Annual Report 2011

El.En. Group

EL.EN. SpA

ANNUAL FINANCIAL REPORT AS OF DECEMBER 31ST 2011

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

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

CORPORATE BOARDS OF THE PARENT COMPANY

Board of Directors

PRESIDENT

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangioli

BOARD MEMBERS

Paolo Blasi

Angelo Ercole Ferrario

Michele Legnaioli

Stefano Modi

Alberto Pecci

Board of statutory auditors

PRESIDENT

Vincenzo Pilla

STATUTORY AUDITORS

Paolo Caselli

Gino Manfriani

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

Enrico Romagnoli

Independent auditors

Reconta Ernst & Young S.p.A.

Director's Report on Operations 2011

INTRODUCTION

To our shareholders,
The financial year which ended on December 31st 2011 closed with a net loss for the Group of 270 thousand Euros net of taxes for 2.752 thousand Euros and extraordinary expenses related to acquisitions for an amount of 1.2 million Euros.

The expectations for 2011 forecast a consolidation of the recovery that had started in 2010 and the continuation of a return from the acute phase of the crisis suffered in 2009. The recovery of the Group reflected the trend of the general economy and showed a decline after the first quarter of the year. Even though the volume of business showed a growth, it was unable to reach the levels that had been predicted and the EBIT and net profit were penalized also on account of some extraordinary non-repeatable expenses.

Although the return to a normal economic situation was delayed, there were in any case several positive aspects and occurrences: in fact, with a certain satisfaction we can mention the success, the closure and the rapid addition of some important acquisitions made by Cynosure, the significant growth of the industrial sector, the excellent results of Lasit and Asa in the applicative segments, respectively, of marking systems for small surfaces and of medical systems for physical therapy and rehabilitation and the return to operating earnings registered by Cynosure in the fourth quarter. Cynosure's tendency towards improvement is quite significant when one considers that besides the acquisitions it is also sustained by a significant improvement in the market conditions in the United States; for our technologies, the recovery of the most important world market is definitely a good sign which was immediately picked up by Cynosure, but is also beneficial, even for the short term outlook, for the other activities of the Group that are operating on this market.

Along with the positive signs there were also negative situations like the difficulties in certain areas of the business: the distribution on the American market of the Deka brand products and the professional aesthetic market in Italy; these activities required greater time and investments than had been expected.

ADOPTION OF INTERNATIONAL ACCOUNTING PRINCIPLES

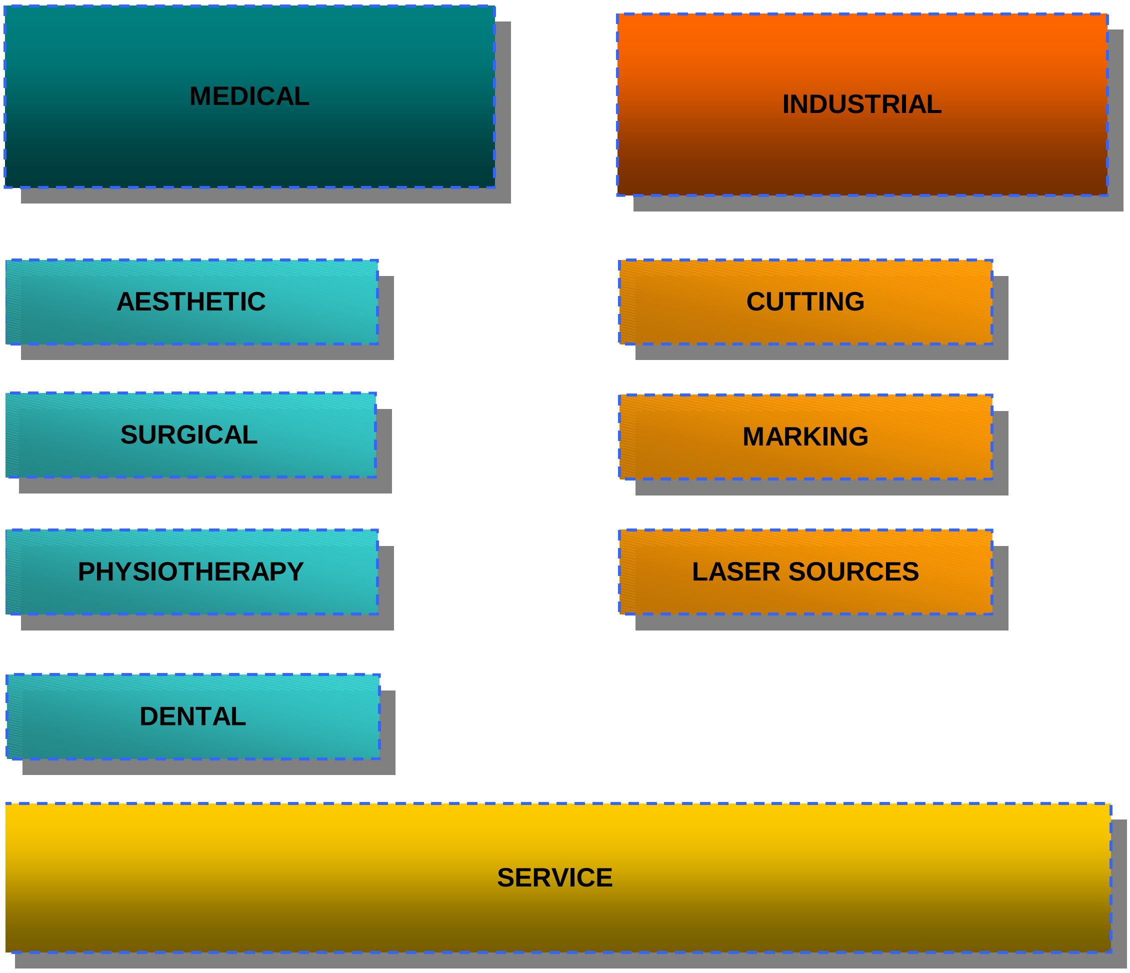
In compliance with European Regulation 1606 of July 19th 2002, the El.En. Group has drawn up their consolidated statement as of December 31st 2011 in conformity with the International Accounting Principles approved by the European Commission.
In conformity with Legislative Decree n. 38/2005, starting with the financial year 2006, the Parent Company El.En. S.p.A. is also required to draw up an separate report in conformity with International Accounting Principles (IFRS); reference will be made to them when the data relative to the Parent Company are displayed.

DESCRIPTION OF THE ACTIVITIES OF THE GROUP

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

The Group conducts its activities in two major sectors: that of laser systems for medicine and aesthetics, and that of laser systems for manufacturing uses. In each of these two sectors the activities can be subdivided into different segments which are heterogeneous in the application required from the system and consequently for the underlying technology and the kinds of users. Within the activity sector of the Group, which is generally defined as the manufacture of laser sources and systems, the range of clients varies considerably, especially if one considers the global presence of the Group and therefore, the necessity of dealing with the special requirements which every region in the world has in the application of our technologies.
This vast variety, together with the strategic necessity of further breaking down some of the markets into additional segments in order to maximize the quota held by the Group and the benefits derived from the involvement of management personnel as minority shareholders, is the essence of the complex structure of the Group; however, this

complexity is based on the linear subdivision of the activities which can be singled out, not just for reporting purposes, but, above all, for strategic purposes, as follows:



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

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

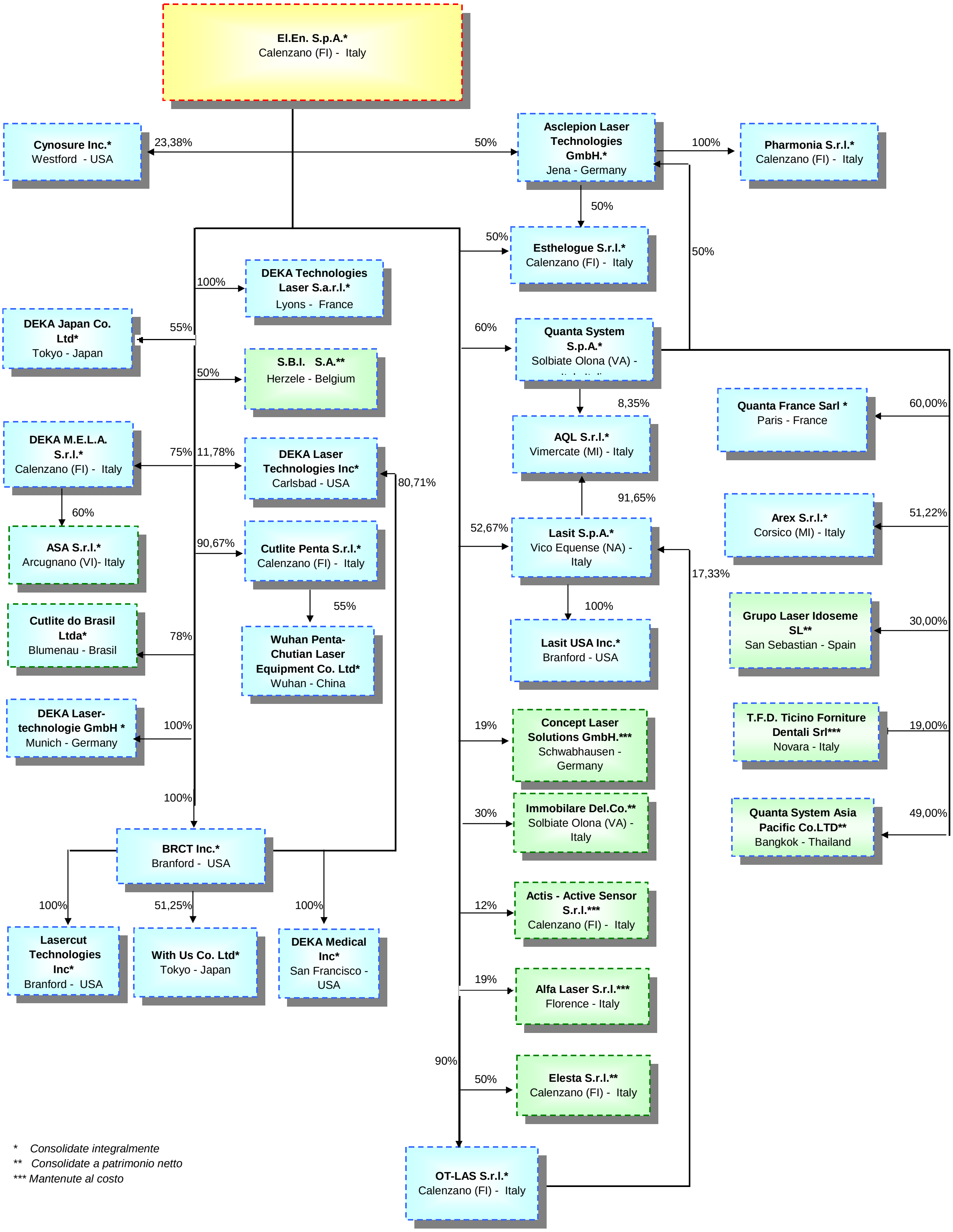
As far as the medical-aesthetic market is concerned, this is a relatively small market of which the Group holds a significant portion. The total market for medical laser systems is estimated at about 1.7 billion dollars for 2011 (source: BCC research), including the aesthetic, surgical, dental and veterinary sectors in which the Group operates. The Group and the individual companies/brands that compose it play a significant role in the market and if, on one hand, they are affected by the fluctuations caused by the economic conditions, on the other, they are able to redefine the confines of the market by offering innovative applications and products that amplify the field of utilization of the laser, just as occurred with the Smartlipo system which opened an important sector for a minimally invasive laser treatment for fat reduction.
The mid-term growth prospects in this sector are very interesting (Cagr 2011 – 2016 14%, source BCC research) and reflect the capacity of the laser and its applications to respond to a series of needs that are very strongly felt in

contemporary society: the minimal invasiveness in the surgical sector which reduces the discomfort of the patients, reduces the operating and post-operative recovery time besides reducing the operating costs for clinics and national health services; the need to improve one's looks and to appear more youthful, in a society that is aging and tends to concentrate available income on the age group that is showing the first signs of growing old. Consequently, we believe that the technological leadership and the market that the Group detains can be capitalized in correspondence with a recovery which is slightly greater that the demand, in particular on the American market, the most important in the world.

There are several factors which drive the industrial sector which is a much larger market than the medical sector and in which the Group holds a position of lesser importance. This sector, which supplies technological solutions for the treatment of materials in the manufacturing field depends almost entirely on the market trend of this latter and for this reason offers greater potential for growth in the rapidly growing markets to which manufacturing has shifted its focus: China, India and Brazil, just to name the most important ones. The Group, which in the past had operated mainly in the fields of plastic and die boards, is now entering making headway in the main sector of metal cutting and has combined a refinement of its laser sources and systems with significant investments in rapid growth areas like China and Brazil; in this way they have markedly increased their business volume which, considering the large size of the market, still offers ample room for growth.

DESCRIPTION OF THE GROUP

As of December 31st 2011 the structure of the Group is as follows:



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

PERFORMANCE INDICATORS

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

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

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

	31/12/11	31/12/10
Profitability ratios (*):		
ROE (Net income / Own Capital)	-0,3%	1,4%
ROI (EBIT / Total assets)	1,1%	2,2%
ROS (EBIT/ Revenues)	1,4%	2,9%
Structure ratios:		
Financial flexibility (Current assets / Total assets)	0,76	0,80
Leverage ((Stockholders' Equity + Financial liabilities) / Stockholders' Equity)	1,11	1,07
Current Ratio (Current assets / Current liabilities)	2,67	3,04
Acid ratio ((Current receivables + Cash and cash equivalents)/ Current liabilities)	1,77	2,20
Quick ratio ((Cash and cash equivalents + Investments) / Current liabilities)	0,94	1,30
Turnover ratios (*):		
Total assets turnover (Revenues / Total assets)	0,78	0,75
Current assets turnover (Revenues / Current assets)	1,03	0,94
Inventory turnover (COGS / Inventory)	1,21	1,32
Days sales of inventory (Inventory / COGS) *365	301	276

Days sales outstanding (Account receivables / Revenues)*365	87	90

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

- Own Capital = Stockholders' equity of the Group – Net income (loss)
- Cost of goods sold = Purchases ± Change in the inventory

GROUP FINANCIAL HIGHLIGHTS

At the end of 2010 we had reported that the market conditions had improved considerably since the historical minimum reached in 2009, but that they did not have the brilliance or the solidity sufficient to enable us to overcome the difficulties caused by the crisis. The fragility of the recovery unfortunately became evident during the events which occurred in the Summer, the Greek crisis, then the Italian one, the panic on the financial markets which caused a new phase of uncertainty and a drastic reduction in the amount of cash available to sustain investments and consumption.

The re-emergence of the crisis dampened the Group’s outlook for future growth; despite the growth that was achieved in all three sectors in which it operates (industrial, medical, and service), expansion of the Group slowed down with respect to the forecasts and no net income was registered.

