 1 year
SBI SA			4	
Actis Srl	40		9	
Immobiliare Del.Co. Srl	14			
IALT Scrl	39		4	
Total	**93**		**17**	

Subsidiary companies:	Financial Payables < 1 year	Financial Payables > 1 year	Commercial payables < 1 year	Commercial payables > 1 year
Cynosure			61	
Asclepion Laser Technologies GmbH			43	
Deka MELA Srl			50	
Cutlite Penta Srl			294	
Valfivre Italia Srl			1	
Deka Sarl			22	
Deka Lms GmbH			10	
Lasit Srl			18	
Ot-Las Srl			10	
Lasercut Inc.			170	
Quanta System SpA			88	
Total			**767**	

Associated companies:	Financial Payables < 1 year	Financial Payables > 1 year	Commercial payables < 1 year	Commercial payables > 1 year
IALT Scrl			52	
Actis Srl			49	
Total			**101**	

Subsidiary companies:	Purchase raw materials	Services	Other	Total
Cynosure	12	39		51
Deka MELA Srl	101	30		131
Cutlite Penta Srl	726	11		737
Valfivre Italia Srl	1			1
Deka Sarl	38	9		48
Deka Lms GmbH	10			10
Lasit Srl	37	5		43
Ot-Las Srl		22		22
Quanta System SpA	100	3		103
Asclepion Laser Technolohies GmbH	569	9		577
Lasercut Inc.	100	58		158
Total	1.694	186		1.880

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl	21	25		45
IALT Scrl		52		52
Total	**21**	**77**		**97**

Subsidiary companies:	Sales	Services	Total
Cynosure	2.070	8	2.078
Deka MELA Srl	14.332	204	14.536
Cutlite Penta Srl	1.794	325	2.119
Valfivre Italia Srl	335		335
Deka Sarl	559	34	593
Deka Lms GmbH	703		703
Deka Dls GmbH	183		183
Lasit Srl	222		222
Ot-Las Srl	733	73	806
Neuma Laser Srl	17	1	18
Deka Laser Technologies LLC	856	7	863
Asclepion Laser Technologies GmbH	219		219
Quanta System SpA	24		25
ASA Srl	88		
Lasercut Inc.	364		364
Total	**22.497**	**653**	**23.151**

Associated companies:	Sales	Service	Total
Actis Srl	8	1	9
IALT Scrl	3		3
Total	11	1	12

Subsidiary companies:	Other revenues
Cynosure	16
Deka MELA Srl	58
Cutlite Penta Srl	78
Deka Sarl	3
Deka Lms GmbH	8
Deka Dls GmbH	3
Lasit Srl	2
Deka Laser Technologies LLC	49
Quanta System SpA	11
Asclepion Laser Technologies GmbH	108
AQL Srl	12
Lasercut Inc.	13
Total	**362**

Associated companies:	Other revenues
IALT Scrl	2
Actis Srl	2
SBI SA	4
Total	9

The other income refers, among other things, to the rents paid by Deka M.E.L.A. Srl and by Cutlite Penta Srl for the parts of the buildings in Calenzano which they occupy.

During this financial year the company received dividends from Deka M.E.L.A. Srl for 330 thousand Euros and from Deka Lms GmbH, for 97 thousand Euros in accordance with the agreements established with the minority shareholder.

Moreover, 166 thousand Euros in interest was earned on the financing granted to the subsidiary companies, as mentioned in the paragraph of the Appendix related to receivables, besides the 2 thousand Euros in interest earned on the financing of 40 thousand Euros granted to Actis Srl.

Management procedures for financial risks

The main financial instruments of the company include short term checking accounts and deposits, short and long-term financial liabilities and debenture loans. Besides these, the Group has trade debts and receivables derived from their manufacturing activity.
The main financial risks to which the company is exposed are those related to currency exchange and credit.

Currency exchange risks
The company is exposed to the risks related to the fluctuations in the exchange rate for the currency in which some of the commercial and financial transactions are conducted. These risks are checked from the management which adopts the necessary measures to limit such risk.

Credit risks
For commercial transactions the company deals with parties on which credit checks are periodically run. The losses on receivables traditionally recorded therefore are limited on the basis of the sales volume and of an entity which does not require special coverage or insurance.

Research and Development activity

In 2005 the El.En. SpA conducted intense Research and Development activities for the purpose of creating new applications for laser technology both in the medical and industrial sector and to place innovative products on the market.

The global market requires, especially for highly technological products, 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. ducts. For this reason research and development programs must be conducted and organized according to brief and mid-term schedules.
Research which is conducted in order to obtain results according to a mid-term schedule are characterized by the fact that they are oriented towards higher risk subjects inspired by intuitions which arise within the company and by prospects indicated by the scientific work in our laboratories and in advanced research centres around the world.
On the other hand, research which is dedicated to achieving results according to a short-term schedule, above all for new products and applications, works on projects for which all the preliminary feasibility studies have been completed. For these projects a choice has already been made regarding the main functional characteristic and specifications. The elements for this activity are determined on the basis of information obtained from the work of specialists working for the company and also as a result of activities of the public and private structures who acted as consultants in the phase of preliminary study.

The research which is conducted is mainly applied and forms the foundation for some of the specific subjects. 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 Instruction and Research (MIUR) and the European Union, as well as directly with the Research Institutions.

A brief summary of the research activities conducted in 2005 is shown below:

<u>Systems and applications for lasers in medicine.</u>

We continued our activity for the development of equipment and devices for mini-invasive micro-surgery assisted by a robot; this activity is developed as part of the a project on the New Medical Engineering program of FIRB (Investment Fund for Basic Research) financed in part by MIUR (*Ministero Istruzione Università e Ricerca*) after a selection process based on the opinions of a jury of international experts.
Theoretical and experimental studies also continued on the determination of the doses for cutting and ablation processes on soft tissue and cauterization of small blood vessels.
Studies are now at an advanced state for the development of a directable micro-tweezer and a multiple-way catheter for endoscopes, endoluminal photo-dynamic therapy, and for diagnostics with opto-acoustical micro-probes.
An important research project was conducted for the development of a technique and for the relative devices for performing the anastomosis of blood vessels assisted by laser.
We continued the development of instruments and clinical experimentation for innovative laser devices for use in physical therapy and orthopaedics and agreements were made with for conducting research in the USA and at the Lahey Clinic in Boston in collaboration with the Rizzoli Institutes of Bologna, who has been our partner now for several years.

A project financed by the European Union on new methods of diagnosis using nano-particles and laser systems with ultrasound inter-agents has been approved. For this project we are collaborating with prestigious European institutions like Fraunhofer IBMT.
We have designed a new laser for use with a new technique for the conservation therapy of the saphena vein, for which a new European patent has recently been granted.
A development project has been initiated on new laser systems for uses in eye surgery.
The development program for a new laser system for depilation called Synchro HP has been concluded; for its high performance, this device can be considered at the top of the range of similar products on the international market.
The development of a new laser system for the conservative therapy of the saphena vein has been completed.
Five new patents for the protection of intellectual property have been registered.
At the same time, active clinical experimentation has continued in Italy and in qualified European and American centres in order to confirm and document the effectiveness of innovative therapeutic laser treatments in various fields of medicine: odontostomatology, cardiac surgery, gasteroenterology, oculistics, phlebology, eco-located interstitial hyperthermia, dermatology and aesthetics. A patent is being developed for a new type of low flow radiator with isoptropic emissions interstitial laser hyperthermia for use in mini-invasive micro-surgery on the thyroid and liver guided by ultra-sound imaging. This activity has been directed in particular towards the development of technologies for the creation of prototypes which can be used on animals.
A research program has been initiated on the development of a laser for ophthalmology to execute photo-coagulation of the retina with the use of slot lamps, on the basis of an agreement with an important firm specialised in the production and distribution of diagnostic and therapeutic equipment in the ophthalmology field.
The research activity aimed at developing a diode laser for neurosurgery applications with mini-invasive techniques was continued.
With a grant from the European Union a research program on mechatronic and microtechnological applications for the biomedical industry is now in progress.

<u>For industrial systems and applications</u>

A project related to excimer laser systems for use in the nano-manufacture of electronic and optical-electronic devices continued.

A project co-financed by the Region of Tuscany with European funds was approved: it is related to the development by El.En. of " New laser scanning systems for wide angles".
Moreover, applied research continued for the development of large mirrors for scanning the laser beam for the purpose of marking or treating surfaces of different kinds of materials for the aesthetic enhancement of garments and craft products with laser power of over 1kW were continued.

A project is now in progress for the development of the electronics based on a Digital Signal Processor to translate into HW the results of the theoretical research on the numerical control of galvanometers for scansion heads.

Algorithms, calculus programs and hardware were developed for artificial vision systems to be used for the decoration of leather and other materials using laser marking and for cutting and marking of various objects laid out on a work table.
Development of a new ultra compact CO_2 laser source pumped by radio frequency was brought to a conclusion.
Research activity as part of a project for a solid state high power laser source with active material in an amorphous ceramic support is now in progress.
The development of new laser equipment for use in diagnosing the condition of art objects has been continued as part of the PON (Piani Operativi Nazionali) for the development of strategic sectors in Southern Italy.

As part of the same program, the development of a new system of sensors and memorization of environmental stress on works of art while being moved from a museum to a place of display has continued; the creation of a "black box" for recording the transfer of works of art has been completed and a patent for it has been requested.

A new system for representing thermal transistors for the study of the state of conservation of works of art and of industrial products in the start-up in the manufacturing process is now being developed and a patent has been requested.
A project regarding the diagnosis of works of art using fluorescent induced spectrometry has been approved.
Work on the development of a new diagnostic system using lasers on the paper of antique books has continued and recently been granted a patent.

The following table shows the expenses incurred for Research and Development during this year.

thousands of euros	**31/12/2005**
Costs for personnel and general expenses	3.281
Costs for instruments and equipment	210
Costs for building of prototypes	284
Costs for technological consultants	194
Services provided	82
Intangible assets	5
Total	**4.056**

For the entry “Personnel and general expenses” the amount shown corresponds to the expenses incurred for research and development; for El.En. SpA this amount has been increased at a flat rate of 60% of the expenses sustained for personnel, according to the percentage increase recognized by the institutions financing the research and development, and thus make it possible, within the area of the particular project, to recover at a flat rate the general expenses which in this way have been quantified.

The amount of expenses incurred corresponds to approx. 12% of the sales volume; this is a significant percentage which, though weighing heavily on the profit and loss account for this year, guarantees the company a continual renewal of the range of products as well as new experiments of technologies that are important for the production. In order to meet these expenses the company has entered into accounting income in the form of grants for an amount of 1.078 thousand Euros. It is evident that the efforts expended in research activity are great and the resources dedicated to it are considerable.

Structure of the company administration

In compliance with Art. 19 of the company statutes, the company is administered by a Board of Directors with a number of members which may vary from a minimum of three to a maximum of fifteen.

The present Board of Directors is composed of nine members who will remain in office until the assembly is called for the approval of the financial statement closed on December 31st 2005. These members are as follows:

NAME	POSITION	PLACE AND DATE OF BIRTH
Gabriele Clementi	President and CEO	Incisa Valdarno (FI), 8th July 1951
Barbara Bazzocchi	Board Member and director	Forlì, 17th June 1940
Andrea Cangioli	Board Member and director	Firenze, 30th December 1965
Francesco Muzzi	Board Member	Firenze, 9th September 1955
Marco Canale	Board Member	Napoli, 12th November 1959
Paolo Blasi*	Board Member	Firenze, 11th February 1940
Michele Legnaioli*	Board Member	Firenze, 19th December 1964
Angelo Ercole Ferrario	Board Member	Busto Arsizio, 20th June 1941
Alberto Pecci	Board Member	Pistoia, 18th September 1943

* Independent administrators, as per art. 3 of the Codice di Autodisciplina delle Società Quotate

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

On November 13th, 2003, the Board of directors assigned to the President of the Board, Gabriele Clementi and to the Board members, Andrea Cangioli and Barbara Bazzocchi, separately from each other and with free signature, all of the powers of ordinary and extraordinary administration for conducting the activities related to the company business, and excluding only, those powers which cannot be delegated in compliance with art. 2381 of the Civil Code and company statutes,

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

a) On August 31st 2000 the Board of Directors presented two independent administrators among its members, in compliance with Art. 3 of the Self-disciplining code mentioned above. These independent administrators are now Prof. Paolo Blasi and Michele Legnaioli.

b) On September 5th, 2000 the Board created the following committees composed mainly by non-executive administrators:

1) the "Nomination committee", which has the task of proposing nominations, receiving them from the shareholders, and verifying that the procedures outlined in the company statutes for the selection of the candidates are followed;

2) the "Compensation committee" which has the task of supplying information and clarification regarding the fees paid to the members of the Board of Directors;

3) the "Internal controls committee" which has the task of acting as consultant and support for the Board in relation to the creation and monitoring of the internal controls system.

c) On September 5th 2000 the Board designated a provost for internal controls.

The Board of Directors meets at least every quarter in order to guarantee adequate information for the Board of Auditors concerning the activities and the most important operations conducted by the Company.

Internal auditing of the company is conducted by the parent company of the Group in collaboration with the personnel of the subsidiary companies. From an organisational point of view, the administrators of the parent company of the Group attend the board meetings of the subsidiary companies as board members and have the office of single administrator, or else, the administrative organ of the subsidiary supplies the fully detailed information required for establishing the organisation of the activities of the Group.