The medical sector showed an overall growth of 8%, obtained through outside factors, thanks to Cynosure’s acquisitions which contributed 13 million Euros to the consolidated sales volume.

The trend in the industrial sector was much better and again showed significant growth, reaching almost 36 million in the sales volume of systems. This is a flattering result especially in consideration of the particular conditions, and is due mainly to the growth of the activities in China where Wuhan Penta Chutian registered a leap of about 47% in their sales volume. Results in the other areas were below expectations in this sector which has ample potential for development for the Group.

The sector which includes after-sales service, spare parts and consumables showed a growth of 20%, and represents an area in constant growth which is derived from the gradual increase in the number of systems installed which require technical assistance and maintenance services or need to be supplied with consumables.

Since the results obtained during this year were mostly disappointing, it is interesting to examine in detail the trends of some of the specific markets in the light of the influence of the particular economic situation and the prospects for development in 2012.

The growth of the industrial sector would certainly have been more significant without the credit restrictions caused by the crisis which occurred during the Summer. The evident difficulties of the clientele to rapidly obtain the financial resources required for investments in our technologies was chiefly responsible for the fall in sales on the Italian market which was severely hit by the “credit crunch”. On the Brazilian market the restrictive monetary policy adopted in the middle of the year along with the need of our company, Cutlite do Brasil, to limit its exposure to the clients, created operating difficulties and delays in deliveries while waiting for the issuing of the financing required to sustain the acquisitions made by the clientele. Moreover, the statement of income was negatively affected by accruals on credit risks made for receivables due from a commercial partner who had been hard hit by the worsening of the crisis. In conclusion, the effects of the crisis penalized the results of 2011 and limited the sales and the earnings but the positions achieved during the year represent the starting point for a further, sustained growth.

In the medical sector the American market, as mentioned, has a significant role in the economy of the Group, chiefly because of Cynosure, but also Deka, two distribution companies, one operating in the dental sector and the other in the aesthetic sector, and on account of Quanta, which has important clients in the surgical and aesthetic sectors. The recovery which has been shown by the American economy in the last few months and which has registered an improvement in all of the main macro-economic indicators, from the growth rate of the GNP to the unemployment rate, has had a positive influence also on our markets which have emerged from the apathy of the last three years and now are starting to show a certain vitality which has continued in the first months and offer some promise for the rest of this year.

The Group entered the professional aesthetic sector in 2009 and rapidly gained a significant percentage of the market thanks in part to its expansion policy in granting credit to the clientele; in 2011 it was decided to revise this policy and to re-organize the sales network in order to lower the break-even level, by limiting the volume of business and even showing a loss rather than continue to increase the amount of the investment in this sector. The new legislation enacted in May of 2011, which finally clearly defined the types of equipment that can be used in aesthetic centers, along with the introduction of a new hair removal system, made it possible to close the year with a recovery in the sales volume and a substantial operative equilibrium so that they could begin this year with a cost structure that was better suited for present economic conditions.

The Japanese market which is very important for the Group in the medical sector, had been cause for serious and well-founded concern last year immediately after the earthquake: Sales were expected to drop and there was considerable uncertainty. During the year, after an initial phase of disorientation, the market showed an excellent consistency in both sales of new systems and demand for consumables from the hundreds of systems already installed at the clientele's, which were working at full capacity for the rest of the year.

Excellent results were achieved by Lasit; this company manufactures custom and small surface marking systems. After a phase of reorganization the company now utilizes an efficient operative structure. They showed a marked increase in sales volume this year and registered the highest EBIT in the history of the company.

Good results were also achieved by Asa which has found its own application niche in the physical therapy market; the company registered an increase both in sales volume and profits.

Again in 2011 the Group offered a wide range of new products in the medical sector: for example, Re:play for hair removal was launched by Deka, Mediostar Next was launched by Asclepion for the same use. The Tullium and Olmium surgical systems by Quanta and Cellulaze by Cynosure for the minimally invasive removal of cellulitis were offered in 2011 but better results are expected for 2012 after the FDA clearance obtained in February 2012.

The chart below shows the breakdown of the sales volume among the sectors of activity of the Group in 2011 compared with the same data for 2010.

	31/12/2011	**Inc%**	**31/12/2010**	**Inc%**	**Var%**
Industrial systems and lasers	35.890	17,00%	29.462	15,52%	21,82%
Medical and aesthetic lasers	134.363	63,64%	124.497	65,59%	7,93%
Service	40.883	19,36%	35.838	18,88%	14,08%
Total	**211.137**	**100,00%**	**189.797**	**100,00%**	**11,24%**

All three of the main sectors showed an increase in sales volume; the increase in the medical sector was achieved through outside means, thanks to the acquisitions made by Cynosure of the activities of Hoya ConBio and Elémé, and the exclusive distribution by Cynosure of the Pinpointe system for the treatment of onicomicosis. The industrial sector grew steadily and continued in its gradual progress which the crisis had only slightly slowed down. The growth in the service sector was registered at about 14% and reflects the increase in the number of systems installed and the services that they offer.

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

	31/12/2011	**Inc%**	**31/12/2010**	**Inc%**	**Var%**
Italy	26.419	12,51%	26.942	14,20%	-1,94%
Europe	51.309	24,30%	50.367	26,54%	1,87%
Rest of the world	133.409	63,19%	112.488	59,27%	18,60%
Total	**211.137**	**100,00%**	**189.797**	**100,00%**	**11,24%**

The sales volume in Europe and in Italy changed only slightly while that in the rest of the world grew significantly on account of the improved conditions of the American market, the above mentioned acquisitions by Cynosure and the growth in the industrial sector in China.

Within the medical/aesthetic sector, which represents more than 63% of the sales of the Group, the trend in sales in the various segments is shown on the chart below:

	31/12/2011	**Inc%**	**31/12/2010**	**Inc%**	**Var%**
Surgical CO2	9.981	7,43%	11.003	8,84%	-9,30%
Physiotherapy	6.445	4,80%	4.798	3,85%	34,32%
Aesthetic	93.645	69,70%	81.721	65,64%	14,59%
Dental	3.199	2,38%	4.594	3,69%	-30,36%
Other medical lasers	16.665	12,40%	17.381	13,96%	-4,12%
Accessories	4.428	3,30%	4.998	4,01%	-11,42%
Total	**134.363**	**100,00%**	**124.497**	**100,00%**	**7,93%**

The aesthetic segment, the main one in this sector, was responsible for the overall growth of the sector which, except for physical therapy, registered a drop in sales volume.

To the products which represented the backbone of the Group's sales in the aesthetic sector , Cynosure's Elite, Quanta's Light A Systems, Asclepion's Mediostar and Deka's Synchro, all for hair removal and vascular treatments, we have recently added Medlite and Revlite, ConBio systems for the removal of tattoos and vascular lesions: the completion of this line makes the Group the absolute leader for these applications, for which Quanta System, Asclepion and Deka also offer alternative technological solutions, thus making this segment of applications the second most important for the Group after hair removal and surpassing that of "body shaping".
The physical therapy segment also showed growth thanks to the good results obtained by Asa and to the insertion of the sales of the Pinpointe system for onicomicosis (fungus diseases of the nails) which has been place in this category.
The other segments showed a decrease in sales volume which in some cases was significant, like the dental sector; this is indicative of the phase of difficulty which the stagnation of the economy has caused in the markets and the companies of the Group.
The residual sector "Others" includes, besides the coloring and excimer systems for dermatology, the sector for surgical applications using laser systems other than the CO_2 type; among these we should mention the systems for endovascular treatments and, above all, the Diode pumped solid state (DPSS) systems using tullium, Nd:YAG at 532nmm, and holmium for the removal of benign hyperplasia of the prostate, in which Quanta System has reached a high level of sophistication and consensus, although they were unable to show growth in 2011.
The sales results for the CO_2 systems is directly related to the sales of accessories, including the Hiscan scanners which are used for "DOT therapy" resurfacing applications obtained by applying a scanner to the Smartxide laser; the amount of decrease in the two segments is practically the same.

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

	31/12/2011	Inc%	31/12/2010	Inc%	Var%
Cutting	24.889	69,35%	19.212	65,21%	29,55%
Marking	9.694	27,01%	8.205	27,85%	18,15%
Laser sources	945	2,63%	1.850	6,28%	-48,91%
Welding, other industrial systems	362	1,01%	196	0,66%	85,18%
Total	**35.890**	**100,00%**	**29.462**	**100,00%**	**21,82%**

This sector continued the positive trend shown in 2010 and again in 2011 showed a growth that was over 20%.
In the cutting segment, growth was close to 30%: most of which occurred on the Chinese market where the products offered by Wuhan Penta Chutian in the metal cutting sector, which integrates the laser sources and control systems of the Group with locally manufactured moving devices, was able to benefit from a rapidly growing market. The growth in China would have been even greater if the effects of the International crisis had not affected the local markets in which the restrictive monetary policy implemented in the middle of the year caused a decrease in demand.
An important contribution to the sales volume of cutting systems was made by Cutlite Penta, which continues to move away from its original production area and into that of metal cutting, and by Cutlite do Brasil, although this latter was going through an interim year of decrease in its volume of business.
The marking sector also showed a substantial increase in sales volume of close to 20%, thanks to the good results of Lasit and a fairly good recovery of Ot-las; the former company was mainly involved in service systems for mass production while the latter concentrated on system which were oriented towards the decoration and adornment of treated materials.
The laser source segment registered a drop in sales volume to third parties which reflects the growth strategy of the Group aimed at re-enforcing its own position as a provider of systems by investing in the productive structures designed for the assembly of systems (in China, in Brazil, and also in Italy by enlarging the factory of Cutlite Penta), and dedicating most of its production of laser sources, which increased numerically in 2011, to internal use.

The little sector of restoration is important for us mainly for purposes of image of the Group which makes available its advanced technologies for the restoration of important works of art. During this year the sector showed an import increase in terms of percentage which was the result of the introduction of specific new laser versions with forms of impulse and emission of energy that are particularly suitable for this application. In 2011 the number of systems installed abroad grew considerably and our technologies have found consensus in countries like Poland, Russia and China.

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

	31/12/2011	Inc%	31/12/2010	Inc%	Var%
Industrial systems and lasers	35.890	26,12%	29.462	22,22%	21,82%
Medical and aesthetic lasers	76.208	55,47%	81.765	61,68%	-6,80%
Service	25.294	18,41%	21.339	16,10%	18,53%
Total	**137.392**	**100,00%**	**132.566**	**100,00%**	**3,64%**

	31/12/2011	Inc%	31/12/2010	Inc%	Var%
Italy	25.929	18,87%	26.520	20,01%	-2,23%
Europe	32.860	23,92%	35.098	26,48%	-6,38%
Rest of the world	78.603	57,21%	70.948	53,52%	10,79%
Total	**137.392**	**100,00%**	**132.566**	**100,00%**	**3,64%**

	31/12/2011	Inc%	31/12/2010	Inc%	Var%
Surgical CO2	8.209	10,77%	9.831	12,02%	-16,49%
Physiotherapy	5.744	7,54%	4.798	5,87%	19,71%
Aesthetic	44.340	58,18%	46.728	57,15%	-5,11%
Dental	3.199	4,20%	4.594	5,62%	-30,36%
Other medical lasers	10.854	14,24%	11.141	13,63%	-2,57%
Accessories	3.862	5,07%	4.673	5,72%	-17,36%
Total	**76.208**	**100,00%**	**81.765**	**100,00%**	**-6,80%**

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

In the medical sector the sales volume showed a decrease because it was unable to benefit from the acquisitions which determined the increase in sales volume registered by Cynosure and for the overall consolidated. The minus sign involves the entire chart showing the break-down of the individual segments with the noteworthy exception of physical therapy in which Asa of Vicenza continues to show continued growth.

In the main segment, aesthetics, the decrease was limited to 5%. This drop, which occurred contrary to the expectations for growth in the segment, should be attributed in general to the receptivity of the market which continued to decrease throughout the year, in part due to the deterioration of the general economic situation and the worsening of the conditions for the granting of credit which our clientele needs in order to invest in our systems. Moreover, some of the product lines offered were caught in a moment of transition in the supply of systems for fundamental applications like hair removal; Deka in particular was in the process of replacing Pla:y with Repla:y and Asclepion was about to start standard production of Mediostar Next in the fourth quarter.

The CO_2 laser sector showed, along with the accessories that are usually sold with it, a drop of 16%, which indicates the phase of maturity of the Smartxide Dot product and, also in this case, of the transition to the new system, Smartxide^2, an innovative platform which is capable of satisfying every applicative requirement related to the use of CO_2 lasers which, because of the necessity of making further improvements on some of the revolutionary application modes offered by the system as well as the time required to obtain the authorizations needed for sale on the international markets, has yet to display its full potential.

The drop in the dental sector reflects the stable trend of the American branch Deka Laser Technologies and the decrease in the sales of diode laser systems by Quanta System and Asclepion.

A minor decrease was shown in the residual sector “Others” which includes lasers for surgical applications manufactured by Quanta System, as well as the systems for the treatment of psoriasis and erbium systems for more typically dermatological applications. As far as the surgical systems are concerned, Quanta System introduced a high-powered tullium laser which is able to offer a system which is even more valid than the Nd:YAG systems (duplicated at 532 nm) which are widely used for the treatment of benign hyperplasia of the prostate and to supply further applicative indications on which Quanta System is now conducting research directed toward the consolidation of the new procedures and increased use of the system.

CONSOLIDATED STATEMENT OF INCOME AS OF DECEMBER 31st 2011

The chart below shows the reclassified consolidated Statement of income for the year ending on December 31st 2011 compared with that for 2010.

Statement of income	31/12/11	Inc.%	31/12/10	Inc.%	Var.%
Revenues	211.137	100,0%	189.797	100,0%	11,2%
Change in inventory of finished goods and WIP	6.254	3,0%	(397)	-0,2%	
Other revenues and income	2.446	1,2%	2.206	1,2%	10,9%
Value of production	**219.837**	**104,1%**	**191.606**	**101,0%**	**14,7%**
Purchase of raw materials	94.364	44,7%	77.118	40,6%	22,4%
Change in inventory of raw material	(4.139)	-2,0%	(4.036)	-2,1%	2,6%
Other direct services	20.553	9,7%	18.075	9,5%	13,7%
Gross margin	**109.059**	**51,7%**	**100.448**	**52,9%**	**8,6%**
Other operating services and charges	44.742	21,2%	41.326	21,8%	8,3%
Added value	**64.317**	**30,5%**	**59.122**	**31,2%**	**8,8%**
For staff costs	50.364	23,9%	44.825	23,6%	12,4%
EBITDA	**13.953**	**6,6%**	**14.297**	**7,5%**	**-2,4%**
Depreciation, amortization and other accruals	10.974	5,2%	8.875	4,7%	23,6%
EBIT	**2.980**	**1,4%**	**5.422**	**2,9%**	**-45,0%**
Net financial income (charges)	154	0,1%	48	0,0%	218,1%
Share of profit of associated companies	(689)	-0,3%	(320)	-0,2%	115,1%
Other net income (expense)	19	0,0%	(461)	-0,2%	
Income (loss) before taxes	**2.463**	**1,2%**	**4.689**	**2,5%**	**-47,5%**
Income taxes	2.752	1,3%	4.255	2,2%	-35,3%
Income (loss) for the financial period	**(289)**	**-0,1%**	**434**	**0,2%**	
Minority interest	(18)	-0,0%	(834)	-0,4%	-97,8%
Net income (loss)	**(270)**	**-0,1%**	**1.268**	**0,7%**	

The gross margin was registered for an amount of 109.059 thousand Euros, an increase of 8,6% with respect to the 100.448 thousand Euros for the same period last year; in terms of incidence on sales volume a decrease of just over one percentage point was registered, falling from 52,9% on December 31st 2010 to 51,7% on December 31st 2011, due to a mix of products which benefitted lines with lower margins and to the competitive pressure of some markets which made it necessary to reduce the prices slightly in order to sustain the sales.

It should be noted that also in 2011, although the Group cashed in the sale price during this year, some of the sales financed by the clientele by means of operative leasing have been considered, in conformity with IAS/IFRS principles, as revenue from multi-year rentals; in any case the phenomenon had a limited effect on the statement of income for the year.

Costs for operating services and charges were 44.742 thousand Euros, showing an increase of 8,3% with respect to December 31st 2010 but with a slight decrease in the incidence on the sales volume which dropped to 21,2% from 21,8% registered for the same period last year. Among the factors that contributed to this increase the most significant is related to the accessory expenses sustained by Cynosure for the acquisition of the activities of Elémé and Hoya ConBio, for a total of about 1,7 million dollars. The entering into accounts of these expenses, which are non-repeatable during the year, worsened the result for the period even though they do not represent a cost which affects the current conduction of activities.

The costs for personnel were 50.364 thousand Euros which represents an increase of 12,4% over the 44.825 thousand Euros for the same period last year and indicates that productivity remained substantially unchanged: the incidence on the sales volume in fact rose from 23,6% on December 31st 2010 to 23,9% on December 31st 2011. Part of the staff expenses is represented by the figurative costs for the stock options assigned to staff members. On December 31st 2011 these costs (mainly related to the stock options issued by the subsidiary Cynosure Inc) were 1.993 thousand Euros, whereas on December 31st 2010 they were 2.034 thousand Euros.

On December 31st 2011 the number of employees in the Group was 1.139 with respect to 969 on December 31st 2010. The increase with respect to the start of the year is mostly (87 employees) due to Cynosure Inc. and to the acquisition of the activities of HOYA ConBio® and the hiring of most of its staff. Along with the increase in the volume of its activity the number of employees of the Chinese company Wuhan Penta Chutian continued to increase and on December 31st 2011 there were 239 employees as opposed to 184 on December 31st 2010.

A large portion of the personnel expenses is directed towards research and development, for which the Group receives grants and reimbursements in relation to specific contracts underwritten by the institutions created for this purpose. As of December 31st 2011 the grants received amounted to 1.053 thousand Euros, while the amount received for the same period in 2010 was 1.017 thousand Euros. It should be pointed out that the amount spent for research showed a significant increase of 23% which demonstrates the continued commitment of the Group in an activity which has always represented its main competitive weapon. The chart at the paragraph dedicated to research shows the break-down of these expenses.

On account of the trends described above the EBITDA amounted to 13.953 thousand Euros, as opposed to 14.297 thousand Euros for last year.

Costs for amortizations, depreciations and accruals amounted to 10.974 thousand Euros, an increase of 23,6% with respect to December 31st 2010, and the incidence on the sales volume which rose from 4,7% last year to 5,2% on December 31st 2011. The increase is due mainly to the larger number of amortizations on intangible assets and accruals made for the product guarantee fund. Within this amount the accruals for credit risks, made necessary by the particular economic situation which has influenced the financial stability of the clients, are still very high. The impact of this cost entry on the results of the Group is quite significant and reflects the continuation and worsening of the crisis and of the difficulties which this creates for the operating activity.

The EBIT therefore amounted to 2.980 thousand Euros, as opposed to the 5.422 thousand Euros registered on December 31st 2010.

The consolidated results in the second half improved on that shown for the first half thanks in particular to the contribution made by the acquisitions made by Cynosure ; the presence of a “one time” amount of 1,3 million Euros for legal expenses and assistance in the acquisitions prevented the improvement in the result from producing a positive net consolidated result and a result in the second half which was at least as much as that registered in the second half of 2010.

Net financial income amounted to 154 thousand Euros as opposed to the 48 thousand Euros registered on December 31st 2010 while the loss of the associated companies was 689 thousand Euros and is mainly related to Elesta Srl and the Spanish company GLI.

The other net income and charges for this year represent limited operations and evaluations; it should be noted that the entry under this heading at the end of last year was mostly related to the devaluation of the residual goodwill included in the value of the equity of the associated company GLI.

Pre-tax profit was 2.463 thousand Euros, a decrease with respect to the 4.689 thousand Euros on December 31st 2010 caused by the factors described above.

The costs for current and deferred taxes this year was 2.752 thousand Euros. The fiscal load remains very high with respect to the small amount of the income before taxes, on account of the impact of the non deductible part of the costs entered into accounts, in particular the accruals for devaluations of equities in some companies, as well as the decision to not enter revenue for deferred taxes in some companies which generated losses in 2011. The adoption of the fiscal consolidated for some Italian companies did, however, allow a fiscal savings in terms of current taxes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL POSITION AS OF DECEMBER 31st 2011

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

	31/12/2011	31/12/2010	Var.
Statement of financial position			
Intangible assets	23.958	6.992	16.966
Tangible assets	27.807	29.076	-1.268
Equity investments	442	694	-252
Deferred tax assets	6.354	5.521	833
Other non current assets	5.217	7.643	-2.425
Total non current assets	**63.779**	**49.925**	**13.854**
Inventories	69.344	55.650	13.694
Accounts receivables	50.530	46.714	3.816
Tax receivables	5.989	7.051	-1.062
Other receivables	7.056	6.618	438
Financial instruments	24.332	44.676	-20.344
Cash and cash equivalents	48.365	41.515	6.850
Total current assets	**205.617**	**202.225**	**3.392**
TOTAL ASSETS	**269.396**	**252.150**	**17.246**
Common stock	2.509	2.509	
Additional paid in capital	38.594	38.594	
Other reserves	36.171	34.897	1.274
Treasury stock	-2.576	-2.576	
Retained earnings / (deficit)	20.278	19.448	830
Net income / (loss)	-270	1.268	-1.538
Group stockholders' equity	**94.705**	**94.139**	**566**
Minority interests in consolidated subsidiaries	80.405	77.585	2.820
Total equity	**175.110**	**171.724**	**3.386**
Severance indemnity	2.761	2.702	60
Deferred tax liabilities	1.172	667	506
Other accruals	6.683	5.627	1.056
Financial liabilities	6.684	4.882	1.802
Non current liabilities	**17.301**	**13.877**	**3.424**
Financial liabilities	12.997	6.460	6.538
Accounts payables	34.576	35.138	-561
Income tax payables	762	2.144	-1.382
Other payables	28.649	22.807	5.842
Current liabilities	**76.984**	**66.548**	**10.436**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**269.396**	**252.150**	**17.246**

Net financial position		
	31/12/2011	**31/12/2010**
Cash and bank	48.365	41.515
Financial instruments	24.332	44.676
Cash and cash equivalents	**72.697**	**86.191**
Short term financial receivables	**20**	**50**
Bank short term loan	(11.265)	(5.290)
Part of financial long term liabilities due within 12 months	(1.732)	(1.169)
Financial short term liabilities	**(12.997)**	**(6.460)**
Net current financial position	**59.720**	**79.782**
Bank long term loan	(4.548)	(2.164)
Bonds	(425)	(784)
Other long term financial liabilities	(1.711)	(1.934)
Financial long term liabilities	**(6.684)**	**(4.882)**
Net financial position	**53.035**	**74.900**

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

CONSOLIDATED STATEMENT OF INCOME AND NET FINANCIAL POSITION AS OF DECEMBER 31st 2011 (excluding Cynosure from the area of consolidation)

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

Statement of income	**31/12/11**	**Inc.%**	**31/12/10**	**Inc.%**	**Var.%**
Revenues	137.392	100,0%	132.566	100,0%	3,6%
Change in inventory of finished goods and WIP	4.248	3,1%	4.551	3,4%	-6,7%
Other revenues and income	2.060	1,5%	1.884	1,4%	9,4%
Value of production	**143.701**	**104,6%**	**139.001**	**104,9%**	**3,4%**
Purchase of raw materials	66.271	48,2%	61.603	46,5%	7,6%
Change in inventory of raw material	(1.495)	-1,1%	(1.730)	-1,3%	-13,6%
Other direct services	11.787	8,6%	12.053	9,1%	-2,2%
Gross margin	**67.137**	**48,9%**	**67.076**	**50,6%**	**0,1%**
Other operating services and charges	25.325	18,4%	25.411	19,2%	-0,3%
Added value	**41.812**	**30,4%**	**41.665**	**31,4%**	**0,4%**
For staff costs	30.990	22,6%	28.338	21,4%	9,4%
EBITDA	**10.823**	**7,9%**	**13.327**	**10,1%**	**-18,8%**
Depreciation, amortization and other accruals	5.728	4,2%	4.966	3,7%	15,4%
EBIT	**5.094**	**3,7%**	**8.361**	**6,3%**	**-39,1%**
Net financial income (charges)	342	0,2%	113	0,1%	201,9%
Share of profit of associated companies	(689)	-0,5%	(320)	-0,2%	115,1%
Other net income (expense)	19	0,0%	(457)	-0,3%	104,0%
Income (loss) before taxes	**4.765**	**3,5%**	**7.697**	**5,8%**	**-38,1%**
Income taxes	2.658	1,9%	3.745	2,8%	-29,0%
Income (loss) for the financial period	**2.107**	**1,5%**	**3.951**	**3,0%**	**-46,7%**
Minority interest	1.386	1,0%	1.751	1,3%	-20,8%
Net income (loss)	**721**	**0,5%**	**2.200**	**1,7%**	**-67,2%**

Net financial position		
	31/12/2011	**31/12/2010**
Cash and bank	20.778	20.983
Financial instruments	81	220
Cash and cash equivalents	**20.859**	**21.204**
Short term financial receivables	**20**	**50**
Bank short term loan	(11.230)	(5.284)
Part of financial long term liabilities due within 12 months	(1.582)	(1.076)
Financial short term liabilities	**(12.813)**	**(6.360)**
Net current financial position	**8.066**	**14.893**
Bank long term loan	(4.469)	(2.151)
Bonds	(425)	(784)
Other long term financial liabilities	(1.409)	(1.916)
Financial long term liabilities	**(6.302)**	**(4.852)**
Net financial position	**1.764**	**10.042**

As far as the subconsolidated excluding Cynosure is concerned, the increase in sales volume is less (+3,6%) and shows a decreased incidence in overheads; as a result the EBIT is 3,7% which is a better result than that shown for the consolidated.

The gross margin was 67.137 thousand Euros, a slight growth (0,1%)over the 67.076 thousand Euros on December 31st 2010 but showing a decreased incidence on the sales volume from 50,6% last year to 48,9% for this year, which is a consequence of the varied mix of products and the increased competitive pressure of the this period of crisis.

The "Costs for operating services and charges" showed a drop in the overall amount and in the incidence on the sales volume, while the staff costs showed an increase of 9,4% and consequently in the incidence on the sales volume. Although particular attention has been focused on the reduction of expenses, as shown by the reduction in the operating costs, the expenses for personnel have increased in particular for the companies that had scheduled a major expansion of the sales volume when this expansion has not taken place because of the consequences of the renewal of the crisis. The main increase in the overall amount of the expenses for personnel was that shown by Wuhan Penta Chutian, Quanta System and the parent company, El.En. SpA.

The EBITDA was 10.823 thousand Euros, with an incidence of 7,9% on the sales volume which represents a decrease with respect to the10,1% registered on December 31st 2010.
The effects of the accruals, in particular those for credit risks bring the EBIT to about 5,1 million Euros and further penalize the incidence on the sales volume which fell from 6,3% on December 31st 2010 to 3,7% on December 31st 2011.
The total amount of the accruals for credit risks was about 2,5 million Euros in 2011, and in 2010 it was about 1,4 million Euros; this is a very significant amount which has a major impact on the results for the year also due to the fact that it is not tax deductible and it shows the difficulties caused by the worsening of the cash crisis in the economic system on the expansion policy followed by the Group.

Net financial income was 342 thousand Euros (113 on December 31st 2010) and it shows an incidence on the sales volume of 0,2%.
The associated companies which registered losses belong to the Group without Cynosure and therefore the relative cost entry is unvaried with respect to the consolidated of the Group and registers a loss of 689 thousand Euros which is equal to 0,5% of the sales volume.

The fiscal load for this year showed a overall charges for about 2,6 million Euros; the average tax rate is 55,79%. The extent of the tax load is due to the presence of income components which are not deductible, like the devaluation of the equities which involve only the sub-consolidated without Cynosure, besides the fact that for some companies showing a loss, it was not possible to proceed with the entering into accounts of deferred tax assets since we do not believe that the conditions yet exist for doing so. The fiscal consolidated described earlier pertains only to the Group without Cynosure and allowed a savings in terms of current taxes.

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

	31/12/11 Statement of income	**31/12/11 Capital and reserves**	**31/12/10 Statement of income**	**31/12/10 Capital and reserves**
Balance per parent company statement	**1.264.103**	**75.300.855**	**1.061.672**	**74.802.587**
Elimination of investments in subsidiary companies:	0	0	0	0
- share of profit (loss) of subsidiary companies	(2.210.506)	0	(502.094)	0
- share of profit (loss) of associated companies	(689.056)	0	(320.384)	0
- elimination of rectification of value of equities	1.980.784	0	2.166.298	0
- Elimination of dividends	(386.625)	0	(140.007)	0
- other (charges) income	489.814	0	(276.320)	0
Total contribution of subsidiary companies	(815.589)	23.616.575	927.493	22.829.977
Elimination of intercompany profits on inventory	(681.385)	(4.021.975)	(745.098)	(3.340.590)
Elimination of intercompany profits from sales of fixed assets	(37.465)	(190.136)	23.480	(152.671)
Balance as per consolidated statement – Group quota	**(270.336)**	**94.705.319**	**1.267.547**	**94.139.303**
Balance as per consolidated statement – Third party quota	**(18.469)**	**80.405.058**	**(834.000)**	**77.585.072**
Balance as per consolidated statement	**(288.805)**	**175.110.377**	**433.547**	**171.724.375**

RESULTS OF THE PARENT COMPANY EL.EN. SpA

Financial highlights

The parent company, El.En. SpA, is active in the development, planning, manufacture and sale of laser systems for use on two main markets, the medical-aesthetic market and the industrial market; it also includes a series of after-sales services, like supplying of spare parts and consulting and technical assistance.
In following a policy of continued expansion over the years El.En. SpA has founded or acquired numerous companies which operate in specific sectors or geographic areas, the activities of which are coordinated through the definition of the supply channels, the selection and control of the management, the partnerships in research and development activities and financing both on capital account and financing with interest or through the granting of credit on sales.