As far as the accounting information is concerned, before the end of the month following the quarter being considered, the subsidiaries are required to supply to the parent company of the Group all the information necessary for drawing up the consolidated financial and economic reports.

On February 24th 2006 those adhering to the auditing pact stipulated in the year 2000 and renewed in 2003, and for which ample information was given in the report on the management in the financial statement closed on December 31st 2004, agreed that the Pact should be dissolved in advance of the established date and with immediate effect.

Ethics code related to internal dealing

In compliance with Articles 2.6.3 and 2.6.4.of the regulations described by the "*Regolamento dei Mercati organizzati e gestiti da Borsa Italiana SpA*" on January 1st 2003, the company adopted an ethics code with reference to those operations involving so-called "internal dealing" or inside trading, by relevant personnel, to regulate the obligations of disclosing information and the types of behaviour to be observed in order to guarantee complete transparency and homogeneity of information in relation to the market.

This document sets down the temporal and quantitative limits in which such persons are required to communicate:

a) within the third day of open market after the closure of each report period (every solar quarter): the operations effected on the stock of the company during that quarter which, even cumulatively, are for more than twenty-five thousand Euros;
b) immediately and, in any case, before the market opens the next day after the operation involving the stock of the company or that in which the amount was exceeded, as follows: the operations which, individually or cumulatively with operations effected during the report period, but not declared, amount to or exceed one hundred and fifty thousand Euros.

As per European Union law 2004 (L. 18th April 2005, n. 62) which, in response to the European Union directives on market abuse, modified with the Legislative Decree of the 24th of February 1998, n. 58 and the later regulating activities now being implemented by Consob, as of April 1st 2006 the company is required to adopt the rules related to internal dealing respectively in "*Article 114, comma 7, Testo Unico sulla Finanza e da 152-sexies a 152-octies Regolamento Consob* 11971/1999" as it was modified by vote 15232 on November 29th 2005.

Starting on April 1st 2006 therefore, it will be obligatory by law to divulge to the public the operations effected by relevant persons and by persons closely tied to them on financial instruments of the company, and, consequently, the regulations related to internal dealing contained in the *Regolamento dei Mercati* organized and managed by the Borsa Italiana SpA. are abrogated

Correlated parties

In compliance with the I.A.S. 24 the following subjects are considered correlated parties:
- Subsidiary and associated companies as presented in this document;
- Members of the Board of Directors and the Board of Auditors of the parent company and other management with strategic responsibilities;
- Physical persons who are shareholders of the parent company, El.En. SpA;
- Legal entities in which a significant equity is held 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 Auditors, or by another manager with strategic responsibilities.

All transactions with the correlated parties took place under normal market conditions.

In particular the following should be noted:

<u>Subsidiary and associated companies</u>
All transactions of debts and receivables, all the costs and revenues, all of the financing and guarantees granted to subsidiary and associated companies during the financial year 2005 are shown clearly and in detail.
Prices of transferral are established on the basis of regular market prices, from which they may differ slightly in accordance with the present sales policy of the Group
It should be mentioned that in October of 2002 El. En Spa acquired free of charge from Deka Mela Srl a license to use the same brand name for the sale of laser equipment manufactured by El.En. in the dental, medical and aesthetic sector for some European and non- European countries.

<u>Members of the Board of Directors, Board of Auditors and other strategic management positions</u>
Members of the Board of Directors and the Board of Auditors receive the compensation which is listed in the appendix to this report. The President of the Scientific Commission receives the compensation shown in the appendix to this report.

<u>Legal entities in which members of the Board of Directors, the Board of Auditors and other strategic management positions possess equities.</u>
The members of the Board of Directors and the Board of Auditors hold the equities which are mentioned below in this report.

<u>Physical persons who hold an equity in El.En. SpA</u>
Besides the members of the Board of Directors, the Board of Auditors and the President of the Scientific-Technical Commission, shareholders Carlo Raffini and Pio Burlamacchi receive compensation as is shown in the appendix to this report, for the following reasons:
a) Carlo Raffini to whom El.En. SpA has been assigned a consulting position related to “management in compliance with the new regulations EN ISO 13485:2004”;
b) Prof. Pio Burlamacchi, on account of a specific contract, is possessor of an industrial monopoly right consisting of patent application for the invention of a “Support for an optical cavity per adjusting the alignment of the laser beam”.

Equities held by administrators, auditors and general directors

Some of the Board Members hold other positions in the subsidiary and associated companies of the Group, as shown below:

Name	Position
Gabriele Clementi	- CEO of Valfivre Italia Srl (company owned 99% by El.En. SpA) - Board Member of Quanta System SpA (company owned 60% by El.En. SpA) - President, Board of Directors of AQL Srl (company indirectly controlled through Quanta System SpA and Lasit SpA) - Board Member of I.A.L.T. Scrl (consortium in which El.En SpA holds a 50% equity)
Barbara Bazzocchi	- CEO of Cutlite Penta Srl (company owned 53,50% by El.En. SpA) - President of the Board of Directors of Actis – Active Sensor Srl (company owned 12,00% by El.En. SpA)
Francesco Muzzi	President of the Board of Directors of Deka M.E.L.A. Srl (company owned 60% by El.En. SpA)
Andrea Cangioli	- CEO of Neuma Laser Srl (company indirectly controlled through Cutlite Penta Srl and Ot-Las Srl) - Board Member of Quanta System SpA (company owned 60% by El.En. SpA) - Board Member of Cynosure Inc. (company owned 35,14% by El.En. SpA) - Board Member of Ot-las Srl (company controlled directly and indirectly through Cutlite Penta Srl) - Board Member of A.S.A. Srl (company owned 60% by the subsidiary Deka M.E.L.A. Srl) - CEO of Asclepion Laser Technologies (company owned 50%bya El.En. SpA and 50% by Quanta System SpA) - CEO of Deka Lms GmbH (company owned 76,16% by El.En. SpA) - Board Member of Lasercut Inc. (owned 70%) - President of the Board of Directors of S.B.I. SA (company owned 50% by El.En. SpA)
Angelo E. Ferrario	- President of the Board of Directors of Quanta System SpA (company owned 60% by El.En. SpA - Board Member of AREX Srl (company indirectly controlled through Quanta System SpA) - Board Member of AQL Srl (company indirectly controlled through Quanta System SpA and Lasit Srl)

The acting members of the Board of Auditors of El.En. SpA are also on the Board of Auditors of subsidiary companies as shown on the following table:

Name	Position
Vincenzo Pilla	- President of the Board of Auditors of Lasit Srl since December 3rd 2003 (ex acting auditor) - President of the Board of Auditors of Deka M.E.L.A. Srl - Acting auditor of Cutlite Penta Srl
Paolo Caselli	- -President of the Board of Auditors of Cutlite Penta Srl - Acting auditor of Deka M.E.L.A. Srl - Acting auditor of Lasit Srl
Giovanni Pacini	- Acting auditor of Cutlite Penta Srl - Acting auditor of Deka M.E.L.A. Srl

In compliance with Art. 79 of the Consob regulations adopted with vote n.11971 on May 14th 1999, the equities held in the company administrators, audit and members of their families are shown below

Name	*Company*	*No. of shares on 31/12/2004*	*No. of shares acquired*	*No. of shares sent*	*No. of shares on 31/12/2005*
Andrea Cangioli	El.En. S.p.A.	624.460			624.460
Barbara Bazzocchi	El.En. S.p.A.	494.824			494.824
Gabriele Clementi	El.En. S.p.A.	495.650			495.650
Francesco Muzzi	El.En. S.p.A.	486.724		-16.125	470.599
Immobiliare del Ciliegio Srl (*)	El.En. S.p.A.	312.412			312.412
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
Alberto Pecci	El.En. S.p.A.	172.187	184.540	-2.000	354.727

(*) The Immobiliare del Ciliegio Srl is a company with headquarters in Prato, with a capital stock of 2.553.776 Euros. Andrea Cangioli has the property without usufruct of 25% of the capital stock.

Stock options offered to administrators and employees

During the extraordinary assembly of El.En. SpA held on the 16th of July 2002, in compliance with Art. 2443 of the Civil Code, the Board of Directors voted to increase the capital stock of the company through one or more payments, and for a maximum period of five years after the date of approval, for a maximum amount of 124.800 nominal Euros, by issuing a maximum of 240.000 ordinary shares with a nominal value of 0,52 Euros each with maturity the same as that of the ordinary shares of the company at the date of the underwriting, to be released with the payment of a price determined by the Board of Directors in accordance with the regulations contained in Art. 2441, comma VI, c.c. – that is, on the basis of the shareholders' equity and in consideration of the trend of the quotation on the stock market during the last quarter– and for a unit value, including share premium equal to the greater of the following: a) the value per share determined on the basis of the consolidated net capital and reserves of El. En. Group on December 31st of the year preceding the date of issue of the options; b) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the 6 months preceding assignment of the options; c) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the 30 days preceding assignment of the options; d) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the period of time preceding the assignment of the options established by the Board of Directors in the regulations of the incentive plan.

On September 6th 2002, the Board of Directors voted to partially implement the proposal of the shareholders' assembly of July 16th 2002 and voted for an increase in capital stock of 31.817,76 Euros to be used for the stock option plan of 2003/2004 and approved the relative regulations. Option rights were assigned exclusively to the category of management, executives and white collar workers of the Group who at the time of assignment of the options were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase, for a maximum of 30.600 shares could be picked up by those having the right from November 18th to December 31st 2003, from August 15th to September 30th 2004, and from November 18th to December 31st 2004; the second phase, for a maximum of 30.588 shares could be picked up by the assignees from August 15th to September 30th 2004 and from November 18th to December 31st 2004.
In reference to this plan, as of December 31st 2004 (the last day the option could be picked up) 61.188 option rights had been assigned.

The Board of Directors, on November 13th 2003 voted to partially implement the approval of the shareholders' assembly of July 16th 2002 by voting to increase the capital stock by 13.145,60 Euros for use in the stock option plan of 2004/2005 and approved the relative regulations. The option rights were assigned exclusively to the category of management, executives and white collar workers of the Group who, at the time of assignment of the options, were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase for a maximum of 12.640 shares could be picked up by those having the right from November 18th to December 31st 2004, from August 15th to September 30th 2005 and from November 18th to December 31st 2005; the second phase, for a maximum of 12.640 shares could be picked up from August 15th to September 30th 2005 and from November 18th to December 31st 2005.

In reference to this plan, as of December 31st 2005 (the last day the option could be picked up) 25.280 option rights had been assigned in all, of which 1.056 picked up in 2004.

The Board of Directors, with the vote given on May 13th 2005 and the later modification of May 13th 2005, partially implemented the decision made by the Shareholders' assembly of July 16th 2002 to increase the Capital stock by 72.800 Euros to be used for the implementation of the stock option plan for 2006/2007 and approved the relative regulations. The option rights were assigned exclusively to the category of Management, executives and white-collar workers who at the time of assignment of the options were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase, for a maximum of 70.000 shares can be picked up by those having the right from May 16th 2006 until the date on which the annual report for 2006 is approved and from May 29th 2007 to July 16th 2007; the second phase, for a maximum of 70.000 shares can be picked up by the assignees from May 29th 2007 to July 16th 2007.

Debenture loan

On November 7th, 1996 in a special assembly the company approved the emission of a debenture loan for an amount of up to 619,748 Euros by the issuance of 120,000 bonds with a nominal value of 5.16 Euros each. The entire debenture loan was underwritten for a portion of 412,133 euros by: Autilio Pini, Andrea Cangioli, Francesco Muzzi, Barbara Bazzocchi, Carlo Raffini and Gabriele Clementi, for a portion of 123,950 Euros by Gabriele Clementi and his wife, and for a portion of 10,329 Euros by Carlo Raffini and his wife. The remaining part of the loan, for the sum of 73,336 Euros was underwritten by a third party. The duration of the loan is for ten years, and it will be reimbursed by December 31st 2006. The annual rate of interest is 9.75%, payable in yearly instalments deferred until January 1st of each year. Upon expiration the bonds will be reimbursed at their nominal value.

Treasury Stock

During the month of February 2005, in accordance with the vote of approval by the Shareholders' Assembly of April 24th 2002, El. En SpA put back into circulation the treasury stock which they had previously purchased, also in accordance with the vote of the same assembly, and in full respect of the laws which govern this type of transaction. The 22.714 shares owned, and registered at the time of purchase for a value of 255.937 Euros, at an average price of 11,2678 Euros, were sold at an average price of 25,05 Euros, for a gross capital gains of 313 thousand Euros.

Adaptation of the company statutes in compliance with Legislative Decree 6/2003

The company, in accordance with the modifications introduced by the Legislative Decree no. 6 of January 17th 2003 and later variants, after a vote by the Special Assembly on September 29th 2004, modified its company statutes in order to adapt their content to the new regulations now in force and to take advantage of this opportunity to improve and refine the formulation of some of the statutory dispositions.

Changeover to International Accounting Principles (IAS – IFRS)

Following the coming into force of the EC Regulation no. 1606/2002 emanated by the European Parliament and by the European Council in July 2002, from 2005 companies with shares quoted on a regulated market of the member States of the European Union must draw up their consolidated financial statements in compliance with the international accounting principles (IAS/IFRS) issued by the International Accounting Standard Boards (IASB) and approved at a community level.