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

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

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

	31/12/2011	Inc%	31/12/2010	Inc%	Var%
Industrial systems and lasers	8.136	18,17%	8.432	18,51%	-3,51%
Medical and aesthetic lasers	29.253	65,34%	30.623	67,23%	-4,47%
Service	7.383	16,49%	6.492	14,25%	13,72%
Total	**44.773**	**100,00%**	**45.547**	**100,00%**	**-1,70%**

The sales volume remained essentially stable and registered an overall decrease of 1,7%, a figure which is based on the average between the reduction of 4% in the sales of systems both for industrial and medical applications and the increase in the sales volume for services and spare parts which was about 13,7% .

The financial year 2010 showed a significant recovery in sales volume after the drastic decrease in 2009; the stable trend shown in 2011 reflects the freeze in the recovery phase and the complex general situation which was created in the middle of the year and its effects on our selling markets. The company had to deal with a negative economic situation and was forced to revise its plans which included a gradual increase in the amount of the sales volume; they had to face a series of market problems that were typical of the most acute phase of the crisis, and which they thought had already completely passed, chiefly the lack of available cash.

Statement of income of El.En. SpA as of December 31st 2011

Statement of income	31/12/11	Inc.%	31/12/10	Inc.%	Var.%
Revenues	44.773	100,0%	45.547	100,0%	-1,7%
Change in inventory of finished goods and WIP	1.598	3,6%	694	1,5%	130,4%
Other revenues and income	1.018	2,3%	1.170	2,6%	-13,0%
Value of production	**47.389**	**105,8%**	**47.411**	**104,1%**	**0,0%**
Purchase of raw materials	22.740	50,8%	24.419	53,6%	-6,9%
Change in inventory of raw material	320	0,7%	(845)	-1,9%	
Other direct services	3.931	8,8%	3.800	8,3%	3,4%
Gross margin	**20.399**	**45,6%**	**20.037**	**44,0%**	**1,8%**
Other operating services and charges	5.243	11,7%	5.673	12,5%	-7,6%
Added value	**15.156**	**33,9%**	**14.364**	**31,5%**	**5,5%**
For staff costs	9.790	21,9%	9.410	20,7%	4,0%
EBITDA	**5.366**	**12,0%**	**4.955**	**10,9%**	**8,3%**
Depreciation, amortization and other accruals	2.191	4,9%	1.076	2,4%	103,6%
EBIT	**3.175**	**7,1%**	**3.879**	**8,5%**	**-18,1%**
Net financial income (charges)	612	1,4%	526	1,2%	16,4%
Other net income (expense)	(1.387)	-3,1%	(1.402)	-3,1%	-1,1%
Income (loss) before taxes	**2.401**	**5,4%**	**3.003**	**6,6%**	**-20,1%**
Income taxes	1.137	2,5%	1.941	4,3%	-41,4%
Income (loss) for the financial period	**1.264**	**2,8%**	**1.062**	**2,3%**	**19,1%**

The gross margin was 20.399 thousand Euros, an increase of 1,8% over the 20.037 thousand Euros for the same period last year and with an incidence on the sales volume which registered an increase from 44% on December 31st 2010 to 45,6% on December 31st 2011 with a slight increase on the sales margin.

Costs for operating services and charges amounted to 5.243 thousand Euros, showing a decrease of 7,6% with respect to December 31st 2010 and an incidence on the sales volume which fell from 12,5% on December 31st 2010 to 11,7% for this year. In the absence of an expansion in the sales volume, particular attention was focused on the reduction of overhead which was consequently reduced.

The staff cost was 9.790 thousand Euros which was an increase of 4% with respect to the 9.410 for the same period last year and had an incidence on the sales volume which fell from 20,7% in 2010 to 21,9% for this year. On December 31st 2011 the number of employees working for the company was 180 as opposed to the 177 registered on December 31st 2010.

A large portion of the personnel expenses is directed towards research and development, for which the Group receives grants and reimbursements in relation to specific contracts underwritten by the institutions created for this purpose. The grants registered into accounts on December 31st 2011 were 473 thousand Euros while for the same period last year they were 652 thousand Euros. It should be recalled that the increase in staff costs shown for 2011 is due to the hiring of highly qualified personnel whose activity is mainly directed to research and development for which the company will receive grants on the basis of the contracts that have been stipulated and for which the revenue will be recorded, in conformity the usual policy, when there will be a reasonable certainty that they will be received and that the conditions for obtaining them will be satisfied.

Due to the situation described above, the EBITDA was 5.366 thousand Euros, an improvement over the 4.955 thousand Euros for last year, with an incidence on the sales volume which rose from 10,9% last year to 12% for 2011.

The costs for amortization, depreciations and accruals was 2.191 thousand Euros, double that for 2010 which was 1.076 thousand Euros and the incidence on the sales volume was 4,9%. This increase is mainly due to the increased accruals made during the year for credit risks on account of some receivables which may be particularly difficult to cash in.

The EBIT therefore decreased from 3.879 thousand Euros on December 31st 2010 to 3.175 thousand Euros for this year, showing a drop of 18,1% and an incidence of 7,1% on the sales volume.

Net financial income was 612 thousand Euros as opposed to 526 thousand Euros for the year ending on December 31st 2010, with an incidence that rose from 1,2% on December 31st 2010 to 1,4% on December 31s t 2011; the main components of this amount are dividends from subsidiary companies and the profit derived from the difference in the exchange rates.

The analysis of the extraordinary sums reflects the trends of some of the subsidiary companies and registers a loss of 1.387 thousand Euros due to the devaluations made on the value of the equities held in Deka Sarl, BRCT Inc., Esthelogue Srl, Elesta Srl, SBI SA and further accruals made for losses by companies in which equities are held, Deka Lasertechnologie GmbH, Deka Laser Technologies Inc, Deka Sarl ed Elesta, for which further information is given in the specific paragraphs.

Pre-tax profit therefore amounted to 2.401 thousand Euros, as opposed to 3.003 thousand Euros registered for last year.

The fiscal costs for this year were 1.137 thousand Euros compared with 1.941 thousand Euros for last year. Due to the compliance, in its role as parent company, to the procedure as per art. 117 and following of the TU 917/86 and D.M. actuated on June 9, 2004 for the national fiscal consolidated, the current taxes include 381 thousand Euros as charges derived from the recognition, in favor of the subsidiary companies together with El.En., of the compensation in the amount of the tax aliquot on companies (IRES) which was in force during the period to which the use refers as per the agreements specifically made by the parties. The option is valid for the three-year period 2011-2013 and was effected with the subsidiaries Ot-las Srl and Esthelogue Srl. The tax rate fell from 64,64%for last year to 47,35% for this year; this reduction is due to the benefit derived from the tax credit granted to companies for the costs sustained for industrial research and pre-competitive development as per. Art. L. 27/12/2006 n. 296 and for research activity conducted with the university and public institutions as per D.L. 13/5/11 nr. 70.

STATEMENT OF FINANCIAL POSITION AND NET FINANCIAL POSITION AS OF DECEMBER 31st 2011

	31/12/2011	31/12/2010	Var.
Statement of financial position			
Intangible assets	23	14	9
Tangible assets	13.380	13.858	-478
Equity investments	18.714	17.892	821
Deferred tax assets	1.716	1.476	240
Other non current assets	3	158	-154
Total non current assets	**33.836**	**33.398**	**438**
Inventories	19.230	18.232	998
Accounts receivables	31.595	30.315	1.280
Tax receivables	1.725	2.300	-575
Other receivables	4.337	4.021	316
Cash and cash equivalents	6.123	4.919	1.205
Total current assets	**63.011**	**59.787**	**3.224**
TOTAL ASSETS	**96.847**	**93.186**	**3.661**
Common stock	2.509	2.509	
Additional paid in capital	38.594	38.594	
Other reserves	36.431	36.135	296
Treasury stock	-2.576	-2.576	
Retained earnings / (deficit)	-921	-921	
Net income / (loss)	1.264	1.062	202
Total equity	**75.301**	**74.803**	**498**
Severance indemnity	926	935	-8
Deferred tax liabilities	611	441	170
Other accruals	2.240	2.196	44
Financial liabilities	2.380	66	2.314
Non current liabilities	**6.157**	**3.637**	**2.520**
Financial liabilities	4.252	96	4.155
Accounts payables	7.821	10.755	-2.933
Income tax payables		565	-565
Other payables	3.315	3.330	-14
Current liabilities	**15.389**	**14.746**	**643**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**96.847**	**93.186**	**3.661**

Net financial position		
	31/12/2011	**31/12/2010**
Cash and bank	6.123	4.919
Cash and cash equivalents	**6.123**	**4.919**
Short term financial receivables	**20**	**20**
Bank short term loan	(4.185)	0
Part of financial long term liabilities due within 12 months	(66)	(96)
Financial short term liabilities	**(4.252)**	**(96)**
Net current financial position	**1.892**	**4.842**
Bank long term loan	(2.380)	0
Other long term financial liabilities	0	(66)
Financial long term liabilities	**(2.380)**	**(66)**
Net financial position	**(489)**	**4.776**

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

RESULTS OF THE SUBSIDIARY COMPANIES

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

The chart below contains a summary of the results of the companies belonging to the Group that are included in the area of consolidation. Following the chart there is a series of brief explanatory notes describing the activities of each company and commenting on the results for the financial year 2011.

	Revenues 31-dic-11	Revenues 31-dic-10	Var. %	EBIT 31-dic-11	EBIT 31-dic-10	Net income 31-dic-11	Net income 31-dic-10
Cynosure (*)	79.202	61.465	28,86%	-1.346	-2.728	-1.833	-3.373
Deka Mela Srl	23.679	24.139	-1,90%	1.355	1.693	1.217	1.283
Cutlite Penta Srl	9.734	8.418	15,64%	-295	357	-273	191
Esthelogue Srl	2.685	5.680	-52,73%	-1.838	-557	-1.339	-472
Deka Technologies Laser Sarl	2.965	3.308	-10,36%	-472	106	-470	107
Deka Lasertechnologie GmbH	295	699	-57,80%	-2	-131	-2	-136
Deka Laser Technologies Inc.	2.283	2.814	-18,89%	-180	-243	-193	-256
Deka Medical Inc.	2.083	2.191	-4,92%	-715	-692	-717	-701
Quanta System SpA	21.222	20.668	2,68%	781	756	15	-426
Asclepion Laser Technologies GmbH	16.977	18.398	-7,73%	-325	544	-570	22
Asa Srl	6.216	5.226	18,94%	865	928	570	605
Arex Srl	785	879	-10,68%	-4	25	-17	0
AQL Srl	176	289	-38,93%	-29	-1	-33	-4
Ot-Las Srl	2.995	3.475	-13,82%	-197	-69	-166	-72
Lasit Spa	6.378	4.852	31,46%	483	330	216	138
Lasercut Technologies Inc.	305	496	-38,40%	0	-81	-5	-85
BRCT Inc.	0	0		1	1	3	-261
With Us Co LTD	18.502	17.219	7,45%	714	656	530	102
Deka Japan Co LTD	2.808	3.755	-25,22%	79	646	76	393
Wuhan Penta Chutian Laser Equipment Co LTD	16.109	10.989	46,59%	1.360	977	1.332	1.100
Lasit Usa INC	592	1.027	-42,34%	9	-8	8	-9
Cutlite do Brasil Ltda	4.115	4.495	-8,45%	-287	336	-408	502
Pharmonia Srl	1.473	2.166	-32,00%	-106	-241	-96	-187
Quanta France Sarl	546	0		26	0	26	0
Ratok Srl	0	2	-100,00%	-5	-2	-5	-2

(*) consolidated figures

Cynosure Inc.

This company, listed on Nasdaq (CYNO), operates in the field of design, manufacture and sales of laser systems for medical and aesthetic applications. The crisis which occurred in 2008 interrupted a series of years that had registered high growth rates and profits, and forced the company to reduce its staff and decrease its volume of business in the year that followed.

The year 2011 represented a turning point in which the company, in the fourth quarter, again turned a profit and achieved a substantial sales volume. During this year in fact, there was a recovery in the core markets and three important activities were purchased: Cynosure acquired the activities of Elémé with an investment of about 2,5 million dollars and HOYA ConBio® for about 24,5 million dollars, and bought the exclusive distribution rights for the Pinpointe system, an innovative laser treatment for onicomicosis, thus re-enforcing its portfolio of products and its competitive position. The acquisition of Elémé brought the immediate advantage of selling the sophisticated SmoothShapes®XV system for "body shaping", which contributed to the sales volume starting already in the second quarter, while the selling of Pinpointe was activated only in the fourth quarter. Even more significant was the purchase of the assets of the California company HOYA ConBio® with which Cynosure acquired the leading brand in the sector of removal of tattoos and vascular lesions. With an overall investment of about 30 million dollars Cynosure has secured itself an increase in annual sales volume of the same amount which potentially can increase thanks to the technical and productive synergy and the commercialization with the existing structure; the company is able therefore to forecast a significant increase in growth also for 2012.

In February 2012 the Cellulaze system, an evolution of the Smartlipo systems and result of the joint development with El.En. Spa, obtained FDA authorization for sale in the United States: the verification of the effectiveness of the system, the only one capable of curing cellulitis in a single minimally invasive operation, required an extremely laborious and unusually long process conducted by the FDA which delayed the introduction of the product on the most important market. The results for 2012 will also benefit from this important innovation.

Cynosure has around 350 employees and along with its exceptional capacity for marketing avails itself of a brilliant research and development team which has successfully dealt with highly innovative products. One of the most interesting new developments in 2011 was the project for a new product for home use to be conducted in partnership with the multinational Unilever.
Notwithstanding the use made for investments in 2011, the amount of cash held by Cynosure as of December 31st 2011, about 67 million dollars, was still considerable enough to allow the company to continue to explore other options for growth.
The good results shown for the last quarter of 2011, which were announced shortly after the FDA clearance for Cellulaze, produced the result of a rapid ascent of Cynosure stock after 4 years to 18 dollars a share.