In compliance with IAS 1, the annual report according to the IAS/IFRS must include, in terms of comparative information, the figures related to the year preceding that being reported. The financial statement as of December 31st 2005 is the first consolidated annual report presented by the El. En accordance with the international principles and includes, therefore, for comparative purposes, the annual report closed on December 31st 2004 drawn up according to IAS/IFRS.

Adoption of the rules relating to the protection and guarantee of personal data (privacy)

In order to comply with the new laws relating to privacy, the company up-dated the Privacy document "*Documento Programmatico sulla Sicurezza*", which had been used up to that time.

Events of importance which took place after the closing of the financial year

No events of particular importance for the company took place after the closure of the financial year 2005

Predictable trends for the financial year now in progress

The forecasts formulated by the El. En Group for the financial year 2006 indicate, at the consolidated level, an expansion of the sales volume which should reach 140 million Euros , and for El. En. SpA a growth in sales volume of around 10% and a growth in operating profits of around 12%.

Utilization of profits

In conclusion, we would like to invite our shareholders to approve the annual report, utilizing the profit of 9.579.550 Euros as follows: 13.392,16 Euros for the reserve of assets and liabilities evaluation, 2.577.557,40 Euros for distribution of dividends (for the amount of 0,55 Euros per share) and the remaining amount as extraordinary reserve.

For the Board of Directors
The President – Gabriele Clementi

El.En. S.p.A.
Annual report for the financial year ending December 31st 2005

ASSETS	31/12/2005	31/12/2004
A) SUBSCRIBED UNPAID CAPITAL		
Total subscribed unpaid capital		
B) FIXED ASSETS		
I) Intangible assets		
4) Concessions, licenses, trade marks and similar rights	33.822	68.282
7) Other	8.831	13.652
Total intangible assets	**42.653**	**81.934**
II) Tangible assets		
1) Land and buildings	3.002.821	3.800.687
2) Equipment and machinery	242.843	270.079
3) Industrial and commercial equipment	812.785	703.292
4) Other	231.036	255.136
5) Tangible assets under construction and payments on account	233.912	97.329
Total tangible assets	**4.523.397**	**5.126.523**
III) Financial fixed assets		
1) Equity investments in :		
a) subsidiary companies	19.446.573	21.387.705
b) associated companies	430.440	280.440
d) other companies	85.605	138.853
Total equity investments	*19.962.618*	*21.806.998*
Total financial fixed assets	**19.962.618**	**21.806.998**
TOTAL FIXED ASSETS	**24.528.668**	**27.015.455**
C) CURRENT ASSETS		
I) Stocks:		
1) Raw materials and consumables	6.556.283	5.870.455
2) Work in progress and components	3.529.920	3.380.773
4) Finished goods	1.680.839	1.630.709
Total stocks	**11.767.042**	**10.881.937**
II) Debtors		
1) Trade debtors		
- due within 12 months	4.460.717	3.520.459
Total trade debtors	*4.460.717*	*3.520.459*
2) Amounts owed by subsidiary companies		
- due within 12 months	10.535.975	9.432.842
- due after 12 months	2.972.348	1.987.633
Total amounts owed by subsidiary companies	*13.508.323*	*11.420.475*
3) Amounts owed by associated companies		
- due within 12 months	109.975	77.755
Total amounts owed by associated companies	*109.975*	*77.755*
4-bis) Tax debtors		
- due within 12 months	723.491	255.185
Total tax debtors	*723.491*	*255.185*
4-ter) Deferred tax assets		
- due after 12 months	784.953	436.013
Total deferred tax assets	*784.953*	*436.013*
5) Other debtors		
- due within 12 months	571.868	467.978
- due after 12 months	42.108	213.915
Total amounts owed by other debtors	*613.976*	*681.893*
Total debtors	**20.201.435**	**16.391.780**
III) Investments which are not permanent		
1) Subsidiary companies		993.526
5) Own shares		255.937
Total investments which are not permanent		**1.249.463**
IV) Cash at bank and in hand		
1) Bank and postal current accounts	15.101.260	6.298.369
3) Cash on hand	10.185	7.138
Total cash at bank and in hand	**15.111.445**	**6.305.507**
TOTAL CURRENT ASSETS	**47.079.922**	**34.828.687**
D) PREPAYMENTS AND ACCRUED INCOMES:		
1) Prepayments and accrued income assets	66.807	68.975
Total prepayments and accrued incomes	**66.807**	**68.975**
TOTAL ASSETS	**71.675.397**	**61.913.117**

LIABILITIES	31/12/2005	31/12/2004
A) CAPITAL AND RESERVES		
I) Subscribed capital	2.436.963	2.424.367
II) Additional paid in capital	35.324.009	34.698.414
IV) Legal reserve	537.302	537.302
VI) Reserve for own shares		255.937
VII) Other reserves:		
- Extraordinary reserve	6.339.051	6.069.661
- Reserve for contribution on capital account	426.657	426.657
- Other reserves		-1
Total other reserves	*6.765.708*	*6.496.317*
IX) Profit (loss) for the financial period	9.579.550	1.901.175
TOTAL CAPITAL AND RESERVES	**54.643.532**	**46.313.512**
B) PROVISIONS FOR RISKS AND CHARGES		
1) Provisions for pensions and similar obligations	44.378	216.184
2) Provisions for taxation	354.987	581.145
3) Other provisions	2.765.919	1.098.918
Total provisions for risks and charges	**3.165.284**	**1.896.247**
C) EMPLOYEE SEVERANCE INDEMNITY	**976.904**	**847.255**
D) CREDITORS		
3) Loans from shareholders		
- due within 12 months	619.748	
- due after 12 months		619.748
Total loans from shareholders	*619.748*	*619.748*
4) Amounts owed to banks		
- due within 12 months	206.583	209.796
- due after 12 months		206.583
Total amounts owed to banks	*206.583*	*416.379*
5) Amounts owed to other financial institutions		
- due within 12 months	185.898	168.575
- due after 12 months	577.131	636.197
Total amounts owed to other financial institutions	*763.029*	*804.772*
6) Advances received		
- due within 12 months	301.867	481.104
Total advances received	*301.867*	*481.104*
7) Amounts owed to suppliers		
- due within 12 months	7.110.494	5.779.395
Total amounts owed to suppliers	*7.110.494*	*5.779.395*
9) Amounts owed to subsidiary companies		
- due within 12 months	766.603	168.216
Total amounts owed to subsidiary companies	*766.603*	*168.216*
10) Amounts owed to associated companies		
- due within 12 months	101.410	135.000
Total amounts owed to associated companies	*101.410*	*135.000*
12) Amounts owed to tax administration		
- due within 12 months	1.421.351	1.245.353
Total amounts owed to tax administration	*1.421.351*	*1.245.353*
13) Amounts owed to social security institutions		
- due within 12 months	506.474	400.045
Total amounts owed to social security institutions	*506.474*	*400.045*
14) Other creditors		
- due within 12 months	1.091.804	2.803.764
Total other creditors	*1.091.804*	*2.803.764*
TOTAL CREDITORS	**12.889.363**	**12.853.776**
E) ACCRUALS AND DEFERRED INCOME		
1) Accruals and deferred income-liabilities	314	2.327
Total accruals and deferred income	**314**	**2.327**
TOTAL LIABILITIES AND CAPITAL AND RESERVES	**71.675.397**	**61.913.117**

PROFIT AND LOSS ACCOUNT	31/12/2005	31/12/2004
A) VALUE OF PRODUCTION		
1) Net turnover from sales and services	33.897.925	28.112.085
2) Change in stocks of finished goods and in work in progress	199.277	919.686
4) Work performed for own purposes and capitalised	258.233	226.663
5) Other revenues and income		
a) Other revenues and income	1.552.841	1.142.879
b) Grants received pertaining to the current year	900	900
Total other revenues and income	*1.553.741*	*1.143.779*
TOTAL VALUE OF PRODUCTION	**35.909.176**	**30.402.213**
B) COSTS OF PRODUCTION		
6) For raw materials, consumables and goods for sale	-16.962.314	-14.555.254
7) For services	-7.169.106	-6.155.240
8) For use of assets owned by others	-39.757	-36.403
9) For staff costs:		
a) wages and salaries	-4.266.544	-3.687.812
b) social security costs	-1.329.465	-1.149.792
c) provision for severance indemnity	-272.612	-242.108
Total for staff costs	*-5.868.621*	*-5.079.712*
10) Value adjustments		
a) amortisation of intangible assets	-77.166	-492.513
b) depreciation of tangible assets	-627.203	-587.409
d) allowance for debtors in current assets and other acc.s incl. in cash	-74.686	-286.977
Total value adjustments	*-779.055*	*-1.366.899*
11) Change in stock of raw materials, consumables and goods for resale	685.828	558.586
12) Amounts provided for risk provisions	-430.000	-18.801
14) Other operating charges	-295.089	-271.267
TOTAL COSTS OF PRODUCTION	**-30.858.114**	**-26.924.990**
(A-B) DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	**5.051.062**	**3.477.223**
C) FINANCIAL INCOME AND CHARGES		
15) Income from equity investments:		
a) in subsidiary companies	426.747	180.000
Total income from equity investments	*426.747*	*180.000*
16) Other financial income:		
c) from other investments which are not permanent	313.070	45.134
d) other income not included above		
- to subsidiary companies	*165.659*	*163.169*
- to associated companies	*2.000*	*2.000*
- to third parties	*102.752*	*67.926*
Total other income not included above	*270.411*	*233.095*
Total other financial income	*583.481*	*278.229*
17) Interest payable and similar charges		
d) to third parties	*-139.116*	*-101.049*
Total interest payable and similar charges	*-139.116*	*-101.049*
17-bis) Foreign exchange (loss) or gain	*751.925*	*-229.129*
TOTAL FINANCIAL INCOME AND CHARGES	**1.623.037**	**128.051**
D) VALUE ADJUSTMENTS IN RESPECT OF INVESTMENTS		
19) Devaluation		
a) of equity investments	-1.985.193	-1.181.129
Total devaluation	*-1.985.193*	*-1.181.129*
TOTAL VALUE ADJUSTMENTS	**-1.985.193**	**-1.181.129**
E) EXTRAORDINARY INCOME AND CHARGES		
20) Extraordinary income		
a) income	*82.551*	*453.539*
b) capital gains from disposal of assets	*7.543.982*	*685.041*
Total extraordinary income	*7.626.533*	*1.138.580*
21) Extraordinary charges		
a) charges	*-56.664*	*-5.708*
b) capital losses from disposal of assets	*-6.591*	*-1.352*
c) other extraordinary charges		*-168.526*
Total extraordinary charges	*-63.255*	*-175.586*
TOTAL EXTRAORDINARY INCOME AND CHARGES	**7.563.278**	**962.994**
PROFIT OR LOSS BEFORE INCOME TAXES	**12.252.184**	**3.387.139**
22) Income taxes:		
a) current	-2.897.296	-1.681.862
b) deferred	224.662	195.898
23) NET PROFIT (LOSS)	**9.579.550**	**1.901.175**

Appendix to the annual report for the financial year ending December 31st 2005

Organization and contents of the annual report

1) CRITERIA USED FOR DRAWING UP THE STATEMENT

The statement which follows has been drawn up in compliance with Article 2423 and following of the Civil Code. It consist of the Balance Sheet , the Profit and Loss Account and the Appendix, drawn up in conformity with Art. 2427 of the Civil Code, which, in compliance with Art.2423 constitutes an integral part of the annual report.
The Balance Sheet and the Profit and Loss Account are drawn up in accordance with the requirements stated in the Civil Code and have been modified in accordance with the regulation which came into effect with the Legislative Decree of January 17th 2003, n. 6.
The statement is presented in comparative form with that of last year, for which information is given that is consistent and homogeneous with that of this year.
For information regarding the nature of the company's activities, the important events which occurred after the closure of the financial year, and the relations with the subsidiary and associated companies, see the management report.

2) EVALUATION CRITERIA

a) General criteria
The criteria used for drawing up the financial statement are in conformity with the above mentioned laws which are now in effect, integrated and interpreted by the Accounting Principles issued by the National Council of Accountants (*Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri)*.
The evaluation of the entries in the statement has been made following general criteria of prudence and competence, with the prospect of the continuation of the activity of the company. For purpose of accounting information, preference has been given to the economic substance of the operations rather than their judicial form; a far as the financial activities are concerned, they have been entered into accounts only when they were settled. Profits have been included only if they have been cashed in by the date of the closure of the financial year, while risks and losses have been considered even when they came to be known at a later date. The heterogeneous entries which are included in the individual categories of the statement have been evaluated separately. Financial elements which are destined to be used over a long period of time have been included among the fixed assets.

b) Adjustment of value
The value of material and immaterial goods the duration of which is limited in time has been adjusted for decrease by means of amortization. The analytical methodology used for amortization and devaluation is described further on in this report.

c) Revaluations
Revaluations have not been made.

d) Exceptions
During this financial year and in the past years, no exceptions have been made concerning the evaluation criteria imposed by the legislation on annual reports.

e) Accounting entries made exclusively in application of the tax laws
During this financial year and in the past years no entries have been made specifically in application of the tax laws, as per Legislative Decree of January 17th 2003, no. 6.

The most significant principle and criteria are the following:

f) Intangible fixed assets
The intangible assets are recorded at the purchase price including accessory charges. The costs of formation and expansion are listed under the specific heading among the assets and amortized over a period of 5 years. The costs of research and development and for publicity are entirely entered into the profit and loss account of the year in which they

have been sustained. Licenses, rights and patents are entered into the account at the purchase price and are amortized on the basis of their future utility. Software is entered at purchase price and amortized in 3 years.

g) Tangible assets and amortizations

The assets are entered at the cost of purchase or manufacture, including accessory charges, net of amortizations. The ordinary maintenance expenses are entirely entered into the profit and loss account. Maintenance expenses of an incremental nature are attributed to the fixed asset to which they refer and amortized on the basis of the residual possibility of use of the source.

The aliquots used for amortization, reduced to half for the first financial year, are as follows:

Description	*Amortization percentage*
Land and buildings	
- industrial structures	3.00%
Plants and machinery	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
Industrial and commercial equipment	
- miscellaneous and minute equipment	25.00%
- kitchen equipment	25.00%
Other goods	
- motor vehicles	50.00%
- forklift	20.00%
- lightweight constructions	10.00%
- electronic office equipment	40.00%
- furniture and décor	12.00%

h) Investments

Equities in subsidiary and associated companies

The equities in subsidiary and associated companies which constitute financial assets are evaluated according to the cost method, and devaluated in relation to long-term losses of value. Financial deficits are represented in the statement by entry in a fund for devaluation of equities.

Since all the prerequisites are present, a consolidated statement has been drawn up.

- Other equities and stock investments

All of the other equities and stock are evaluated at cost. In the case of long term losses in value, derived from the quotations expressed on the market for the specific stock, an appropriate devaluation is made and during the financial year in which the conditions for devaluation no longer exist, the value up to the amount of the original price is entered again.

i) Inventory

- Raw materials, semi-finished goods, finished goods

The inventory of raw materials and finished goods is evaluated at either the cost of purchase price or of manufacture, including accessory charges or at the presumed selling price determined on the basis of the market conditions, whichever is less. The stock of obsolete articles or those with slow turnover are evaluated in consideration of the possibility of use or sale. The configuration of cost which is used is that called LIFO (last in, first out) up-dated annually.

The stock of semi-finished good are evaluated on the basis of the cost of production.

j) Accounts receivable

Accounts receivable are shown at their presumed cash-in value. This amount is obtained by the direct devaluation of the receivables themselves, analytically for the most significant ones, and at a fixed rate for all the others.

k) Investments which are not permanent

Stocks and investments which are not permanent are entered at the purchase price, or else at the presumed selling price, determined on the basis of market condition, the lesser of the two.

l) Prepayments and accrued income

The principle of temporal competence is effected by means of entering assets and liabilities of the prepayments and accrued income.

m) Provisions for risks and charges

Provisions are set aside in the fund for risks in the liabilities of the balance sheet in order to cover potential liabilities charged to the company, the manifestation of which is deemed likely on the basis of realistic estimates of their definitions. The fund for product guarantee covers the charges derived from a realistic estimate of the number of repairs which will have to be made under warranty, according to the contractual obligations which have been assumed.

n) Severance indemnity fund for employees

This accrual corresponds to the entire amount of severance indemnity matured in favour of the employees, in compliance with the laws now in effect.

o) Amounts owed

Amounts owed are shown at their nominal value.

p) Risk, obligations and guarantees

Obligation and guarantees are shown in the memorandum accounts at their contract value. The risks for which the manifestation of a liability is probable are described in the explanatory note and accrued according to the criteria of congruity with the risk funds.

The risks for which the manifestation of a liability is only possible are described in the explanatory notes, without setting them aside in a risk fund, in conformity with the accounting principle being used. Risks which are deemed to be remote are not considered.

q) Recognition of revenue

Income from the sales of products is recognised at the time that ownership is transferred, and this is normally considered to be the moment of delivery or shipment of the goods. Financial income is recognised on the basis of temporal competence. Dividend from equities are entered according to the cash principle.

r) Accounts in foreign currency

Accounts receivable and payable in foreign currency are evaluated at the rate of exchange at the end of the financial year. Profits and losses from conversion of currency are added or subtracted from the profit and loss account. The amount of net profit that may arise from the conversion of accounts in foreign currency because of the difference between the original exchange rate and the rate at the end of the financial year is set aside in a special fund which cannot be distributed until the next profit is made.

s) Contributions in capital account

In order to pay the expenses of research and development which is charged each year to the profit and loss account, the Company receives, mostly from the Ministry for Scientific Research (MIUR), a free grant which is registered for the financial year in which it is issued.

In the past, as was permitted by regulations at the time, the Company took advantage of the possibility of suspending these grants, either entirely or for 50%, in a Reserve of the shareholders' equity. Since 1998 these funds have been entirely entered into the profit and loss account.

t) Taxes

Current tax reserves have been set aside according to present aliquots and laws in force, on the basis of a realistic estimate of taxable income and bearing in mind possible exemptions. Income tax liabilities are entered in the balance sheet among the amounts owed to tax authorities net from advance payments.

Deferred tax funds have been set aside according to the differences of a temporary nature between assets and liabilities recognised for tax purposes and those on the balance sheet drawn up according to legal regulations; liabilities have been set aside in the provisions for “taxes, even deferred” and the assets have been entered under the heading of "Deferred tax assets” at entry 4-ter) of the receivables. Deferred tax assets are entered only when there exists a reasonable likelihood of recovering them. The permanent differences in taxation give rise to an increase in the fiscal impact on the operating revenue.

Analysis of the different entries in the financial statement:

Assets

B) Fixed assets

I – Intangible fixed assets

The movements which occurred this year in the intangible fixed assets are shown below:

Categories	Balance 31/12/04	Increase	Revaluation (Devaluation)	Other Operations	(Amortizations)	Translation Adjustments	Balance 31/12/05
Concessions, licences, trade marks and similar rights	68.282	29.662			-64.122		33.822
Goodwill							
Other	13.652	8.223			-13.044		8.831
Total	**81.934**	**37.885**			**-77.166**		**42.653**

Categories	31/12/05			31/12/04		
	Cost	(Amortizations)	Net value	Cost	(Amortizations)	Net value
Formation and expansion expenses	1.866.238	1.866.238		1.866.238	1.866.238	
Concessions, licences, trade marks and similar rights	355.378	321.556	33.822	325.716	257.434	68.282
Goodwill						
Other	147.879	139.048	8.831	139.656	126.004	13.652
Total	**2.369.495**	**2.326.842**	**42.653**	**2.331.610**	**2.249.676**	**81.934**

In the entry "Concessions, licenses, trademarks and similar rights" we have included the costs sustained in 2003 for the granting of a license for a patent for a safety device applicable to laser systems; this entry also includes the costs for the purchase of managerial-administrative software.

II –Tangible assets

The variations which occurred this year in the tangible assets are shown below:

Cost	Balance 31-dic-04	Increase	Revaluations and devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31-dic-05
Land and buildings	4.482.442	9.487			-704.438		3.787.491
Plants and machinery	418.771	15.530			-1.024		433.277
Industrial and commercial equipment	1.901.178	466.724			-34.679		2.333.223
Other goods	1.117.296	98.009			-45.461		1.169.844
Tangible assets under construction	97.329	136.583					233.912
Total	**8.017.016**	**726.333**			**-785.602**		**7.957.747**

Amortization provisions	Balance 31-dic-04	Amortizations Amount	Devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31-dic-05
Land and buildings	681.755	113.482			-10.567		784.670
Plants and machinery	148.692	42.511			-769		190.434
Industrial and commercial equipment	1.197.886	350.625			-28.073		1.520.438
Other goods	862.160	120.585			-43.937		938.808
Tangible assets under construction							
Total	**2.890.493**	**627.203**			**-83.346**		**3.434.350**

Net value	Balance 31-dic-04	Increase	Revaluations and other operations	(Amortizations and devaluations)	(Disposals)	Translation Adjustments	Balance 31-dic-05
Land and buildings	3.800.687	9.487		-113.482	-693.871		3.002.821
Plants and machinery	270.079	15.530		-42.511	-255		242.843
Industrial and commercial equipment	703.292	466.724		-350.625	-6.606		812.785
Other goods	255.136	98.009		-120.585	-1.524		231.036
Tangible assets under construction	97.329	136.583					233.912
Total	**5.126.523**	**726.333**		**-627.203**	**-702.256**		**4.523.397**

The most valuable fixed asset is the real estate property in Via Baldanzese in Calenzano where the parent company and three of the subsidiaries, Deka M.E.L.A., Cutlite Penta and Valfivre Italia, are based.
The amount which appears in the "Disposals" column under the entry "Land and Buildings" represents the value of the sale of the real estate located in Connecticut (USA) where the subsidiary Lasercut Inc, has its headquarters. The sale to BRCT Inc., a company entirely owned by El. En SpA, took place at the beginning of this year.
The investments involved mainly equipment destined for sales demonstrations and clinical experiments for the medical-aesthetic sector. New vehicles were also purchased for company use. Under the heading "tangible assets under construction and prepayments" we have entered the costs sustained by the company for architectural and structural plans, as well as the charges paid for the building permit for the enlargement of the factory located in .Via Baldanzese in Calenzano, Florence.

III –Financial investments

The table below shows information related to the equity investments held by the company.

Equities in associated companies

Company name:	Headquarters	% owned	Value of charge	Capital and reserves on 31/12/2005	Result 31/12/2005	Fraction account C.R.	Difference
Cynosure	Westford (USA)	35,14%	14.137.956	70.485.483	2.969.633	24.768.599	10.630.643
Deka M.E.L.A. Srl	Calenzano	60,00%	24.170	4.808.005	535.923	2.884.803	2.860.633
Cutlite Penta Srl	Calenzano	53,50%	118.263	242.639	10.609	129.812	11.549
Valfivre Italia Srl	Calenzano	99,00%	47.039	94.743	16.916	93.796	46.757
Quanta System Spa	Solbiate Olona (VA)	60,00%	2.859.710	2.307.168	416.657	1.384.301	-1.475.409
Ot-Las Srl	Calenzano	15,00%	225.000	1.592.587	5.178	238.888	13.888
Lasit Srl	Vico Equense (NA)	50,00%	485.814	1.429.574	-8.916	714.787	228.973
Deka Sarl	Vienne (F)	98,00%		-271.482	-147.120	-266.052	-266.052
Deka Lms GmbH	Freising (G)	76,16%	369.674	390.336	-211.801	297.280	-72.394
Asclepion Laser Technologies GmbH	Jena (G)	50,00%	525.879	1.670.421	170.807	835.211	309.332
BRCT	New York (USA)	100,00%	652.591	1.607.641	841.154	1.607.641	955.050
Deka Laser Technologies LLC	Fort Lauderdale (USA)	51,00%	477	265.411	191.763	135.360	134.883
Lasercut	Branford (USA)	70,00%		-1.934.865	-517.711	-1.354.406	-1.354.406
Total			19.446.573	82.687.661	4.273.092	31.470.018	12.023.445

The amount of the fraction of the net capital and reserves shown in the table approximates the value obtainable applying the shareholders' equity method.

For Quanta System the difference between the amount in the balance sheet and the corresponding fraction of the net capital and reserves can be attributed to the goodwill paid upon purchase. The considerable amount of this goodwill is justified, among other things, by an analysis of the expected profitability of the company which was effected using the DCF (Discounted Cash Flow) method; as far as the consolidated financial statement is concerned, this analysis makes it possible to enter the value of the equity at 3.464 thousand Euros, which is more than the 2.859 thousand Euros entered in the El. En. SpA. statement. The same DCF analysis used for Quanta System, was applied to the Deka Lms; this comported the devaluation of the goodwill paid at the time of purchase and the substantial alignment of the value of El.En. SpA to the consolidated value.

As far as the equity in the subsidiary companies Deka Sarl and Lasercut Inc., are concerned, these equities were previously subjected to devaluation on account of the losses suffered during the financial year of 2004, and a further accrual has been made for the losses which exceed the value of the equity, up to a concurrence with the value in the balance sheet for 144 thousand Euros (Deka Sarl) and 512 thousand Euros (Lasercut Inc.); this accrual in the “Fund for risks and charges” is in addition to the amount of 964 thousand Euros accrued during the financial years of 2003 and 2004. Moreover, for the subsidiary Lasercut, in conformity with the accounting principles being used, an additional accrual of 580 thousand Euros was made in order to cover potential losses deriving from the refusal of the minority partner to cover his quota of the company’s losses.

As mentioned above, in January of 2005 the company conferred the real estate owned in Branford, Connecticut, to the subsidiary BRCT Inc, which is owned 100% by the company.

As part of an operation initiated at the end of last year, for which we have given ample information in the Appendix to the annual statement closed on December 31st 2004, during the first months of 2005 payment was completed for the repurchase of the shares of the subsidiary Cynosure Inc. from the minority partners. Moreover, the sale of 495.000 shares was concluded, at the same price of $ 3,00 at which they were purchased, to the management of the company and to parties close to the management,. Of these shares, 450.000, for a value of 1.350.000 dollars, were entered on December 31st 2004 among the current assets of El.En. SpA, while the remaining 45.000 were entered among the financial investments.
Again, with reference to the subsidiary Cynosure, on October 1st 2005, 1.000.000 shares were sold to the subsidiary BRCT, which paid 12 million American dollars for them in the days that followed. Later, on December 9th 2005 Cynosure completed the public underwriting offer and sale of its own shares on the Nasdaq market. As part of this same transaction, Cynosure Inc. offered 4 million newly issued shares on the market, reaching a gross price of 15 dollars per share, which greatly exceeded the price which had been foreseen during the first few days of negotiation of the stock; moreover, the sponsors of the operation (Citigroup, Needham, Jeffries) exercised the “Greenshoe” operation which had been granted to them and purchased from Cynosure an additional 750.000 newly issued shares. The operation comported a sizeable increase in capital and reserves for Cynosure, and an increase in the value of the equity held by El.En. SpA.
As a result of this operation El.En. holds 3.888.628 shares of Cynosure, representing 35,14% of the capital. On account of a special modification of the statutes which created two classes of shares, one of which has the specific power to appoint and to remove the majority of the members of the Board of Directors, El.En. maintains control of Cynosure.