Deka M.E.L.A. Srl
Deka represents the main marketing channel for the range of medical laser systems developed in the factory in Florence; it was one of the first companies to become part of the Group and has gradually consolidated its position on the market, first in Italy and then abroad. Deka operates in the field of dermatology, aesthetics, and surgery and makes use of a network of agents for direct distribution in Italy and highly qualified representatives for export. DEKA has assigned to the subsidiary ASA the management of the physical therapy segment with excellent results in terms of both sales volume and earnings. For the dental sector in Italy, Deka has broken off a previous agreement with an external distributor and is now doing their own distributing.
The net income for 2011 essentially repeat that of 2010 notwithstanding the decrease in the EBIT because of the fall in the sales volume which was offset by the net financial income which produced positive results thanks mainly to the dividends cashed in by the subsidiary ASA.
In 2012 we do not expect to repeat the performance of the last two years, in particular because of the downward trend expected on the Italian market which has been very weak in the last few months as a consequence of the economic crisis and the related tax provisions which will shortly reduce the available revenue and on account of the general difficulty on some of the foreign markets for which no growth is expected.

Cutlite Penta Srl
This company is active in the manufacture of laser systems for industrial cutting applications and installs the laser power sources produced by El. En. SpA on “X-Y” movements controlled by CNC.
The company returned to profits again in 2010 and in 2011 Cutlite Penta registered a positive result in their operating activity. It shows a loss for the year on account of the devaluation of the receivables from a technical sales partner who had been particularly hard hit by the effects of the crisis. Consequently, notwithstanding the substantial adversity of the market conditions, the company has demonstrated that it is able to operate on the traditional markets and on that for the increasingly important one of laser systems for metal cutting, and maintains a good outlook for growth also for 2012.
The financial situation is characterized by a high level of exposure towards the parent company El.En. Spa, the fundamental technological and financial partner, which also consists in the substantial controlling equity in Wuhan Penta Chutian which continues its growth on the Chinese market, as is related in the specific paragraph dedicated to it below.

Wuhan Penta Chutian
This Joint Venture WPC was initiated in 2007 by Cutlite Penta together with Wuhan Chutian Group of Wuhan, in the Hubei region of central China, in order to develop the production of laser cutting systems for the local market using the systems technology of Cutlite Penta, laser sources of El.En. and the experience of the local partner for the manufacturing and distribution.
The creation of a structure able to transport the technologies of the Group on to the most important manufacturing market in the world acquiring a significant competitive position, has produced excellent results as has been demonstrated by the rapid growth in the sales volume which in 2011 reached a growth of 46,6%, for an amount of 16 million Euros.
The market situation continues to be generally favorable, notwithstanding the fact that in 2011 there were several phases of reduction in the availability of cash which determined a slight slowing down in the growth. The size and the dynamics of the market in which WPC is still plays a medium sized role should allow for a further expansion of activity with an increase of the market quota held by the company.

Quanta System Spa
Quanta System started as a research laboratory and became part of the area of consolidation of the Group in 2004; it represents a company of excellence at a global level for its innovation and technological research in the laser sector.
The company has concentrated mainly on the medical-aesthetic sector and had planned its growth in particular in the aesthetic sector on the acquisition of the Spanish company GLI; when this company ran into difficulty, Quanta System differentiated its products and became a supplier of advanced technological solutions in the surgical sector.

Currently the products offered by Quanta System would appear to be particularly suitable for the requirements of the market. In the medical sector the Alexandrite hair removal systems have been highly successful, while using Q-switched technology they produce systems for the removal of tattoos and vascular lesions; the former have become very popular in the USA and the latter in the Far East. In the surgical sector sales are concentrated on endovascular treatments and those for BPH (benign hyperplasia of the prostate) thanks in particular to the Tullium technology and, for lithotripsy the 30W Holmium laser has become the standard treatment used by numerous partners that buy from Quanta in OEM.
The activities in OEM, which represent a significant quota of the sales volume of Quanta, are conducted to the benefit of a partners of major importance including some companies of the Group; in 2011 Cutera Inc., quoted on Nasdaq (CUTR) and one of the leaders on the international markets, also became one of the partners.
Although operating results were slightly under expectations they were still largely positive. The net result on the other hand was penalized by the heavy devaluations both on receivables and on equities, which were entered into accounts in relation to the associated company GLI which continues to register a significant loss.
The outlook for 2012 remain good, thanks to the range of products just described and the contracts for OEM sales.

Asclepion Laser Technologies GmbH
This company, located in Jena, was acquired from Carl Zeiss Meditec and represents one of the main activities of the Group; thanks to its geographical location in the global cradle of the electro-optical industry and its capacity to associate its image with the highly prestigious consideration which the German high-tech products enjoy throughout the world, in the last few years, Asclepion has continually acquired portions of the market and constantly grown.
The situation in 2011 was quite difficult and was characterized by a drop in sales, in particular in the aesthetic sector, in which the company had invested by creating a specific distribution network.
The introduction on the market of an innovative hair removal system, the Mediostar Next, and the completion of some new models, in particular for the removal of tattoos and vascular lesions, made it possible to recover some of the sales volume in the fourth quarter almost completely offsetting the losses shown in the first nine months. The financial performance, with the cost of the indebtedness for the factory and the increase of net working capital, determined a more substantial loss for the year.
At the end of the year Asclepion underwrote part of the capital of Esthelogue Srl, which distributes its systems on the professional aesthetics market in Italy.
The outlook for 2012, thanks to the innovation of the product mentioned above, is that of continuing with the trend shown in the last quarter of 2011 and to return to phase of growth and register positive operating results.

With Us
This company distributes Deka products on the Japanese market and on account of its importance several specific models are produced specifically for its requirements. With Us constitutes a point of reference for “light based” technologies in the field of aesthetics in Japan, thanks to its substantial base of installations and its capacity to renovate the offer.
Results for 2011 were far better than expected. The earthquake which occurred in March of 2011 caused a decrease in activity of brief duration after which the volume of business remained consistent for the half and even showed an increase with respect to the preceding year. As a result there was an improvement in the EBIT and, thanks to the contribution of the financial income, a net result which registered an increase over that of 2010.
The general outlook for the activities of the company remain positive.

ASA Srl
This company, located in Vicenza, is a subsidiary of Deka M.E.L.A. Srl, and operates in the field of physical therapy. The perfect balance between the innovation of products and the clinical and commercial activities directed towards the support of the therapeutic methods of the systems developed has consolidated the quality of their offer and along with it their position on the market so that the company has been able to register a constant growth rate, even in these years of crisis; this growth has been accompanied by substantial profits and generation of cash which has made it possible to distribute dividends. For 2012 the company plans to continue in its growth.

Other companies in the medical sector
Deka Technologies Laser Sarl distributes the range of Deka laser systems in France. After showing excellent results in 2010 with sales volume and profits on the rise, during 2011 the growth ceased and this along with an increase in expenses was responsible for the the loss registered at the closing of the year. The revision of some of the marketing and staff expenses will allow the company to operate in 2011 with a reduced structure and although no great increase is expected in the volume of business, the company is expected to break even. **Deka Lasertechnologie GmbH,** has the same purpose as the French company but operates on the German market; the company significantly reduced their volume of business but managed to break even. In 2012 they will start to conduct more marketing activities in the hopes that the small investments made can increase the sales volume which in 2011 reached a minimum amount.

Deka Japan is in its third year of activity and is involved in the distribution of medical systems in Japan. After obtaining brilliant results in 2010, satisfactory results were also registered for 2011. Despite the consequences of the difficult situation in Japan which cause a drop in sales and an increase in expenses, the company was still able to achieve a profit.

The distribution of DEKA systems in the United States is conducted by **Deka Laser Technologies Inc**. for the dental sector and by **Deka Medical Inc**. for the medical/aesthetic and surgical sector. So far both companies have been unable to consolidate their activities at a level that would guarantee a stable revenue and the duration of the start-up period has been prolonged because of the continuing crisis in the USA. Despite the losses registered, in 2011 particularly in the final months, there was increased vitality in the market and in our position, which would seem promising for obtaining the objectives of financial equilibrium in 2012.

At the end of 2009 the Group entered the segment of professional aesthetics with the creation of **Esthelogue Srl**, for the direct distribution of its products after the crisis of its original distributor in this sector. During 2010 the company rapidly acquired portions of the market thanks to the quality of the range of products offered and to the innovative solutions of marketing and formation that complete the technological offering to the client. In order to overcome the rigid policies of the credit institutions in relation to the financing conditions for our clientele, the company in certain cases adopted a policy of extending credit for the purpose of facilitating a more rapid penetration of the market. During the first months of 2011 the reduction in the volume of business which was a consequence of the decision to limit the credit extended to the clientele and the accruals for some of the more critical items were causes of significant losses.
During the second half the sales network was drastically re-organized and redefined starting with the management, costs were reduced and a good level in the sales volume was achieved thanks in particular to an innovative hair removal system: additional accruals for risks and for the expenses for re-organization comported a loss also for the second half, but the operating conditions of the company are greatly improved with respect to the early part of the year and consequently a three-year expansion program has been planned. As a confirmation of the belief that the Group has in this activity, Asclepion Laser Technologies GmbH, a subsidiary of El.En. and a fundamental supplier of technologies for Esthelogue, has underwritten part of the increase in capital which took place in December to cover the losses, thus becoming a 50% partner in the company.
It should also be noted that the legislation which was passed in order to regulate the use of technologies in aesthetic centers by means of the Ministerial Decree approved in May 2011 and in force since July 30th , creates a new outlook for Esthelogue and for the Group in the relationship between professional aesthetic providers and their clients. The company has been very quick in supplying the client with services that are in compliance with the new regulations while the intrinsic characteristics of quality and safety in our products have set them apart from the competition which in this sector is characterized by an extreme variation in the levels of quality available.

Raylife Srl, a subsidiary of the German company Asclepion, has abandoned the aesthetics distribution sector and has changed its name to **Pharmonia Srl;** under this name it will distribute aesthetic systems specifically designed and manufactured for use in pharmacies.

During 2011 Quanta System Spa acquired control of its French distributor, **Quanta France Sarl**, which had developed a volume of business which was sufficient for them to break even, thanks to the careful management of expenses, and which is expected to bring further development to the activities of Quanta System in France.

The medical center **Arex Srl,** specialized in the treatment of psoriasis and vitiligo continued its activity satisfactorily.

Other companies in the industrial sector
Ot-Las Srl designs and manufactures special laser systems for CO_2 laser marking for the decoration of large surfaces and is present on the market with advanced technological solutions thanks also to its close technological cooperation with the parent company El.En. for the creation of strategic components.
In 2011 the company had great difficulty in selling their products despite the efforts made to identify new prospects for development and, for the second consecutive year, showed a loss. The cost structure is now being revised especially with an aim to further integrating the activities of Ot-las with those of the Group so that they can benefit from the synergy which will generally limit the amount of overhead attributed to the activity.

Lasit Spa is specialized in the manufacture of marking systems for small surfaces and besides having a valid research and development team in the headquarters in Torre Annunziata (Naples), controls an Italian company, AQL Srl and an American company, Lasit USA, Inc. which are involved in the distribution of the Lasit systems. Lasit is also equipped with a complete modern mechanical workshop where they carry out work for other companies of the Group and are able to offer their own clientele customized services which make the company unique on the market. After a phase of crisis and re-organization in which they broke even in 2010, Lasit has continued its strong growth and in 2011 obtained the best results in its history. The company, which has a good position on the market and a structure which allows it to adapt to new requirements with extreme flexibility, is now operating at a good level of revenue and with good prospects for the year now in progress. The subsidiary, Lasit Usa Inc. has conducted its activity substantially breaking even and provides an important market outlet for Lasit.

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

Cutlite do Brasil Ltda is occupied with the distribution and production in Brazil of laser systems for industrial applications. Its headquarters are located in Blumenau in the state of Santa Catalina, one of the areas of this country most suited for manufacturing activity. The year 2011 ended with a loss which is a disappointing result after the start up of the factory at full production in 2010 and in a local environment of rapid growth. The decision to limit the credit granted to clients and some unexpected operating problems reduced the sales volume. Instead of the growth which was expected as the reasonable outcome of a brilliant market and a well organized structure, a fall in sales was registered which did not cover the overhead expenses which, among other things, were also increasing in order to better sustain a higher sales volume and consequently the company showed a loss. In any case, the outlook is still good and it is our belief that the company will start growing again if we take advantage more effectively of the strong points which the structure can assert on the local market.

RESEARCH AND DEVELOPMENT ACTIVITIES

During 2011 the Group conducted an intense research and development activity for the purpose of discovering new laser applications both in the medical and the industrial sectors and to place innovative products on the market.
The Group increased the investments in R&D to face the economic crisis which required even more attractive items for the market through the presentation of new products and applications.
In general, for highly technological products in particular, the global market requires that the competition be met by continually placing on the market completely new products and innovative versions of old products which use the most recent technologies and components. For this reason extensive and intense research and development programs must be conducted and organized according to brief and mid-term schedules.
The innovative results consist essentially in the creation of new laser applications and the development of suitable equipment for the new applications. In other words, we conduct research in order to understand unresolved or new problems in the fields of medicine and industry and we look for solutions on the basis of our experience and culture in laser systems related, on the one hand, to its generation and level of power and, on the other, its management over time and in the shape of the ray.

The research which is aimed at obtaining mid-long-term results is generally oriented towards subjects which represent major entrepreneurial risks, inspired by intuitions which have arisen within our companies or by prospects indicated by the scientific work conducted by advanced research centers throughout the world, some of which we collaborate with.
Research which is dedicated to achieving results according to a short-term schedule, above all for products developed for new laser applications, is concentrated on subjects for which all the preliminary feasibility studies have been completed. For these subjects a choice has already been made regarding the main functional characteristics and specifications. The elements for this activity are determined on the basis of information obtained from the work of specialists employed by the company and also as a result of activities of the public and private structures which acted as consultants in the phase of preliminary study and some in the phase of field verification.

The research which is conducted is mainly applied and is basic for some specific subjects, generally related to long and mid-term activities. Both the applied research and the development of the pre-prototypes and prototypes are sustained by our own financial resources and, in part, by grants which derive from research contracts stipulated with the managing institutions set up for this purpose by the Ministry of University and Research (MUR) and the European Union, as well as directly with the Research Institutions or Regional structures in Italy and other countries.
The Group is the only one in the world that produces such a vast range of laser sources, in terms of the different types of active means (liquid, solid with semiconductor, gas) each one with various power versions in some cases, and using various manufacturing technologies. Consequently, research and development activity has been directed to many different systems and subsystems. Without going into excessive detail, a description of the numerous sectors in which the research activities of the parent company and some of the subsidiary companies have been involved is given below.