Moreover, on November 2nd 2005 the Company acquired from third parties an equity of 15% of the capital of Ot-Las Srl, a company which was already controlled indirectly through Cutlite Penta Srl which holds a 54% share of the capital.

Also on November 2nd 2005, as a consequence of the vote of the extraordinary assembly of Lasit Srl to transform the company into a corporation and increase the capital stock (originally 234 thousand Euros) to 1 million Euros, with an increase of 16 thousand Euros by means of conversion of retained earnings and the remaining 750 thousand Euros for a charge, the company underwrote the pro-quota increase mentioned above. This operation represents the natural evolution of the policy of development and consolidation which has been followed in the past few years by Lasit Srl, a company which has an increasingly important role in its market sector.

Equities in associated companies

Company Name:	Headquarters	% owned	Value of charge	Capital and reserves on 31/12/2005	Result 31/12/2005	Fraction account C.R.	Difference
Actis Srl	Calenzano	12,00%	1.240	48.958	37.126	5.875	4.635
IALT Scrl	Calenzano	50,00%	5.000	10.001		5.001	1
Immobiliare Del.Co. Srl	Solbiate Olona	30,00%	274.200	112.046	14.005	33.614	-240.586
S.B.I. SA	Herzele (B)	50,00%	150.000	300.000		150.000	-
Total			430.440	471.005	51.131	194.490	235.950

On December 6th 2005 El.En. SpA and an outside partner created the Belgium-based company called "SBI – Smartbleach International", with a common stock of 300 thousand Euros, with each of the two partners holding a 50% share. The business of the company is the international distribution of laser systems for whitening the teeth, for which FDA authorization was recently obtained for sale in the United Sates.

The data relative to the associated company "Immobiliare Del.Co. Srl", which owns a building which is leased to Quanta System SpA, show a difference between the purchase price and the and the corresponding share of the stockholders' equity due to the greater value implicit in the lands and buildings possessed, as is indicated in the assessment report which was drawn up as proof of the worth of the company itself.

At the end of the financial year described in this report, by unanimous decision of the shareholders, the associated company M&E, the value of which had been completely devaluated in 2001, was dissolved. .

Equities in other companies

The equity held in the RTM SpA, company, which was increased at the beginning of the year by underwriting an additional 62.625 shares for an amount of about 31 thousand Euros, was afterwards devaluated for the purpose of adapting the value entered into the balance sheet to the corresponding fraction of the stockholders' equity of the company.

Equity Investments

Company name:	31/12/04 Cost	31/12/04 Reval. (Deval.)	31/12/04 Balance 31/12/04	Changes	Revaluations (devaluations)	Other movements	31/12/05 Balance 31/12/05	31/12/05 Reval. (Deval.)	31/12/05 Cost
Subsidiary companies:									
Deka M.E.L.A. Srl	24.170	0	24.170	0	0	0	24.170	0	24.170
Cutlite Penta Srl	118.263	0	118.263	0	0	0	118.263	0	118.263
Valfivre Italia Srl	47.039	0	47.039	0	0	0	47.039	0	47.039
Deka Sarl	76.953	-76.953	0	0	0	0	0	0	0
Deka Lms GmbH	1.033.305	0	1.033.305	0	-663.631	0	369.674	-663.631	1.033.305
Ot-las Srl	0	0	0	225.000	0	0	225.000	0	225.000
Lasit Srl	110.814	0	110.814	375.000	0	0	485.814	0	485.814
Quanta System SpA	2.859.710	0	2.859.710	0	0	0	2.859.710	0	2.859.710
Cynosure	16.668.048	0	16.668.048	-2.530.092	0	0	14.137.956	0	14.137.956
Deka Laser Technologies LLC	477	0	477	0	0	0	477	0	477
Lasercut	467.333	-467.333	0	0	0	0	0	0	0
BRCT	0	0	0	652.591	0	0	652.591	0	652.591
Asclepion Laser T. GmbH	525.879	0	525.879	0	0	0	525.879	0	525.879
Total	21.931.991	-544.286	21.387.705	-1.277.501	-663.631	0	19.446.573	-663.631	20.110.204
Associated companies:									
Actis Srl	1.240	0	1.240	0	0	0	1.240	0	1.240
Ialt	5.000	0	5.000	0	0	0	5.000	0	5.000
Immobiliare Del.Co.	274.200	0	274.200	0	0	0	274.200	0	274.200
Sbi International	0	0	0	150.000	0	0	150.000	0	150.000
Total	280.440	0	280.440	150.000	0	0	430.440	0	430.440
Other companies:									
CALEF	8.527	0	8.527	0	0	0	8.527	0	8.527
R&S	516	0	516	0	0	0	516	0	516
RTM	129.810	0	129.810	31.313	-84.561	0	76.562	-84.561	161.123
EJTN	4.500	-4.500	0	0	0	0	0	0	0
Total	143.353	-4.500	138.853	31.313	-84.561	0	85.605	-84.561	170.166
Other investments:									
Total	0	0	0	0	0	0	0	0	0
Total	22.355.784	-548.786	21.806.998	-1.096.188	-748.192	0	19.962.618	-748.192	20.710.810

Financial charges entered this year among the assets

No financial charges were entered among the assets.

C) Current assets

I -Inventories

The table below shows the analysis of the inventories:

Stocks:	31-dic-05	31-dic-04	Variation	Var. %
Raw materials and consumables	6.556.283	5.870.455	685.828	11,68%
Work in progress and semi finished products	3.529.920	3.380.773	149.147	4,41%
Finished products and goods for sale	1.680.839	1.630.709	50.130	3,07%
Total	11.767.042	10.881.937	885.105	8,13%

The increase in final inventory was 8%, a growth rate which is inferior to that of the sales volume, and an indication of the attention given to the control of the current assets. The comparison between the inventory for this year and that for last year, and in particular between the raw materials and the semi-finished pieces, shows the increase in the quantities which is a natural effect of the considerable rise in the volume of production. The most significant increase is that of the raw materials and it pertains mostly to materials that were acquired to meet the increased production requirements programmed for the first months of 2006.
The value of the inventory held by third parties for work in progress, for repairs, in deposit for technical assistance, for demonstration and clinical experimentation, at the end of the year amounted to approx. 2,9 million Euros.

The LIFO reserve at the end of the year amounted to approx. 270 thousand Euros.

II - Receivables

Analysis of the receivables
Receivables are composed as follows:

Debtors:	**31/12/05**	**31/12/04**	**Variation**	**Var. %**
Trade debtors	4.460.717	3.520.459	940.258	26,71%
Amounts owed by subsidiary companies	13.508.323	11.420.475	2.087.848	18,28%
Amounts owed by associated companies	109.975	77.755	32.220	41,44%
Tax debtors	723.491	255.185	468.306	183,52%
Deferred tax assets	784.953	436.013	348.940	80,03%
Other debtors	613.976	681.893	-67.917	-9,96%
Total	20.201.435	16.391.780	3.809.655	23,24%

	31/12/05	**31/12/04**	**Variation**	**Var. %**
Trade debtors:				
Italy	1.816.199	2.639.940	-823.741	-31,20%
EC	1.458.797	1.257.879	200.918	15,97%
Outside of EC	1.568.975	195.481	1.373.494	702,62%
minus: devaluation provision for debtors	-383.254	-572.841	189.587	-33,10%
Total trade debtors	4.460.717	3.520.459	940.258	26,71%
Amounts owed by subsidiary companies:				
Italy	6.451.272	6.933.956	-482.684	-6,96%
EC	2.442.495	1.763.617	678.878	38,49%
Outside of EC	4.614.556	2.722.902	1.891.654	69,47%
Total amounts owed by subsidiary companies	13.508.323	11.420.475	2.087.848	18,28%
Amounts owed by associated companies:				
Italy	105.863	64.859	41.004	63,22%
EC	4.112		4.112	0,00%
Outside of EC		12.896	-12.896	-100,00%
Total amounts owed by associated companies	109.975	77.755	32.220	41,44%
Tax debtors:				
Italy	723.491	255.185	468.306	183,52%
Total tax debtors	723.491	255.185	468.306	183,52%
Deferred tax assets:				
Italy	784.953	436.013	348.940	80,03%
Total deferred tax assets	784.953	436.013	348.940	80,03%
Other debtors:				
Italy	613.976	681.893	-67.917	-9,96%
Total other debtors	613.976	681.893	-67.917	-9,96%
Total	20.201.435	16.391.780	3.809.655	23,24%

Receivables in foreign currency amount to 5.826 thousand American dollars and to 1.123 British pounds and have been entered by converting these amounts at the exchange rate that was in effect on the date of the statement, which was 1,1797 dollars per Euro and 0,6853 British pounds per Euro.
The amount entered for "tax receivables" is related to a VAT credit which was the natural effect of the large quantity of exports which characterize the sales volume of the company.
For a detailed analysis of the item "receivables for deferred tax assets", see the paragraph titled "analysis of the deferred tax assets and liabilities".
The decrease in the overall value of the item "fund for depreciation of receivables" is justified by the use of a fund for the closure of a bid procedure for an amount which was over the increase due to the accrual of the period.

Receivables from subsidiary companies

Trade receivables from subsidiary companies are inherent to the typical management operations of the company. Financial receivables are related to financing issued to cover normal operating requirements. Among these latter, we have entered: the financing issued to Lasit SpA for 350 thousand Euros, paid back at the annual BCE rate + 1%, to Neuma Laser Srl for 77 thousand Euros paid back at the rate of 5% annually, to Deka Lms GmbH for 352 thousand Euros paid back at the BCE rate +2% up to a maximum of 5,5% for the first period, and at the BCE rate + 2% for the following periods, to Deka Laser Technologies for 185 thousand dollars paid back at the annual rate of 3%, to Lasercut for 2.814 thousand dollars paid back at the annual rate of 5% and to Asclepion for 100 thousand Euros, paid back at an annual rate of 5%.

A detailed list of the inter-company amounts for payables, receivables, costs, revenues is shown in the management report.

Analysis of the other receivables

The other receivables can be subdivided as follows:

	31/12/2005	31/12/2004	Variation	Var. %
becoming payable within the next fiscal year				
Security deposits	3.267	4.827	-1.560	-32,32%
Prepayments to suppliers	304.041	292.909	11.132	3,80%
Other credits	264.560	170.242	94.318	55,40%
total becoming payable within the next fiscal year	571.868	467.978	103.890	22,20%
becoming payable after the next fiscal year				
SP tax account	3.108	3.108		0,00%
Insurance policy TFM	39.000	210.807	-171.807	-81,50%
total becoming payable after the next fiscal year	42.108	213.915	-171.807	-80,32%
Total	613.976	681.893	-67.917	-9,96%

Receivables coming due after five or more years

No receivables coming due after five or more years have been entered into accounts.

III –Financial assets which do not constitute investments

Equities in subsidiary companies
At the end of 2005, we cancelled the amount which had been entered for the preceding financial year for 994 thousand Euros (corresponding to 1.353 thousand American dollars at the exchange rate in effect at the end of the year, which was 1,3621 per Euro) related to the 450.000 shares of Cynosure Inc. which the company sold in the early part of the year, as described in the introduction to the Appendix.

Treasury stock
In February of 2005, in conformity with the vote of the Shareholders' Assembly of April 24th 2002, the company put back into circulation its own shares which had been previously purchased, also in accordance with the vote of the same Assembly, and in compliance with the specific laws now in force. The 22.714 shares owned , which were entered at the

time of purchase for an amount of 255.937 at an average price of 11,2678 Euros, were sold at an average price of 25,05 Euros, thus earning a gross capital gains of 313 thousand Euros.

IV – Cash at bank and in hand

Cash at bank and in hand is composed as follows:

Cash at Bank and in hand:	**31/12/2005**	**31/12/2004**	**Variation**	**Var. %**
bank and postal current accounts	15.101.260	6.298.369	8.802.891	139,76%
cash in hand	10.185	7.138	3.047	42,69%
Total	15.111.445	6.305.507	8.805.938	139,65%

For an analysis of the variations in cash at bank and in hand, see the table of the financial report; it should also be noted that the bank deposits are not .

D) Prepayments and accrued income

Composition of the prepayments and accrued income is shown on the table below:

	31/12/2005	**31/12/2004**	**Variation**	**Var. %**
Assets of deferred incomes:				
Premiums	12.489	18.902	-6.413	-33,93%
Other assets of deferred incomes	54.318	50.073	4.245	8,48%
Total assets of deferred incomes	66.807	68.975	-2.168	-3,14%
Total	66.807	68.975	-2.168	-3,14%

The amounts which have been entered, according to the relative accounting principle with the assets of deferred incomes, do not represent sums of particular significance or incidence for the activity of the company.

LIABILITIES

A) Total equity

Composition of the capital and reserves

The following table shows the changes which have occurred in the net capital and reserves during the last two years.