<u>Systems and applications for lasers in medicine</u>
Through a major effort involving massive use of both personnel and resources, the parent company, El.En. has developed a new family of equipment and sub-systems for of the SMARTXIDE[2] family of CO_2 laser products for surgical uses and aesthetic medicine. The systems are equipped with a laser source fed by radio frequency with an average power of up to 80w and interface management from personal computer installed on the device. These are multi-disciplinary systems which can be used in general surgery, otorhinolaryngology, dermatology, gynecology, odontostomatolgy, laparoscopic surgery, aesthetic surgery, with scansion heads that are able to emit on to the patient's skin radio frequency electromagnetic energy for DOT and RF (radiofrequency) treatments for skin rejuvenation, particularly on the face, and the attenuation of scars. For some of the versions of this group of devices, there is the possibility of having a second semi-conductor laser source with a wave length that can be selected by the client when ordering.
Clinical trials and technological developments continued on new scansion systems for use of these lasers in otorhinolaryngology and gynecology; initial results on patients were considered excellent by the doctors who are collaborating with us.
At numerous medical centers in Italy and in other countries there is an intense activity involving the collection of the results of clinical trials related to the innovative application possibilities offered by the machines belonging to this group. Additional technological innovations are contained in the scanning systems characterized by newly developed optical and electronic management systems which make it possible to perform surgical operations on various parts of the anatomy with extreme precision.
The research activities that are part of the MILORDS project were begun. This project was approved by the Region of Tuscany and co-financed by the European Union; the MILORDS project involves the development of new robot-controlled laser systems for surgical applications in opthamology, cutaneous ulcers, treatment of benign hypertrophy of the prostate, and, eventually, the percutaneous ablation of masses inside the human body. The project, of which El.En. is the leader, has as its partners the leading research centers in Tuscany in this sector and companies that are connected

to multinationals in the field of robotics. The research of this type is part of the current involving development of systems for minimally invasive surgery which has a major impact both on the quality of life of the patient and on the reduction of expenses of the health care agencies.
We are now concluding the development phase of the new platform (Alex+Nd:YAG+IPL). This is a matrix device capable of sustaining various terminals emitting luminous radiations, integrated for: management and interface with the doctor, supply of electrical current sand conditioning fluids, ergonomic mechanical support, management of the various integrated systems. We are also in the conclusive phase of the activity involving the collection of data from the experimentation in clinics in Italy and other countries.

We have continued the development of instruments and clinical experiments for innovative laser equipment belonging to the HILT family of equipment (High Intensity Laser Therapy) for uses in physical therapy, dermatology (cutaneous ulcers), with experiments also conducted in the USA in collaboration with Washington State University using animal models, like horses. We have also continued, but not concluded, our final program of clinical trials as part of the collaboration for new experimental research on treatments of patients with cartilage diseases of the knee joint with the Istituti Rizzoli of Bologna which have been our partners now for several years, and with specialized orthopedic clinics in Germany.
We have continued trials on the effects of photo-mechanical stimulation of condrocites in various conditions of types of stimulation and we have also developed research on molecular biology methods on treated tissue samples which produced good results.
Research and experimentation have continued *in vitro* and *in vivo* on animal subjects for new devices and methods for the percutaneous laser ablation of the liver, thyroid, breast, prostate and lungs as part of the activity conducted by the associated company Elesta created by El.En. and Esaote.
We have continued research and experimentation in collaboration with the university clinics of Pisa and Florence and with the Department of Engineering and Telecommunications of the University of Florence; we are now concluding research for the creation of interaction laser tissue models for programming ablation operations. Moreover, we are continuing research aimed at identifying methods for characterizing tissue treated with radio-frequency ultrasonic signals in order to improve the verification phase of the effects of the treatment received. We have completed the activities aimed at identifying the procedures for making cooled point applicators and we have made important advances in the technologies for making the inflatable balloon with dispersive liquid. These activities were conducted as part of the TRAP project with grants from the European Union issued through the Department of Economic Development of the Region of Tuscany
We have completed activities for the development of laser equipment and devices for the treatment of cutaneous ulcers (TROPHOS project). This project like the above mentioned TRAP, are conducted with grants from the European Union issued through the Department of Economic Development of the Region of Tuscany.
At the same time, active clinical experimentations have continued in Italy and in qualified European and American centers in order to confirm and document the effectiveness of innovative therapeutic laser treatments in various fields of medicine: odonto-stomatology and aesthetics.
We continued operations to extend the intellectual property of the Group by formulating international patents and assistance in granting them on an international basis.
At El.En. we have conducted research for new medical applications in the recently created PHOTOBIOLAB for the study of the interaction between light and biological tissue. As part of this project we have a workroom for in vitro trials of pre-prototype equipment and for the education of the operators.
This year we have concluded the collaboration between the Research and Development department for medical lasers of El.En. with that of Cynosure for the development of new laser equipment for the treatment of adipose layers.
At Cynosure they have completed experiments on the treatment of cellulitis with new instruments which have innovative characteristics in terms of the power levels and control of their output with recto-activated systems using information from temperature sensors working on more than one wave length.
New studies were initiated over a wide range of pigments on a new method for removing tattoos.

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

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

Asclepion received an important grant from the region in which it operates, Turingia, for the development and experimentation of lasers for surgery; the activity of research and development of equipment for applications in urology and the related clinical trials are now in progress.

Laser systems and applications for industry

We have completed experimental trials and started activities for the integration into our products of groups of innovative electronic subsystems based on a system in Digital Electronics (VOYAGER) which was developed inside the company, for the control and management of equipment for marking recently created at OT-LAS.
For cutting applications on metallic materials we have developed a capacitive sensor for controlling the position of the focal zone of the laser ray with respect to the material; experimental activities were concluded.

As part of the strategy for the development sustaining restoration methods in Tuscany a project (TEMART) was approved and El.En. is responsible for the development of the laser equipment used for certain special types of conservation work. An important result was obtained, among others, for the generation of programmable short-term impulses.
We concluded experimentation work on new diagnostic systems for paper in antique books using lasers; this system has recently been patented.
We are developing laser systems to be used for cutting and sealing plastic materials in equipment for packaging foods and chemicals for various uses.
We have developed new testing methods for mirrors for marking devices of different dimensions on the basis of the high speed scansion in machines performing laser decoration on large surfaces.

Cutlite Penta is a company that operates in a market of high technological intensity and maintains its competitive position by amplifying its range both by offering newly designed systems as well as renovating technical solutions in systems that are already being manufactured.
They completed verification trials on structural and functional innovations developed on sealed CO_2 sources manufactured by El.En. and they started new developments in this family of sources with higher degree of compacting. They continued work on the development of an electronic system for remote diagnosis and remote assistance of industrial machines. They have developed new compact cutting systems with higher performance and limited costs, and have continued the applicative study for the identification of new cutting solutions, in particular those for cutting sheet metal. They are now working on developing methods for eliminating most of the optical routes of the CO_2 laser ray with solutions that include the direct assembly of the new sources with radio-frequency pumping on the mobile portal of the machine. They have also completed the software for the raster scanning used for superficial marking of metals and other materials on the cutting machines.
They have initiated feasibility studies for new laser applications in the production cycle of glass objects.

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

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

The chart below shows the expenses sustained for Research and Development.

thousands of euros	**31/12/2011**	**31/12/2010**
Costs for staff and general expenses	11.102	9.717
Equipment	216	149
Costs for testing and prototypes	1.920	1.184
Consultancy fees	790	551
Other services	1.170	733
Total	**15.197**	**12.333**

As was the case for both the sales volume and profits, the contribution of Cynosure is highly significant also for the research and development expenses considering the intense activity the company conducts in this sector. The amount of expenses sustained by Cynosure during this period for research and development was approx. 10 million dollars.

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

The amount of the expenses sustained corresponds to 7% of the consolidated sales volume of the Group. The amount related to Cynosure, as stated above, is 10 million dollars which represents about 9% of its sales volume; the rest of the expenses were sustained mostly by El.En. SpA and represents 9% of its sales volume.

RISK FACTORS AND PROCEDURES FOR THE MANAGEMENT OF FINANCIAL RISKS

Operating risks

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

The main financial instruments of the Group include checking accounts and short-term deposits, short and long-term financial liabilities, leasing and financial instruments.
Besides these, the Group also has payables and receivables derived from its activity.
The main financial risks to which the Group is exposed are those related to currency exchange, credit, cash and interest rates.

Currency risks

Again in 2011, most, approx. 63% of consolidated sales were made in markets outside of the European Union; most of the transactions were conducted in US dollars. It should be pointed out that the presence of stable structures in the United States, in particular Cynosure, make it possible to have a partial coverage of these risks since both the costs and the revenue are in the same kind of currency.

Credit risks

As far as the commercial transactions are concerned, the company operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance. There are no significant concentrations of credit risks within the Group. The devaluation fund which is accrued at the end of the year represent about 12% of the total trade receivables from third parties. For an analysis of receivables overdue from third parties, see the description in the relative note of the consolidated financial statement.

In relation to guarantees granted to others, it should be noted that the Parent Company El.En along with a minority partner, in 2009 underwrote a bank guarantee for a maximum of 1 million Euros to guarantee the debt of the subsidiary

Quanta System to the Banca Popolare di Milano for facilitated financing of 900 thousand Euros, the installments for which expire up to 84 months after the date of issuance, which took place in the second half of 2009.
During last year the parent company El.En. SpA also underwrote the following guarantees:
- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 763 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the "TROPHOS" research project which has been included in the grant issued by the *Bando Unico* R&S in the year 2008 and approved by the Region of Tuscany with Directive Decree 6744 on December 31st 2008 which expires in April 2012.
- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 1.203 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the "TRAP" research project which has been included in the grant issued by the *Bando Unico* R&S in the year 2008 and approved by the Region of Tuscany with Directive Decree 6744 on December 31st 2008 which expires in April 2012.
-a bank guarantee, jointly with the companies which participate in the ATS constituted for this purpose for a maximum of 1.434 thousand Euros as a guarantee for the payback of the amount granted as down payment on the "TEMART" research project which has been included in the grant issued by the *Bando Regionale* in the year 2008 and approved by the Region of Tuscany with Directive Decree 5673 on November 21st 2008 which expires in July 2012.
- a bank guarantee for a maximum of 751 thousand Euros as a guarantee for the payment of the sum required as a reimbursement for the VAT related to the tax period 2008 which expires in November 2013;
And during this year:
- a bank guarantee jointly with the companies which are participating in the ATS constituted for this purpose, for a maximum of 3.074 thousand Euros as a guarantee for the pay back of the amount guarantee as down payment on the research project "MILORD", which has been included in the grant issued by *Bando Regionale* 2010 approved by the Region of Tuscany with Directive Decree n. 670 of February 25th 2011, which expires in September 2014.

Moreover, the subsidiary Quanta System issued bank guarantees in favor of some credit institutions of the associated company Grupo Laser Idoseme for a residual total of 350 thousand Euros which came due on February 27th 20112 and was renewed for an amount of 200 thousand Euros up until February 27th 2013; for the remaining part a bank guarantee was issued which will be renewed every quarter for decreasing amounts until it is completely repaid by January 31st 2013.

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

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

STOCK OPTIONS OFFERED TO DIRECTORS AND EMPLOYEES

The special assembly of El.En. SpA held on May 15th 2008 voted to authorize the Board of Directors, in accordance with and by effect of art. 2443 of the Civil Code, for a period of up to five years from the date of the deliberation, to increase the share capital of the Company once or several times upon payment, by a nominal maximum amount of 83.200,00 Euros through the issue of a maximum of 160,000 ordinary shares with a nominal value of euro 0,52 each, with entitlement equal to those of the ordinary company shares at the date of subscription, to be liberated by payment of a price to be determined by the Board of Directors in the respect of the dictates of art. 2441, sub-paragraph VI, civil code – that is considering the shareholders' equity, also bearing in mind the official prices registered by the shares on the stock market over the last six months – and as a unitary value inclusive of the premium, not less than the greatest of the following: a) the value of each share determined on the basis of the consolidated stockholders' equity of the El.En. Group as of December 31st of the year previous to the issue of the options; b) the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organized and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options; c) the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organized and managed by the Borsa Italiana SpA in the 30 days prior to the assigning of the options.
On July 15th 2008 the Board of Directors of the parent company voted to implement in full the decision of the Shareholders' meeting of May 15th 2008 to increase the share capital by 83.200,00 Euros for use in the 2008/2013 stock-option plan and approved the relative regulations.

The option rights are assigned exclusively to the employees of El.En. SpA and of the other companies of the Group who, at the moment of assignment were working in a subordinate position. This plan is divided into two equal phases, each of which can be implemented in accordance with the following rules: a) up to a maximum amount of 41.600,00 Euros starting on July 15^{th} 2011 until the date of approval of the annual report for 2011 by the Board of Directors.
Subsequently, the rights on the options can be exercised as follows:
- if the shareholders' meeting, during the approval of the report for 2011, votes to distribute the profits, from the day that the relative dividends for 2011 become payable up until the date of approval of the company report for 2012 by the Board of Directors;
- otherwise, if the profits are not distributed for the year 2011, from the 15^{th} of May 2012 up until the date of the approval of the company report for 2012 by the Board of Directors;
- if, during the approval of the report for 2012, the shareholders' meeting votes in favor of the distribution of the profits, from the date, if earlier than the 15^{th} of May 2013, of the maturity of the payments of the dividends for 2012 up until May 15^{th} 2013.
- otherwise, if it is decided to not distribute the profits for the year 2012, the period in which the rights can be exercised will terminate on the date, if earlier than May 15^{th} 2013, of the approval of the company report for the year 2012 by the Board of Directors, and otherwise on the 15^{th} of May 2013.
Therefore – exclusively for the above mentioned nominal sum of 41.600,00 Euros – the underwriting of the increase in capital approved by the Board of Directors can take place exclusively during the time intervals mentioned above for the exercising of the rights.
b) in relation to the residual amount of the increase of nominal 41.600,00 Euros starting on July 15^{th} 2012 and up until the date of approval of the budget of the company for the year 2012 by the Board of Directors.
Subsequently, the rights to the options may be exercised as follows:
- if the shareholders' meeting, during the approval of the report for 2012, approves the distribution of profits for the year 2012, from the date in which payment of dividends matures for the dividends for the year 2012 up until the 15^{th} of May 2013;
- otherwise, if it is decided not to distribute the profits for the year 2012, the period for exercising the rights will terminate on the date, if before May 15^{th} 2013, of the approval of the company report for 2013, and otherwise, on May 15^{th} 2013.
Therefore, the underwriting of the increase in capital approved by the Board of Directors for the residual amount of 41.600,00 nominal Euros can take place only during the time intervals indicated above for the exercising of the rights to pick up the options.