STOCKHOLDERS' EQUITY:	**Balance 31/12/2003**	**Net income allocation**	**Dividends distributed**	**Adjustments**	**Other operations**	**Balance 31/12/2004**
Common stock	2.402.992				21.375	2.424.367
Additional paid-in capital	34.206.116				492.298	34.698.414
Legal reserve	537.302					537.302
Reserve for own shares	255.937					255.937
Others reserves:						
Extraordinary reserves	5.486.618	583.043				6.069.661
Reserve for contribution on capital account	426.657					426.657
Other reserves	1				-2	-1
Retained earnings		1.149.607	-1.149.607			
Profits (loss) of the year	1.732.650	-1.732.650			1.901.175	1.901.175
Capital and reserves	45.048.273	-	-1.149.607	-	2.414.846	46.313.512

STOCKHOLDERS' EQUITY:	**Balance 31/12/2004**	**Net income allocation**	**Dividends distributed**	**Adjustments**	**Other operations**	**Balance 31/12/2005**
Common stock	2.424.367				12.596	2.436.963
Additional paid-in capital	34.698.414				625.595	35.324.009
Legal reserve	537.302				-	537.302
Reserve for own shares	255.937				-255.937	
Others reserves:						
Extraordinary reserves	6.069.661	269.390				6.339.051
Reserve for contribution on capital account	426.657					426.657
Other reserves	-1				1	
Retained earnings		1.631.785	-1.631.785			
Profits (loss) of the year	1.901.175	-1.901.175			9.579.550	9.579.550
Capital and reserves	46.313.512	-	-1.631.785	-	9.961.805	54.643.532

The assembly which convened on May 13th 2005 voted to use the profits of the financial year 2004 as follows: 269.390 Euros as an extraordinary reserve, and 1.631.785 Euros for distribution as dividends.

After the transaction for the sale of treasury stock which took place this year, the part of the reserve which had previously been accrued under the heading of "net capital and reserves", for an amount of approx. 256 Euros was made available and this amount was detracted from "net capital and reserves" heading and entered under the heading of "additional paid in capital".

With reference to the capital stock and the additional paid-in capital, in the latter case, for the part exceeding the amount relative to the amount of the treasury stock reserve, the increase shown in the column "other operations" is related to the picking up of 24.224 stock option rights by the employees of the Group as part of the 2004/2005 stock option plan, which is described in detail further on in this document.

Increases in capital to be used for the stock option plan
During the extraordinary assembly of El.En. SpA held on the 16th of July 2002, in accordance Art. 2443 of the Civil Code, the Board of Directors voted to increase the capital stock of the company through one or more payments, and for a maximum period of five years after the date of approval, for a maximum amount of 124.800 nominal Euros, by issuing a maximum of 240.000 ordinary shares with a nominal value of 0,52 Euros each with maturity the same as that of the ordinary shares of the company at the date of the underwriting, to be released with the payment of a price determined by the Board of Directors in accordance with the regulations contained in Art. 2441, comma VI, c.c. – that is, on the basis of the shareholders' equity and in consideration of the trend of the quotation on the stock market during the last quarter– and for a unit value, including share premium equal to the greater of the following: a) the value per share determined on the basis of the consolidated net capital and reserves of El. En. Group on December 31st of the year preceding the date of issue of the options; b) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the 6 months preceding assignment of the options; c) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the 30 days preceding assignment of the options; d) the arithmetical average of the official prices registered by the ordinary shares of the company on the Nuovo Mercato, organized and managed by the Italian stock market (Borsa Italiana SpA) in the period of time preceding the assignment of the options established by the Board of Directors in the regulations of the incentive plan.

On September 6th 2002, the Board of Directors voted to partially implement the proposal of the shareholders' assembly of July 16th 2002 and voted for an increase in capital stock o 31.817,76 Euros to be used for the stock option plan of 2003/2004 and approved the relative regulations. Option rights were assigned exclusively to the category of management, executives and white collar workers of the Group who at the time of assignment of the options were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase, for a maximum of 30.600 shares could be picked up by those having the right from November 18th to December 31st 2003, from August 15th to September 30th 2004, and from November 18th to December 31st 2004; the second phase, for a maximum of 30.588 shares could be picked up by the assignees from August 15th to September 30th 2004 and from November 18th to December 31st 2004.
In reference to this plan, as of December 31st 2004 (the last day the option could be picked up) 61.188 option rights had been assigned.

The Board of Directors, on November 13th 2003 voted to partially implement the approval of the shareholders' assembly of July 16th 2002 by voting to increase the capital stock by 13.145,60 Euros for use in the stock option plan of 2004/2005 and approved the relative regulations. The option rights were assigned exclusively to the category of management, executives and white collar workers of the Group who, at the time of assignment of the options, were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase for a maximum of 12.640 shares could be picked up by those having the right from November 18th to December 31st 2004, from August 15th to September 30th 2005 and from November 18th to December 31st 2005; the second phase, for a maximum of 12.640 shares could be picked up from August 15th to September 30th 2005 and from November 18th to December 31st 2005.
In reference to this plan, as of December 31st 2005 (the last day the option could be picked up) 25.280 option rights had been assigned in all, of which 1.056 picked up in 2004.

The Board of Directors, with the vote given on May 13th 2005 and the later modification of March 30th 2005, partially actuated the decision made by the Shareholders' assembly of July 16th 2002 to increase the Capital stock by 72.800 Euros to be used for the implementation of the stock option plan for 2006/2007 and approved the relative regulations. The option rights were assigned exclusively to the category of Management, executives and white-collar workers who at the time of assignment of the options were employed in a subordinate position. The above mentioned plan was broken down into two phases, one for each year; the first phase, for a maximum of 70.000 shares can be picked up by those having the right from May 16th 2006 until the date on which the annual report for 2006 is approved and from May 29th 2007 to July 16th 2007; the second phase, for a maximum of 70.000 shares can be picked up by the assignees from May 16th 2007 to July 16th 2007.

As a result of these decisions the capital stock of El.En. SpA on December 31st 2005 was as follows:

Authorised	euro	2.509.763
Underwritten and deposited	euro	2.436.963

Nominal value of each share	***0,52***

Categories	**31/12/2004**	**Increase.**	**(Decrease.)**	**31/12/2005**
No. of Ordinary Shares	4.662.244	24.224		4.686.468
Total	**4.662.244**	**24.224**		**4.686.468**

The shares are registered and indivisible and each of them gives the right to one vote in the ordinary and extraordinary assemblies as well as the financial and administrative rights according to the law and to the company Statutes. At least 5% of the net profit for the year must be deposited in the legal fund, as specified in Art. 2430 of the Civil Code. The rest can be distributed to the shareholders, unless the assembly votes otherwise. The Statute does not permit distribution of prepayments on dividends. Dividends that are not cashed in within five years from the day that they were issued are turned over to the company. There are no specific clauses in the Statutes concerning the equities of the shareholders' in the residual assets in the case that the company is liquidated. There are no clauses in the Statutes that grant particular privileges.

Availability and distribution of the reserves

NET CAPITAL AND RESERVES:	**Balance 31/12/2005**	**Possibility of utilisation**	**Portion available**	**Utilised in the previous two periods for covering losses**	**Utilised in the previous two period for other purposes**
Subscribed capital	2.436.963				
Share premium account	35.324.009	ABC	35.324.009		
Legal reserve	537.302	B			
Reserve for own shares					
Others reserves:					
Extraordinary reserves	6.339.051	ABC	6.339.051		
Reserve for contribution on capital account	426.657	ABC	426.657		
Reserve for translation adjustments					
Profits (loss) brought forward					
Other reserves					
			42.089.717	**0**	**0**
Portion not distributable					
Portion distributable			**42.089.717**		

Key: A) capital increase; B) to cover losses; C) for distribution to shareholders

Other reserves

The reserves for contributions on capital account are as follows:

	31/12/2005	31/12/2004	Variation	Var. %
DIFF3 contribution on capital account	150.659	150.659		0,00%
CESVIT contribution on capital account	3.099	3.099		0,00%
CCIAA contribution on capital account	3.892	3.892		0,00%
EU contribution on capital account	269.007	269.007		0,00%
Total	426.657	426.657		0,00%

B) Provisions for risks and charges

The table below shows the changes which took place this year in the fund for risks and charges.

	Balance 31/12/2004	Provision	(Utilisation)	Other	Translation Adjustments	Balance 31/12/2005
Pension costs and similar	216.184	19.500		-191.306		44.378
For taxation	581.145	124.277	-350.435			354.987
Others:						
Reserve for guarantee on the products	135.001	30.000				165.001
Reserve for risks and charges		400.000				400.000
Other minor reserves	963.917	1.237.001				2.200.918
Total other reserves	1.098.918	1.667.001	-	-	-	2.765.919
Total	1.896.247	1.810.778	-350.435	-191.306	-	3.165.284

The fund for pension costs and similar refers to the severance indemnity (TFM) of the administrators.

The fund for taxes includes deferred tax liabilities (as described in the next paragraph) for an amount of 315 thousand Euros and also includes the quantification of the charges which could potentially arise from the notification of the PVC of September 2005 for a total amount of approx. 40 thousand Euros.
The product guarantee fund is calculated on the basis of the costs of spare parts and assistance performed under warranty last year, adapted to the sales volume for this year.
The reserve "for risks and charges" includes a provision related to a special recompense assigned to two of the administrators and the President of the Scientific Commission. The increase in the entry for "other minor reserves" is related to losses suffered by the subsidiaries Lasercut Inc. and Deka Sarl, as described above.

Analysis of deferred tax liabilities and assets.

The deferred tax liabilities and assets are accrued on the temporary differences between assets and liabilities recognized for fiscal purposes and those entered into accounts.

The analysis is as follows:

	Balance 31/12/2004	Provision	(Utilisation)	Other	Balance 31/12/2005
Deferred tax assets on loss account from subsidiary companies					
Deferred tax assets on stock devaluations	-285.188	-189.035	1		-474.222
Deferred tax assets for provisions on guarantee products	-50.288	-11.175			-61.463
Deferred tax assets on credit devaluation	-99.001				-99.001
Other deferred tax assets	-1.539	-149.000	271		-150.268
Deferred tax liabilities on advanced amortizations	190.708	16.263		-1	206.970
Deferred tax liabilities for contributions on capital account	405		-405		
Other deferred tax liabilities		108.417	1		108.418
Total	-244.903	-224.530	-132	-1	-469.566

As of December 31st 2005, 785 thousand Euros were entered as deferred tax assets and approx. 315 thousand Euros as deferred tax liabilities, while the deferred tax assets/liabilities entered in the profit and loss account amounted to 225 thousand Euros.

Deferred tax assets were entered on the accruals made during this year for obsolescence of warehouse stock, for the product guarantee fund, and the fund for other risks and charges.
Deferred tax liabilities were entered on the differences in exchange rates which were not realized and were also entered for early amortizations which were tax deductions and not entered in the El. En. SpA balance sheet. In fact, in the years that follow the year in which the amortization quotas deducted from income will have reached the fiscally recognized cost, they will, in any case, be entered in the balance sheet as ordinary amortizations which are not tax deductible, until their amount has reached the value of the fixed asset; the fund for deferred tax liabilities therefore will be utilized to settle the tax debt related to the current taxes on the ordinary, non-deductible amortizations.

C) Severance indemnity for employees

The table below shows the changes which took place in the severance indemnity fund for employees.

Balance 31/12/2004	Provision	Utilization	Other	Balance 31/12/2005
847.255	272.612	-142.963		976.904

The funds accrued represent the actual debt of the company towards their employees in effect at the dates indicated, net of all prepayments.

D) Payables

Analysis of the amounts owed

	31/12/2005	31/12/2004	Variation	Var. %
Loans from shareholders	619.748	619.748		0,00%
Amounts owed to banks	206.583	416.379	-209.796	-50,39%
Amounts owed to other financiers	763.029	804.772	-41.743	-5,19%
Advances	301.867	481.104	-179.237	-37,26%
Amounts owed to suppliers	7.110.494	5.779.395	1.331.099	23,03%
Amounts owed to subsidiary companies	766.603	168.216	598.387	355,73%
Amounts owed to associated companies	101.410	135.000	-33.590	-24,88%
Amounts owed to tax administration	1.421.351	1.245.353	175.998	14,13%
Amounts owed to social security institutions	506.474	400.045	106.429	26,60%
Other creditors	1.091.804	2.803.764	-1.711.960	-61,06%
Total	12.889.363	12.853.776	35.587	0,28%

	31/12/2005	31/12/2004	Variation	Var. %
Loans from shareholders				0,00%
Italy	619.748	619.748		0,00%
Total Loans from shareholders	619.748	619.748		0,00%
Amounts owed to banks				0,00%
Italy	206.583	416.379	-209.796	-50,39%
Total Amounts owed to banks	206.583	416.379	-209.796	-50,39%
Amounts owed to other financiers				0,00%
Italy	763.029	804.772	-41.743	-5,19%
Total Amounts owed to other financiers	763.029	804.772	-41.743	-5,19%
Advances				0,00%
Italy	301.867	178.623	123.244	69,00%
Outside of EC		302.481	-302.481	-100,00%
Total Advances	301.867	481.104	-179.237	-37,26%
Amounts owed to suppliers				0,00%
Italy	6.316.702	5.156.858	1.159.844	22,49%
EC	508.605	467.656	40.949	8,76%
Outside of EC	285.187	154.881	130.306	84,13%
Total Amounts owed to suppliers	7.110.494	5.779.395	1.331.099	23,03%
Amounts owed to subsidiary companies				0,00%
Italy	462.046	144.228	317.818	220,36%
EC	74.043	17.200	56.843	330,48%
Outside of EC	230.514	6.788	223.726	3295,90%
Total Amounts owed to subsidiary companies	766.603	168.216	598.387	355,73%
Amounts owed to associated companies				0,00%
Italy	101.410	135.000	-33.590	-24,88%
Total Amounts owed to associated companies	101.410	135.000	-33.590	-24,88%
Amounts owed to tax administration				0,00%
Italy	1.421.351	1.245.353	175.998	14,13%
Total Amounts owed to tax administration	1.421.351	1.245.353	175.998	14,13%
Amounts owed to social security institutions				0,00%
Italy	506.474	400.045	106.429	26,60%
Total Amounts owed to social security institutions	506.474	400.045	106.429	26,60%
Other creditors				0,00%
Italy	1.091.804	808.260	283.544	35,08%
Outside of EC		1.995.504	-1.995.504	-100,00%
Total Other creditors	1.091.804	2.803.764	-1.711.960	-61,06%
Total	12.889.363	12.853.776	35.587	0,28%

Included in the entry “advances” among other items, we have entered approx. 120 thousand Euros received as an advance on research projects. These advances will be entered among the income in the profit and loss account only when the relative costs statements for the projects have been approved.

The payables in foreign currency amount to approx. 430 thousand American dollars and approx. 65 thousand British pounds, and have been entered by converting these amounts at the exchange rate in effect at the time of the statement, i.e., 1,1797 dollars per Euro and 0,6853 pounds per Euro.

Analysis of the payables on the basis of their due date

	31/12/2005			31/12/2004		
	Within 1 year	**From 1 to 5 year**	**Beyond 5 year**	**Within 1 year**	**From 1 to 5 year**	**Beyond 5 year**
loans from shareholders	619.748				619.748	
amounts owed to banks	206.583			209.796	206.583	
amounts owed to other financiers	185.898	396.558	180.573	168.575	425.262	210.935
Advances	301.867			481.104		
amounts owed to suppliers	7.110.494			5.779.395		
amounts owed to subsidiary companies	766.603			168.216		
amounts owed to associated companies	101.410			135.000		
amounts owed to tax administration	1.421.351			1.245.353		
amounts owed to social security institutions	506.474			400.045		
other creditor	1.091.804			2.803.764		
Total	12.312.232	396.558	180.573	11.391.248	1.251.593	210.935

The ordinary debenture loan (entered with the "loans from shareholders) for 619.748 Euros must be paid back in a single payment on December 31st 2006, and has a fixed interest rate of 9,75% adjusted annually on December 31st.

The item "amounts owed to banks" consist of a ten-year mortgage issued by the Cassa di Risaprmio di Firenze contracted for 1.652.662 Euros to be paid back in constant bi-annual instalments of 103.291 Euros starting on March 31st 1999, with an interest rate equal to that of the quarterly EURIBOR plus a spread of 0,95%, with interest paid quarterly.

The amounts owed to other financiers are made up of the following:
a) facilitated financing IMI for applied research, divided as follows:
Reference DIFF 3
Multi-year financing granted for 487.095 Euros at the annual fixed rate of 3,70% , last instalment July 1st 2008.
Reference TMR 4
Multi-year financing granted for 492.431 Euros at the annual fixed rate of 3,70%, last instalment July 1st 2006
b) facilitated financing MPS for applied research, reference TRL01, granted for 681.103 Euros at the annual rate of 2%; last instalment July 1st 2012.

The table below summarizes the financing described above, showing the due dates on which the debts, for the capital share, will become due.

	Expiration	**Rate**	**Balance**	**Amount within 1 year**	**Amount within 5 years**	**Amount beyond 5 years**
Ten-year debenture loans	31/12/2006	9,75%	619.748	619.748		
CRF ten-year loan	07/09/2006	Euribor+,95%	206.583	206.583		
Financing IMI DIFF3	01/07/2008	3,70%	159.330	61.985	97.345	
Financing IMI TMR 4	01/07/2006	3,70%	42.184	42.184		
Financing MPS TRL 01	01/07/2012	2,00%	561.515	81.729	299.213	180.573
Total			1.589.360	1.012.229	396.558	180.573

The amount entered under the heading of "quota for the following year" consists of the short-term instalments related to the medium-term financings received..

Long term financing variations
The variations in the mid- to long- term financing which occurred in 2005 are shown on the table below. The balances shown include the brief term capital quota but do not include amounts owed for interest.

	Balance 31/12/2004	Increase	Reimbursement	Other	Translation Adjustments	Balance 31/12/2005
Debenture loans	619.748					619.748
CRF loan	413.166		-206.583			206.583
Financing IMI DIFF3	219.084		-59.754			159.330
Financing IMI TMR 4	124.267		-82.083			42.184
Financing MPS TRL 01	461.421	219.681	-119.587			561.515
Total	1.837.686	219.681	-468.007	-	-	1.589.360

Amounts owed supported by real estate collateral

The factory in Via Baldanzese, 17 has a mortgage on it as a guarantee for the ten-year loan issued by Cassa di Risparmio di Firenze and described above.

Analysis of tax payables

	31/12/2005	31/12/2004	Variation	Var. %
Taxes on profit	1.095.591	932.725	162.866	17,46%
Debts owed to tax administration for VAT	1.741	2.180	-439	-20,14%
Debts owed to tax administration for deductions	324.019	310.448	13.571	4,37%
Total	1.421.351	1.245.353	175.998	14,13%

Analysis of the amounts owed to social security institutions and other payables

	31/12/2005	31/12/2004	Variation	Var. %
Amounts owed to INPS	448.647	371.840	76.807	20,66%
Amounts owed to INAIL	43.369	15.103	28.266	187,15%
Amounts owed to other Social Security Institutions	14.458	13.102	1.356	10,35%
Total	506.474	400.045	106.429	26,60%

The "other payables" are composed as follows:

	31/12/2005	31/12/2004	Variation	Var. %
Owed to staff for holidays	361.092	280.909	80.183	28,54%
Owed to staff for wages and salaries	432.613	320.550	112.063	34,96%
Other debts	298.099	2.202.305	-1.904.206	-86,46%
Total	1.091.804	2.803.764	-1.711.960	-61,06%

E) Accrual s and deferred income liabilities

The composition of the accruals and deferred income is as follows:

	31/12/2005	31/12/2004	Variation	Var. %
<u>*Deferred income liabilities*</u>				
Other	314	2.327	-2.013	-86,51%
Total deferred income liabilities	314	2.327	-2.013	-86,51%
Total	314	2.327	-2.013	-86,51%

The amounts entered with the accruals and deferred income liabilities do not represent phenomenon that is of particular significance for its impact on the company activity.

Profit and Loss Account

A) Value of production

Analysis of sales and services

	31/12/2005	31/12/2004	Variation	Var. %
Sales of industrial laser systems	5.913.640	4.495.068	1.418.572	31,56%
Sales of medical laser systems	24.532.161	20.617.750	3.914.411	18,99%
Consulting and research		116.711	-116.711	-100,00%
Service and sales of spare parts	3.452.124	2.882.556	569.568	19,76%
Total	33.897.925	28.112.085	5.785.840	20,58%

The medical sector continues to be the most important area of activity for the company, however, this year the industrial sector showed a higher growth rate. As far as after-sales service is concerned, the sales volume increased as a natural result of the installation of a growing number of systems which require service and spare parts.

Division of the revenue by geographical area

	31/12/05	31/12/04	Variation	Var. %
Sales in Italy	20.952.755	19.159.534	1.793.221	9,36%
Sales other EC countries	6.945.504	5.727.714	1.217.790	21,26%
Sales outside EC	5.999.666	3.224.837	2.774.829	86,05%
Total	33.897.925	28.112.085	5.785.840	20,58%

The Italian market, which is constituted mainly by the Italian companies belonging to the Group, still prevails as it did last year. It should be noted however, that more than half of the production which is invoiced to the Italian companies of the Group is later distributed abroad.
The increase in sales volume in the European countries demonstrates the vitality of the company on these markets, thanks also to the sales made by the subsidiary companies involved in the distribution of medical lasers as well as the excellent performance of some of the distributors.
The rise in the percentage of sales made outside of the European Union is due mostly to the sales made by the American subsidiaries, and, in particular, Cynosure Inc.

Increase in investments in equipment for internal use

During 2005 laser systems worth 258.233 Euros were entered among the technical assets in relation to their long-term use for demonstrations to the clientele and for technical and clinical experimentation. The amount that was capitalized was the same as the amount of the industrial cost sustained.

Other revenue and income

The analysis of the other revenue and income is shown on the table below:

	31/12/2005	31/12/2004	Variation	Var. %
Recovery for accidents and insurance reimbursements	8.192		8.192	0,00%
Expense recovery	60.714	29.330	31.384	107,00%
Capital gains on disposal of fixed assets	22.253	143.644	-121.391	-84,51%
Other income	1.461.682	969.905	491.777	50,70%
Contribution on fiscal year account and on capital account	900	900	-	0,00%
Total	1.553.741	1.143.779	409.962	35,84%

Included in the item “other income” are the grants of approx. 1.078 thousand Euros towards research projects. Moreover, an additional 120 thousand Euros were received and entered as down payment; these prepayments will be entered among the income only after the definitive approval of the relative statement of costs.

Intercompany business

El.En. SpA controls a group of companies which operate in the field of laser technology, and each of which supplies a particular type of laser application or function: Cynosure Inc. and Asclepion Laser Technologies GmbH develop, manufacture and distribute medical laser systems, Deka M.E.L.A. Srl, Deka Sarl, Deka Lms GmbH, Deka Dls GmbH and Deka Laser Technologies LLC and ASA Srl distribute medical laser equipment, Cutlite Penta Srl and Lasercut Inc. develop laser systems for flat cutting, Ot-Las Srl systems for marking large surfaces, Lasit Srl for marking small surfaces, Neuma Laser Srl conducts sales and service activities abroad, Valfivre Italia Srl develops and engineers special laser systems for industrial cutting, marking and welding applications, Quanta System SpA develops, manufactures and distributes laser systems for medicine, industry and scientific research.

The combination of different products and services offered by the Group often generates sales transactions between the companies belonging to the Group. One of the main elements involved in inter-Group transactions is the laser power sources manufactured by El.En. SpA, which represent a fundamental component in the production of Cutlite Penta Srl, Valfivre Italia Srl, and Ot-Las Srl. Additional inter-Group transactions involve the medical and aesthetic laser equipment manufactured by El.En. SpA, which, in part are acquired by the subsidiaries which operate in this sector and which the distribute them. The purchase prices are determined on the basis of what the normal market price is. The above mentioned inter-company transactions, therefore, reflect the trends of market prices, from which they may differ according to the sales policy of the Group at the time.

B) Cost of production

Purchases of raw materials, accessory materials, consumables, and commercial products

The analysis of purchases is shown on the following table:

	31/12/2005	31/12/2004	Variation	Var. %
Purchase of raw materials and finished products	16.292.000	13.998.811	2.293.189	16,38%
Purchase of packaging	163.186	116.555	46.631	40,01%
Purchase of stationery	49.310	55.621	-6.311	-11,35%
Purchase of fuels	65.318	45.949	19.369	42,15%
Purchase of advertising materials	19.202	23.698	-4.496	-18,97%
Shipment of purchases	186.572	144.314	42.258	29,28%
Other purchase expenses	102.256	89.278	12.978	14,54%
Other purchases	84.470	81.028	3.442	4,25%
Total	16.962.314	14.555.254	2.407.060	16,54%

The increase in the purchase of raw materials is a direct result of the increase in the value of production, and it is reflected, among other things, in the increase in the final inventory registered at the end of the year.

Composition of expenses for services

Analysis of the composition of services performed is shown on the table below:

	31/12/2005	31/12/2004	Variation	Var. %
Expenses for work in progress at third parties'	2.361.379	2.157.175	204.204	9,47%
User services	236.620	201.770	34.850	17,27%
Consulting and technical services	938.847	790.301	148.546	18,80%
Maintenance	69.396	81.148	-11.752	-14,48%
Services and commercial consulting	173.933	168.587	5.346	3,17%
Shipment	338.315	269.676	68.639	25,45%
Insurance	143.571	89.306	54.265	60,76%
Travel and overnight expenses	448.164	309.925	138.239	44,60%
Commissions	64.567	76.467	-11.900	-15,56%
Promotional and advertising expenses	395.687	187.023	208.664	111,57%
Royalties	104.931	63.716	41.215	64,69%
Other services	1.893.696	1.760.146	133.550	7,59%
Total	7.169.106	6.155.240	1.013.866	16,47%

Among the "Other services" we have included the recompense given to members of the Board of Directors and the Board of Auditors, costs for legal advice, and the charges for all the services related to quotation on the stock market. The increase in the cost of insurance reflects, in particular, the increase in the sales volume towards the United States, since the insurance costs on the products are higher.