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

PERSONNEL

As mentioned earlier, staff members of the Group increased from 969 on December 31st 2010 to 1.139 people on December 31st 2011.
Staff members divided by Group company are shown on the chart below:

Company	2011 Average	31-dic-11	31-dic-10	Var.	Var. %
El.En. S.p.A.	178,50	180	177	3	1,69%
Cutlite Penta Srl	23,50	24	23	1	4,35%
Esthelogue Srl	8,00	9	7	2	28,57%
Deka M.E.L.A. Srl	16,00	17	15	2	13,33%
Ot-las Srl	15,00	16	14	2	14,29%
Pharmonia Srl	0,50	1	0	1	0,00%
Quanta System SpA	75,50	79	72	7	9,72%
AQL Srl	1,00	1	1	0	0,00%
Arex Srl	5,00	5	5	0	0,00%
Lasit SpA	36,50	33	40	-7	-17,50%
Asa Srl	27,50	29	26	3	11,54%
Deka Technologies Laser Sarl	9,00	9	9	0	0,00%
Deka Lasertechnologie GmbH	0,00	0	0	0	0,00%
Deka Medical INC	5,00	5	5	0	0,00%
Asclepion Laser T. GmbH	74,50	76	73	3	4,11%
Lasercut Technologies Inc	2,00	2	2	0	0,00%
Cynosure	302,50	346	259	87	33,59%
Deka Laser technologies Inc	7,50	8	7	1	14,29%
With Us Co Ltd	27,50	30	25	5	20,00%
Wuhan Penta Chutian Laser Equipment Co Ltd	211,50	239	184	55	29,89%
Lasit Usa Inc	0,50	0	1	-1	-100,00%
BRCT	0,00	0	0	0	0,00%
Cutlite do Brasil Ltda	23,50	26	21	5	23,81%
Quanta France Sarl	0,50	1	0	1	0,00%
Deka Japan Ltd	3,00	3	3	0	0,00%
Total	**1.054,00**	**1.139**	**969**	**170**	**17,54%**

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

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

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

INTERGROUP RELATIONS AND RELATED PARTIES

In compliance with Regolamento Consob dated March 12th 2010, n. 17221 and subsequent modifications, the Parent Company, El.En. SpA approved the rules disciplining relations with related parties ("*Regolamento per la disciplina delle operazioni con parti correlate*") which can be consulted on the internet site of the company www.elengroup.com *section.* "*Investor Relations*". These regulations represent an up-date of those approved in 2007 by the company as implementation of art. 2391-*bis* of the civil code, of the recommendations contained in art. 9 (and in particular the applicative criteria 9.C.1) of the Self Disciplining Code for Companies Listed on the Stock market (*Codice di*

Autodisciplina delle Società Quotate), edition of March 2006, in consideration of the above mentioned Regulations for Operations with Related Parties (“*Regolamento Operazioni con Parti Correlate*”) n. 17221 and later modifications as well as the Consob Communication DEM/110078683 of September 24th 2010. The procedures contained in the “*Regolamento per la disciplina delle operazioni delle parti correlate*” went into force on January 1st 2011.

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

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

Concerning the operations for the entry in the capital stock of Esthelogue srl from Asclepion Laser Technologies GmbH, please refer to the paragraph titled “Significant events which occurred in 2011”.

OTHER INFORMATION

Atypical and unusual operations

In compliance with Consob Communication DEM/6064296 of July 28th 2006, we wish to state that during 2011 the El.En. Group did not make any unusual or atypical operations, as defined in the aforementioned communication.

Managing and coordinating activities

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

Adoption of measures intended to guarantee the protection of privacy

The Safety Program Document (*Documento Programmatico sulla Sicurezza*), which is now being abrogated by the current *Decreto Sviluppo* (Development Decree) at this time still not converted, has been revised bearing in mind the logic of the conservation of data to be applied to articulated structures in such a way that an ordinary management of privacy continues, and a document suited for the reconstruction of the basic criteria on which decisions have been based related to the application of the regulations. The contents of the document essentially are a summary of the compliance required by the Guaranteeing Authority.

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

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

- On December 31st 2011 the companies controlled by El.En. SpA to which these rules are applicable are the following: Cynosure Inc. (NASDAQ:CYNO), With Us Co. Ltd and Wuhan Penta Chutian Laser Equipment Co. Ltd
- Adequate procedures have been adopted to assure complete compliance to the regulations.

SIGNIFICANT EVENTS WHICH OCCURRED DURING THE FINANCIAL YEAR 2011

On February 2nd 2011, Cynosure Inc. acquired some of the activities from Elémé Medical for an overall amount of 2,5 million US dollars. The operation allowed Cynosure to add to its range of products Elémé Medical’s system for the non-invasive removal of cellulitis *SmoothShapes®XV* and to acquire the relative intellectual property rights.

On May 11th 2011, the shareholders’ meeting of Elesta Srl, a company in which the parent company El.En. SpA holds an equity of 50%, voted to pay off the losses which had been registered in the annual statement of December 31st 2010 and in the statement of financial position of March 31st 2011 which was drawn up in compliance to art. 2482- bis c.c., for an amount of 517.572 Euros, by reducing the capital stock to zero and by having the partners make an additional payment for the residual amount. They also voted to reconstitute the capital stock to the original 110 thousand Euros, and this increase was entirely underwritten by the partners.

Also on May 11th 2011 the shareholders' meeting of Raylife Srl voted in favor of the change of name to Pharmonia Srl and the re-organization of the company purpose so that it was more consistent with the activity that the company intends to conduct; in particular, the company intends to operate in the distribution of aesthetic systems specifically designed and manufactured for use in pharmacies.

On the 12th of May 2011 in Thailand the subsidiary Quanta System Spa, created the Quanta System Asia Pacific company, of which it owns 49% of the capital stock. This company will be involved in the marketing of Quanta brand products in Thailand and surrounding areas.

The shareholders' meeting of the Parent Company El.En. SpA, which met on May 13th 2011 approved the financials for 2010 and voted to utilize the net income, for an amount of 1.061.672,00 as follows:
- 117.428,00 Euros as extraordinary reserve;
- to distribute to the shares in circulation on the date that payment is due for coupon 10 on May 23rd 2011, in compliance with art. 2357-ter, second sub-section Civil Code, a dividend of 0,20 Euros gross for each share in circulation for an overall amount, on the day of the meeting, of 944.244,00 Euros, and they also determined to make an accrual in retained earnings fund, the residual dividend intended for treasury stock held by the company on the date that the coupon became due.

On June 28th 2011 Cynosure Inc. announced the acquisition of the medical and aesthetic laser activities of HOYA ConBio®, for 24,5 million US dollars in cash. As part of the diverse range of products offered by the El.En. Group inthe medical and aesthetic sector, in which the subsidiaries DEKA, Asclepion, Quanta System and Esthelogue, operate with success, the acquisition enlarged Cynosure's portfolio of products with the addition of "photoAcoustic energy" technology held by HOYA ConBio®, which utilizes extremely brief impulses of energy to penetrate the skin in nanoseconds, thus minimizing the heat effect during each application.
The popular systems of the MedLite® C series and RevLite®, developed so that they offer great ease of use along with minimum discomfort for the patients in a vast range of applications: photo-rejuvenation, removal of tattoos and pigmented lesions, reduction of wrinkles and acne, are both part of the Nd:YAG Q-Switched product range of HOYA ConBio®.
Cynosure purchased all of the assets in the aesthetic laser sector of HOYA ConBio®, including the intellectual property and also assumed the debts for guarantees and to suppliers.

On July 11th 2011 the subsidiary Quanta System SpA increased its equity in Quanta France Sarl by acquiring 42% from third party partners for an amount of 27 thousand Euros circa, thus acquiring control of the company with an overall ownership quota of 60%. On July 12th 2011, after the vote to increase the capital stock by the assembly of Quanta France Sarl on the same date, Quanta System spa underwrote the quota that belonged to it for an amount of 15 thousand Euros by off setting the debts of the French company.

On July 20th 2011 the Parent Company El.En. SpA further increased the amount of their equity in Deka M.E.L.A. srl by buying 5% from a minority partner at the price of 250 thousand Euros, thus bringing the amount of their equity to 75%.

On September 8th 2011 the shareholders' meeting of Asclepion Laser Technologies GmbH voted to increase the capital stock from 1.025 thousand Euros to 2.025 thousand Euros; this increase was entirely underwritten and paid by the partners El.En. SpA and Quanta System SpA, in proportion to the relative percentage of capital stock they owned.

On October 5th 2011 the final liquidation accounts of the subsidiary Ratok srl were deposited with the Register of Companies of Varese, and request was made for the cancellation of the company from the Register on October 30th 2011.

On October 13th 2011 the subsidiary Quanta System Spa sold to a third party of its equity in the Chinese company Laser International Ltd, for an amount equal to 40% of the capital stock and received approx. 200 thousand Euros with a capital gains of about 142 thousand Euros on their initial investment.

On October 25th 2011 the shareholders' meeting of SBI S.A. voted to increase the capital stock from 600 thousand Euros to 1.200 thousand Euros; the increase was underwritten and paid by the parent company El.En. spa. for its own quota in the equity (50%).

On November 15th 2011 Electro Optical Innovation, a company in which Quanta System Spa has a 33,33% equity, and which had already been liquidated last year, was cancelled from the Register of Companies of Turin.

On December 21st 2011 the shareholders' meeting of Pharmonia srl, which is owned 100% by the subsidiary Asclepion Laser Technologies GmbH, voted to pay off the losses shown in the statement of financial position on September 30th

2011, drawn up in compliance with articles 2482-bis/ter c.c., for a total amount of 150.145 Euros, by reducing to zero the capital stock and having an additional payment made by the partners for the residual amount. They also voted to reconstitute the capital stock for an amount of 50 thousand Euros, and this amount was underwritten and paid out by the partner himself.

On the 21st of December 2011 the shareholders' meeting of Esthelogue srl, in which the parent company El.En Spa has a 100% equity, voted to pay off the losses registered in the financial reports on September 30th 2011 drawn up in compliance with art. 2482-bis-ter .c.c. which, net of the reserve entered into accounts, amounts to a total of 1.587.085,00 Euros, by reducing the capital stock to zero and reconstituting it in the amount of 100.000,00 Euros; this reconstruction was effected by the underwriting through the issuing of new equities with a premium of 15,50 Euros for each Euro of equity issued and directed to the reserve of the residual 10.775,00 Euros created when the amount was rounded off. They also established that the newly issued equities would be offered for underwriting to a sole partner within 30 days from the date of the vote; they also established that in the case that the sole partner had not exercised all or a part of his right to underwrite, the newly issued quotas could be place with third parties. Also in the month of December the partner El.En. therefore exercised partially their own right and, in particular, proceeded with the underwriting of nominal 50.000,00 Euros, which was equal to one half of the capital stock for an overall amount of 825.000,00 Euros including the premium. Therefore, after the offer made to them by Esthelogue, Asclepion Laser Technologies GmbH (a company in which Elen holds equities both directly and indirectly) proceeded to underwrite the remaining 50% of capital stock for an overall amount, including the premium, of 825.000,00 Euros. Both of the underwritings were entirely paid by the partners.

SIGNIFICANT EVENTS WHICH OCCURRED AFTER THE END OF THE YEAR

On January 30th 2012 the subsidiary Cynosure, Inc. (NASDAQ: CYNO) announced that the U.S. Food and Drug Administration ("FDA") had authorized the commercial distribution of the Cellulaze™ in the United States. After almost four years of clinical research Cellulaze has been placed in a class of excellence of its own: it is the only procedure which has given clinical proof that it reduces cellulitis in a sole treatment. Cellulaze therefore completes the family of Smartlipo™ systems for body shaping.
After the authorization for the sale of this innovative system, which is the result of collaboration between the research teams of Cynosure and El.En., we expect a significant rise in sales and a consolidation of the leadership position of the Group in the minimally invasive laser-lipolysis applications, in which Cellulaze represents the ultimate device designed specifically for removal of cellulitis.
The President and CEO of Cynosure has stated that Cellulaze is the first and only minimally-invasive system for treating women who have struggled to eliminate cellulitis with diet and exercise or have tried the many lotions and creams now on the market. Unlike these products, Cellulaze is the only device that directly treats the physiological structure of cellulitis and has given clinical proof of effectiveness. It is estimated that about 85% of women over 20 have some kind of cellulitis – small sacks of fat deposited under the surface of the skin, around the hips, thighs and gluteus which produce an "orange peel" effect. According to market research, the treatment of cellulitis constitutes a multi-million dollar business.

On January 31st 2012 the Parent Company sold to third parties its quota of the equity held in Alfa Laser Srl (19%) for the amount of 1.000 Euros.

CURRENT OUTLOOK

The plans for growth which were made for 2011 were in part frustrated by the re-emergence of the economic and financial crisis which occurred last Summer. Although the profit for this period were penalized, in 2011 important M&A operations were concluded by Cynosure, the consolidation of the competitive positions and the launching of some new products took place so that by the end of 2011 the competitive position of the Group had definitely been re-enforced.
Although we are aware of the potential for developing further significant growth in the sales volume, and above all in the revenue, we still believe that caution is necessary in representing the effects that the restrictive fiscal policies and the expectations of a recession could have on the receptivity of the markets: in the European countries these effects have been significant since the second half of 2011, and, particularly in Italy, continued in the first months of the year. The global position of the Group, on the other hand, will allow them to take advantage of those markets that are passing through a more positive phase, chiefly the United States, which would seem to have emerged from the crisis, and China. Never has the outlook for the next few months been more uncertain on account of the overall instability of the economy which affects the prospects for the growth of our organization which we believe is substantially well positioned on the individual markets.

We expert an increase in the volume of business and in earnings of the overall consolidated, also due to the effects of the acquisitions of Cynosure. For the consolidated without Cynosure, in relation to which we always given a forecast, if the present economic situation in Europe continues we believe there will be a growth of around 5% and an improvement in the EBIT. If, on the other hand, unlike 2011, conditions improve in the next few months and with the end of the phase of uncertainty and recession, there is an increase in the availability of cash for investments, we will be able to obtain our objectives which are those of reaching a growth of 10% in the sales volume and an EBIT of over 5% on the sales volume.

DESTINATION OF THE NET INCOME

To our shareholders,
we herewith request that you approve the separate financial statement of El.En. SpA as of December 31st 2011, and we propose that the profits of 1.264.103,00 Euros be allocated to an extraordinary reserve.

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

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP

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

Approved by the Board of Directors during the meeting held on March 15^{th} 2012

Financial year 2011

Interne site: www.elengroup.com

GLOSSARY

“Code”: *Codice di Autodisciplina*: the self-disciplining code for the companies quoted on the stock market approved in March 2006 (and modified in March of 2010) by the Commission for Corporate Governance and promoted by the Borsa Italiana S.p.A. Unless otherwise indicated, the references to standards, criteria and comments are those contained in the 2006 Code;

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

“c.c.”: the Civil Code;

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

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

“Financial year”: the financial period closed on December 31st 2011 which is referred to in the report

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

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

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

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

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

* * *

1. PROFILE OF THE EL.EN. COMPANY

Since December 11th 2000, with the admission of its ordinary stock to the MTA (formerly MTAX, and before that, *Nuovo Mercato*) organized and managed by Borsa Italiana SpA – it has always been the intention of El.En. ("the Company"), apart from any legal obligations and/or regulations, to follow, maintain and perfect the adaptation of its own system of corporate governance in conformity with the suggestions and recommendations of the Code - both in the original version of 1999, revised in 2002 and in 2006, and the latest version in 2011 (for the parts applicable starting in 2011), and identified as the best practice, since it represents a unique opportunity to increase their reliability and reputation in relation to the market.
The company has been part of the Techstar segment since the founding of the segment in 2004 and has been quoted in the Star segment since 2005.