Composition of the different management costs

The analysis of the composition of the different management charges is as follows:

	31/12/2005	31/12/2004	Variation	Var. %
Other taxes	27.364	24.634	2.730	11,08%
Associating contributions	21.640	20.586	1.054	5,12%
Newspaper and magazine subscriptions	6.713	8.474	-1.761	-20,78%
Expenses for vehicles	74.218	66.175	8.043	12,15%
Capital losses on ordinary possession conveyances	796		796	0,00%
Purchase of consumables art. 67 T.U.	60.819	59.352	1.467	2,47%
Fines	3.477	2.979	498	16,72%
Other minor charges	100.062	89.067	10.995	12,34%
Total	295.089	271.267	23.822	8,78%

For our activity, the expenses of research and development continue to represent a very significant percentage of the production costs. In 2005 the expense that the company sustained for personnel dedicated full or part time to research and development, for the purchase of instruments, materials, equipment, and for research consultation and services, including the relative share of general expenses, amounted to approx. 4.056 thousand Euros. To meet these expenses the company the company received grants for an amount of 1.078 thousand Euros; the remainder was financed by the company.

C) Financial income and charges

INCOME FROM EQUITIES

Income from equity investments	Dividends	Income from negotiation	Other	Total
In subsidiary companies	426.747			426.747
Total	426.747	-	-	426.747

This year dividends for 330 thousand Euros distributed by the subsidiary Deka M.E.L.A. Srl and for approx. 97 thousand Euros distributed by the subsidiary Deka Lms. were entered into accounts.

Analysis of the other financial income

Financial income is analysed in the table which follows:

	31/12/2005	31/12/2004	Variation	Var.%
from non-permanent investments which are not equity investments				
Interests		310	-310	-100,00%
Income from negotiations	313.070	44.824	268.246	598,44%
Total	313.070	45.134	267.936	593,65%
financial income different from the previous ones:				
To associated companies	2.000	2.000	-	0,00%
Total	2.000	2.000	.	0,00%
financial income different from the previous ones: to third parties				
Interests - assets - to bank	102.745	67.926	34.819	51,26%
Other financial incomes	7		7	0,00%
Total	102.752	67.926	34.826	51,27%
Total	417.822	115.060	302.762	263,13%

The capital gains earned as a result of the sale of the treasury stock, which occurred at the beginning of 2005, as described above, was entered in the item “income from negotiations”.
Interest earned from banks increases as an effect of the increase in cash at bank and in hand.

Interest and other financial charges

Financial charges towards third parties	31/12/2005	31/12/2004	Variation	Var. %
debenture loans	60.425	60.425		0,00%
bank debts for account overdraft	18	1	17	1700,00%
bank debts for medium and long - term loans	31.589	40.346	-8.757	-21,70%
other financial charges	47.084	277	46.807	16897,83%
Total	139.116	101.049	38.067	37,67%

Interest owed to banks for loans and mid- or long- term financing refer respectively to the loan issued by the Cassa di Risparmio di Firenze and to the facilitated financing issued by IMI and by Monte Paschi Merchant.

Profit and loss on currency exchange

Foreign exchange loss or gain	31/12/2005	31/12/2004	Variation	Var. %
Foreign exchange loss	-207.085	-550.600	343.515	-62,39%
Foreign exchange gain	959.010	321.471	637.539	198,32%
Total	751.925	-229.129	981.054	-428,17%

The differences in exchange rates entered into accounts arise from the adaptation of the value of the receivables and payables expressed in foreign currency at the time they were received, if this occurred during the financial year, or, for the payables and receivables that are still open, by making an evaluation of the exchange rate at the end of the year

The negative differences in exchange rates, entered into accounts for an overall amount of 207 thousand Euros, include 20 thousand Euros related to the adaptation of the value of some of the amounts to the exchange rate in effect at the end

of the year with respect to the original rate, if the change occurred in 2005, and to the exchange rate on December 31st 2004, if it arose during the previous year.
The positive differences in exchange rates, entered into accounts for an overall amount of 959 thousand Euros, include 349 thousand Euros related to the adaptation to the exchange rate at the end of the year of the value of the remaining amounts in foreign currency at the end of the year to the original rate, if it arose in 2005 and to the exchange rate on December 31st 2004, if it arose during the preceding years.

D) Value adjustments in respect of investments

As a consequence of the negative results of the associated company RTM SpA, El., En. SpA effected a direct devaluation of its equity for an amount of approx. 84 thousand Euros; it also made a direct devaluation of approx. 664 thousand Euros in consideration of the future possibility of recovering the goodwill paid at the time of purchase for the subsidiary Deka LMS. With reference to the subsidiaries Deka Sarl and Lasercut Inc, an in direct devaluation was made with accrual in the "Fund for losses by associated companies" for an overall amount of 657 thousand Euros, as described in the paragraphs on financial investments. Moreover, in conformity with the accounting principles that were used, the amount of the equity in Lasercut, Inc. was further adjusted, with the accrual in a special fund of 580 thousand Euros, in order to cover the potential losses which resulted from the refusal of the minority partner to cover his part of the losses of the company.

E) Extraordinary income and charges

Composition of the extraordinary income

The table below shows the composition of the extraordinary income:

	31/12/2005	31/12/2004	Variation	Var. %
Extraordinary incomes:				
Miscellaneous income	82.551	453.539	-370.988	-81,80%
Other extraordinary incomes	7.543.982	685.041	6.858.941	1001,25%
Total	7.626.533	1.138.580	6.487.953	569,83%

The item "other extraordinary income" shows the capital gains earned by the sale of. 1.000.000 shares of Cynosure Inc. The quota used for estimating the amount of capital gains was calculated using the LIFO method.

	31/12/2005	31/12/2004	Variation	Var. %
Extraordinary charges:				
Miscellaneous losses	56.664	5.708	50.956	892,71%
Loss on equity investments	6.591	1.352	5.239	387,50%
Total	63.255	7.060	56.195	795,96%
Taxation related to the previous fiscal years				
Other taxes related to the previous years		168.526	-168.526	-100,00%
Total		168.526	-168.526	-100,00%
Total	**63.255**	**175.586**	**-112.331**	**-63,97%**

Taxes on operating revenue

Description:	31/12/2005	31/12/2004	Variation	Var. %
IRES	2.449.713	1.274.288	1.175.425	92,24%
IRAP	447.583	407.574	40.009	9,82%
IRES Deferred (Advanced)	-186.660	-181.831	-4.829	2,66%
IRAP Deferred (Advanced)	-38.002	-14.067	-23.935	170,15%
Total income taxes	2.672.634	1.485.964	1.186.670	79,86%

The fiscal cost for this year is obviously influenced by the income before taxes earned during the year. The overall tax rate for the year however has decreased with respect to last year, and has dropped from 43,87% to 21,81% (IRES 18,47%, IRAP 3,34%), on account of the "PEX" exemption of a large portion of the capital gains earned from the sale of the Cynosure shares.

The table below shows the reconciliation between the theoretical fiscal aliquot and the actual aliquot used only for the Company income tax (*Imposta sul Reddito delle Società* (IRES).

	2005	2004
Income before taxes	12.252.184	3.387.139
IRES aliquot	33%	33%
Theoretical IRES	4.043.221	1.117.756
Greater (lesser) fiscal incidence with respect to the theoretical aliquot	(1.780.168)	(25.299)
Actual IRES	2.263.053	1.092.457
Actual IRES aliquot	18%	32%

Details of the composition of deferred tax assets and liabilities are given in the analysis of the funds for risks and charges. The balance to be entered for this financial year has been included with the income taxes for the year.

Other information

In compliance with the specific laws, the composition of the employees by category and the salaries paid to the administrators and auditors are shown below.

Average number of employees divided by category

	Average 2005	31/12/2005	Average 2004	31/12/2004	Variation	Var. %
Executives	6,0	6	6,0	6	0	0,00%
Management	6,0	6	3,5	6	0	0,00%
White collar	75,0	76	73,0	74	2	2,70%
Blue collar	39,5	44	36,0	35	9	25,71%
Total	126,5	132	118,5	121	11	9,09%

Salaries paid to administrators and auditors
The following tables shows the cumulative salaries paid to administrators and auditors.

	31/12/2005	31/12/2004	Variation	Var.%
Salaries to Administrators	344.630	354.000	-9.370	-2,65%
Salaries to Auditors	40.056	40.636	-580	-1,43%
Total	384.686	394.636	-9.950	-2,52%

The following tables shows the salaries paid to administrators and auditors of the parent company El.En. S.p.A. in compliance with Art. 78 of the Consob regulations adopted with vote no. 11971 of May 14th 1999.

Person	***Appointment description***	***Salary***				
Name	*Position*	*Term duration*	*Perquisites*	*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 31.12.05	90.000		200.000	6.500
Barbara Bazzocchi	Deputy member	Until the date of the assembly for the approval of the financials for 31.12.05	90.000			6.500
Andrea Cangioli	Deputy member	Until the date of the assembly for the approval of the financials for 31.12.05	90.000		100.000	6.500
Francesco Muzzi	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Michele Legnaioli	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Marco Canale	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Paolo Blasi	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Angelo Ercole Ferrario	Member	From 13.02.04 until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Paolo Ernesto Agrifoglio	Member	Until the date of the assembly for the approval of the financials for 31.12.05	2.630			
Alberto Pecci	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Vincenzo Pilla	President of the Board of Statutory Auditors	for three years from Nov. 6th, 2003	15.952			
Giovanni Pacini	Statutory Auditor	for three years from Nov. 6th, 2003	11.279			
Paolo Caselli	Statutory Auditor	for three years from Nov. 6th, 2003	12.825			

In the Bonus and incentive column we have entered the exceptional recompenses attributed by the Board of Directors and submitted for approval by the Assembly. All other recompenses or rewards refer to the severance indemnity of the administrators which was accrued this year.
Salaries paid to administrators of the subsidiary companies for carrying out their duties in other companies included in the area of consolidation are as follows: Francesco Muzzi, as President of Deka M.E.L.A. Srl, received in 2005 from this company a salary of 90.000 Euros and for the same period is registered as the beneficiary of an end-of -term fund of 6.500 Euros; Barbara Bazzocchi, as CEO of Cutlite Penta Srl received a salary from this company of 12.000 Euros; Gabriele Clementi as CEO of Valfivre Italia Srl received a salary from this company for 12.000 Euros, Angelo E. Ferrario as president of the Board of Directors of Quanta System SpA received a salary from this company of 108.000 Euros and as board member of Arex Srl received a salary from the company of 5.000 Euros

The company does not have a general director.

Amounts paid to other related parties

In compliance with the I.A.S. 24, moreover, we are listing the amounts paid to related parties mentioned in the Management Report, other than administrators and auditors:

a) Prof. Leonardo Masotti, President of the Scientific Commission, during this financial year received a salary of 7.600; moreover, the Board of Directors voted to award him and two other administrators a special bonus in consideration of his involvement in a series of activities which determined the particularly brilliant outcome of the company business this year.

b) Carlo Raffini to whom El.En. SpA has assigned a consulting position related to “management in compliance with the new regulations EN ISO 13485:2004”, received a compensation of 59.393 Euros in 2005;Prof. Pio Burlamacchi, on account of a specific contract, is possessor of an industrial monopoly right consisting of a patent application for the invention of a “Support for an optical cavity per adjusting the alignment of the laser beam” received a royalty of 36.152 Euros.

To facilitate understanding of the annual report, the table below shows the cash flow, for the purpose of presenting in a consistent and homogeneous manner, the most significant variations in the items of the report. The form used for this statement is that of cash flow, recommended in the accounting principles of the National Association of Accountants (*Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri.)*

Financial statement (cash flow)	**31/12/2005**	**31/12/2004**
Cash flow generated by operating activity:		
Profit (loss) for the financial period	9.579.550	1.901.175
Amortizations and depreciations	704.369	1.079.922
Change of employee severance indemnity	129.649	150.227
Change of provisions for risks and charges	1.316.567	651.056
Change of provisions for deferred income taxes	-224.663	-30.415
Stocks	-885.105	-1.478.272
Receivables	-1.732.118	-605.936
Tax receivables	-468.306	807.876
Other receivables	-106.098	-138.238
Payables	1.895.896	144.197
Tax payables	175.998	1.007.767
Other payables	208.723	204.066
	1.014.912	1.792.250
Cash flow generated by operating activity:	10.594.462	3.693.425
Changes in non current assets:		
(Increase) decrease in tangible assets	-24.077	-1.222.457
(Increase) decrease in intangible assets	-37.885	-15.251
(Increase) decrease in equity investments and non current assets	1.844.380	-5.771.500
	1.782.418	-7.009.208
Cash flow from purchase of subsidiary companies		
Cash flow from financial activity:		
Increase (decrease) in non current financial liabilities	-885.397	-265.328
Increase (decrease) in current financial liabilities	-1.361.646	1.525.672
Increase (decrease) in financial receivables	-1.323.832	1.278.045
(Increase) decrease investments which are not permanent	993.526	-878.526
Change in Capital and Reserves	638.192	513.671
Change in Capital and Reserves of third parties		
Dividends distributed (31)	-1.631.785	-1.149.607
	-3.570.942	1.023.927
Increase (decrease) in cash at bank and on hand	8.805.938	-2.291.856
Cash and cash equivalents at the start of the financial period	6.305.507	8.597.363
Cash and cash equivalents at the end of the financial period	15.111.445	6.305.507

During this financial year the company saw a considerable increase in the cash flow, especially as an effect of the IPO of the subsidiary Cynosure which is described in the comments on the net financial position. Moreover, during this financial period, 1.631 thousand Euros were paid out in dividends.

This annual report, which consists of the balance sheet, the profit and loss account and the appendix, is a true and fair representation of the financial and economic position of the company as well as the income for the financial period and corresponds to the amounts entered into accounts.

For the Board of Directors
The president – Gabriele Clementi