The corporate governance of El.En. consists of a Board of Directors, a controlling body and an assembly.
During the phase of adaptation to the regulations set forth by Legislative Decree n. 6 of January 17th 2003, and the later amendments and modifications, the shareholders of El.En. voted to keep the traditional system of administration and management.

Consequently, the company is currently administered by a Board of Directors which is regulated, in all of its aspects (composition, functions, salaries, powers, representation of the company), by Articles 19 to 23 of the company by-laws and is subject to the control and supervision of a Board of Statutory Auditors which is governed in every aspect by Art. 25 of the by-laws.
The auditing of accounts is conducted by a company that is enrolled in the special CONSOB professional register.
During the assembly held on October 28th 2010 El.En. adopted some modifications in the by-laws that were deemed necessary for compliance with D. Lgs. of January 27th 2010, n. 27 related to the exercising of the rights of shareholders owning stock in companies listed on the stock market, and issued on the basis of the relative European Union directive 2007/39/CE of July 11th 2007 (the so-called *"Shareholders' rights"*)and the D. Lgs. of January 27th 2010, n. 39 related to legal audits of the annual accounts and consolidated accounts issued in implementation of the relative EU 2006/43/CE.

The Board of Directors
The Board of Directors holds full powers for the ordinary and extraordinary administration of the activities related to the pursuit of the aims of the company.
The Board Members were elected by the shareholders' meeting held on April 30th 2009 and, after the vote of approval of the Board of Directors on May 15th 2009, is made up of executive and non-executive members organized in three committees so as to carry out consulting and executive functions in support of the Board: the committees for internal control, for remuneration, and for nominations. Two of the Board members were elected since they possessed the independence requirements as per art. 148-ter TUF.
The board members have legal domicile at the headquarters of the Company for the duration of their mandate.
The executive Board Members retain, in accordance with the vote of the Board of Directors held on May 15th 2009, separately from each other and with independent signature, all of the ordinary and extraordinary administrative powers for achieving all of the aims included in the company purpose, excluding only the attributions which are prohibited from being object of proxy in conformity with art. 2381 of the civil code and the company by-laws. The approval of the financial statement for 2011 represents the end of the mandate.

Since September 5th 2000 the Board has instituted amongst its members the following committees which are composed for the most part, of non-executive members who have the following tasks described below and which are disciplined by the specific regulations:

a) *Nominations Committee for the appointment of the director*, which currently has the task of nominating candidates, receiving proposed nominations from the shareholders, and verifying that the procedure for the selection of candidates respects the company by-laws;
b) *Remuneration Committee*, which has the task of formulating proposals for the amount of remuneration to be paid to the executive Board Members and to those that have particular responsibilities, and, in response to the indications given by the delegated commissions, to determine the criteria for the remuneration of the top executive officials of the company. Following the modification of article 7 of the Code, the Board, on May 13th 2011, formally adapted the regulations of the Remuneration Committee to the new rules with reference to the performance of some of the tasks of the Committee regarding the general policy for the remuneration of the administrators and other strategic figures;
c) *Internal Control Committee*, which has consulting, executive and sustaining functions for the Board of Directors in the realization and the supervision of the internal controls systems and of the evaluations of the proposals of the auditing company. With the vote held on November 12th 2010 the Board integrated the functions of the Internal Control Committee on the light of the role attributed to the independent administrators in accordance with article 4, subsection 3 of the *Regolamento Parti Correlate Consob* and the new company regulations related to operations with related parties approved on the same day. Subsequently, following the changes in the controls pursuant to D. Lgs. 39/2010 and the functions attributed to the Board of Auditors in relation to the evaluation of the proposals made by the auditing companies concerning the performance of these same, as well as the preliminary clarifications provided by Borsa Italiana (notice 18916 of December 21st 2010) concerning the coordinating of the changes in the rules with the contents of article 8 of the Code, with a vote cast on May 13th 2011 the Board adapted the regulations of the committee and conferred to the latter , as far as the legal reviewing of the accounts was concerned, a role that was merely that of a sustaining body.

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

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

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

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

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

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

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

The Board of Statutory Auditors

The Board of Statutory Auditors is the body which, in conformity with the laws and company by-laws, is entrusted with the supervision of the conformity to the laws and to the company by-laws, the respect of the principles of correct administration, of the adequacy of the company organizational set-up related to the specific tasks, systems of internal controls and accounting administration system used by the company and its concrete functioning.

The Board of Statutory Auditors moreover supervises the implementation of art. 19 of D. Lgs. January 27th 2010 n. 39 as well as the means for the correct application of the rules for corporate governance contained in the self-disciplining code and on the conformity with the Consob regulations and the implementation of the company procedures related to dealing with related parties.

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

The present Board of Statutory Auditors, elected by the assembly on April 30th 2010 will remain in office for three financial years and therefore until the assembly called for the approval of the financials for 2012.

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

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

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

Auditing of Accounts

The auditing of accounts (in compliance with art. 155 and following of the TUF in force at the time the task was conferred to the present independent auditors and now replaced by the rules introduced by D. Lgs. 39/2010) is conferred to companies that are enrolled in the CONSOB professional

register; the assembly held on May 9th 2006 conferred the task of auditing the annual report and the consolidated annual report of the company for the financial years 2006-2011, in conformity with art. 159 TUF in force at the time the appointment was conferred, to RECONTA ERNST & YOUNG SpA.
The shareholders' meeting which meets in order to approve the financials for 2011 also has the duty of entrusting the task to a new independent auditors for the financial years 2012-2020.

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

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

On account of the modifications determined by the TUF of the EU law 2004 (L. April 18th 2005, n. 62), in consideration of the EU directives concerning market abuse, and of the later regulating activity in conformity with the CONSOB, since April 1st 2006 the company has been required to conform to the regulations on the subject of internal dealing in particular to articles 114, sub-section 7, *Testo Unico sulla Finanza* and from 152-sexies to 152-octies of the *Regolamento Emittenti*.
Since April 1st 2006, therefore, it has become obligatory to communicate to the public all the operations made on the financial instruments of the company by relevant persons or persons closely connected to them and, consequently, the laws regarding internal dealing contained in the Market Regulations (*Regolamento dei Mercati*) organized and managed by Borsa Italiana SpA, have been abrogated.
As a consequence of this, the Ethics Code adopted in 2003 by the Company was replaced by another document, adopted on March 31st 2006 and later modified on November 13th 2006, which, besides describing in detail the legal obligations, also specifies the time limits or prohibitions for the operations made by the above mentioned subjects.

* * *

2. **INFORMATION ON OWNERSHIP (ex art. 123-bis, sub-section 1, TUF) on December 31st 2011)**

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

The capital stock underwritten and paid out is 2.508.671,36 Euros divided into 4.824.368 ordinary shares for a nominal value of 0,52 Euros each.

The voted capital stock amounts to 2.591.871,36 Euros on account of the decision made by the Board of Directors on July 15th 2008 to authorize the increase in capital as per *ex* art. 2443 c.c. of the shareholders' meeting on May 15th 2008 for use in the employee incentive plan 2008-2013 as described in the Director's report on operations which accompanied the Financial Statement for 2011, in the section titled "Stock Options offered to directors and employees" in compliance with 84-*bis Regolamento Emittenti Consob* on the internet site of the El.En. Group, www.elengroup.com in the Italian version, investor relations sector, assembly and by-laws – Ordinary and Extraordinary assembly April 29th/May 15th 2008 – descriptive report on the assembly.

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

There are no particular restrictions on the transfer of stock.

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

From the information and data available on December 31st 2011 the shareholders listed on the attached Table 1 have significant ownership (over 2%) of the capital stock of El.En.

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

None.

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

None.

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

None.

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

None.

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

None.

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

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

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

- the value of each share determined on the basis of the consolidated shareholders' equity of the El.En. Group as of December 31st of the year previous to the issue of the options;
- the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organised and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options;
- the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organised and managed by the Borsa Italiana SpA in the 30 days prior to the assigning of the options;

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

For further information, see the Director's report on operations for 2011, the section titled "*Stock options offered to directors and employees*".

In relation to treasury stock, on March 3rd 2008, the shareholders meeting, voted to authorize the Board of Directors to acquire treasury stock in conformity with art. 2357 ss. of the Civil Code, within eighteen months of that date for an amount which represents not more than 10% (ten percent) of the capital stock in conformity with the law, at a price which is not more than 20% (twenty percent) less nor more than 10% (ten percent) greater than the official trading price registered for the day preceding the purchase.
The authorization of the shareholders also allows them to authorize the Board of Directors to return the shares to circulation within three years of the purchase date, as long as the price is not less than 95% (ninety-five percent) of the average of the trading official prices registered in the five days preceding the sale, and is in compliance with the regulations governing this type of transaction.
The authorization expired on December 31st 2009 and the Company possessed at this time 103.148 shares of treasury stock.
Upon request of the Board of Directors, the shareholders' meeting convened on October 28th 2010 renewed their authorization for the Board to purchase, in one or more portions, on the regular stock market and, therefore, in conformity with art. 144 *bis*, sub.section 1, letter b) of the *Regolamento Emittenti Consob* and according to the operative means established by the organizational and management regulations of the market issued by Borsa Italiana S.p.A., within 18 months from that date, treasury stock representing a number of ordinary shares which, in any case, considering the shares held in the portfolio, cannot amount to more than a fifth of the capital stock, in compliance to the laws and regulations, at a price that is not less than 20% (twenty percent) more nor more than 10% (ten percent) more of the official price quoted for regular negotiations registered on the day before the purchase. The shareholders also voted to authorize the Board of Directors to put back into circulation the shares within 10 (ten) years from the date of purchase including those already held in the portfolio on October 28th 2010, at a price which is not less than 95% (ninety five

percent) of the average official price for the negotiations registered during the 5 days preceding the sale, all of which must be conducted in compliance with the laws in force at the time.

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

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

* * *

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

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

* * *

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

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

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

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

* * *

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

4. BOARD OF DIRECTORS

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

The appointment of the members of the Board is conducted by means of a vote from lists and is governed by art. 19 of the company statutes as modified by the extraordinary shareholders' meeting held on May 15th 2007 in compliance with art. 147-*ter* comma 1 TUF and the *Regolamento Emittenti* 11971/1999, and the assembly held on October 28th 2010 in compliance with art. 147-*ter sub-section* 1-*bis* introduced most recently by art. 3 D. Lgs. January 27th 2010, n. 27.

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

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

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

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

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

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

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

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

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

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

At least one member of the board must always be drawn from the minority list which received the

largest number of votes. In the case that there are lists which receive the same number of votes, the entire ordinary assembly must vote again and the list which obtains a simple majority of votes will be elected.
If, within the established term, no list has been presented, the assembly will vote according to the relative majority of shareholders present at the assembly.
In the case of a sole list being presented, all of the board members will be elected as part of that list in the order in which they appear on the list.

In the case that no minority list receives votes, the board will be completed by the vote by the relative majority of the shareholders present at the assembly.
Among the candidates the assembly must elect an appropriate number of board members who possess the requisites for independence established for the controllers by art. 148, sub-section 3, D. Lgs. February 24th 1998, n. 58 and by the Codice di Autodisciplina *prepared by the Committee for Corporate Governance of the companies quoted on the stock market promoted by Borsa Italiana s.p.a"*
A Board Member who, after his/her appointment loses the prerequisites for independence must immediately communicate the circumstances to the Board of Directors and, in any case, the appointment is nullified.

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

Moreover, already before the introduction of art.147-ter, sub-section1-bis. TUF, in order to satisfy the interest of most shareholders to know in advance the personal and professional characteristics of the candidates so as to cast a more informed vote, it was decided to anticipate the statutory term for depositing the lists. (6.C.1.).
El.En. Spa is not subject to any other special regulations related to the composition of the Board of directors, in particular those related to the representation of minority shareholders and/or the number and characteristics of the independent directors.

Succession plans (Criteria 5.C.2 of the Code 2011)
The Company does not belong to the FTSE-Mib index.
The term of the present Board of Directors is now expiring; the Board reserves all rights in relation to any evaluation concerning the new board which will be elected at the next shareholders meeting.

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

<u>Current members of the Board of Directors</u>
The current Board which will be in office until the approval of the annual report for the year which ends on December 31st 2011, is composed of the following eight members as determined by the assembly which elected them:

1) Gabriele Clementi – president and executive member;

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

The Board was elected with 56,96% of the voting capital by the shareholders meeting held on April 30th 2009 and, after the vote of the Board of Directors on May 15th 2009, is made up of executive and non-executive members who, in order to carry out the consulting and proposing functions of the Board, are organized in three committees: one for internal controls, one for remuneration and one for nominations and appointments.

For the elections only one list was presented and deposited fifteen days before the assembly and this list contained the names of all the candidates who were subsequently elected.
The list was presented jointly by the following partners: Andrea Cangioli, Gabriele Clementi, Barbara Bazzocchi, Alberto Pecci on his own and as representative of S.M.I.L. di Alberto Pecci & C. s.a.s., Elena Pecci who detains 100% of the usufruct of the quotas of IMMOBILIARE IL CILIEGIO s.r.l., Pio Burlamacchi, Carlo Raffini and Autilio Pini.

The personal data of the board members is listed below:

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

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

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

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

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

PAOLO BLASI – born in Florence on February 11th 1940. He received his degree in Physics from the University of Florence in 1963, in 1971 received a teachers certificate for teaching General Physics. From 1979 o 1982 he was director of the National Laboratories of Legnaro of the I.N.F.N. (*Istituto Nazionale di Fisica Nucleare*); from 1985 to 1989 he was a member of the Directing Committee of the I.N.F.N. and from 1989 to 1991 at the executive joint commission of the same institute; from 1987 to 1996 he was Vice President of the I.N.O. (*Istituto Nazionale di Ottica*). Since 1980 he has been Professor of the "Physics Laboratory" for the university course in physics. From November 1st 1991 until October 31st 2000 he was president (Magnifico Rettore) of the University of Florence. From 1994 to 1998 he was president of the *Conferenza dei Rettori delle Università Italiane* (C.R.U.I.), for two consecutive terms. He is a member of the *International Association of Universities* (I.A.U.) and during the "*10th I.A.U. General Conference in New Delhi*", in February 1995, he was elected member of the Administrative Board for the five year term from 1995-2000, and in 2000 re-appointed until 2004. In August of 1998 he was elected board member of CRE (Association of European Universities) and later was appointed vice president of the same association, up until March 2001. By decree of the Ministry of the University and Scientific Research on February 25th 1999 he was appointed member of the Board of Directors of the C.N.R. (*Consiglio Nazionale delle Ricerche*), and served on the board until 2003. He was elected executive board member of the Banca d'Italia representing the headquarters of Florence and Leghorn, during the Assembly of July 15th 1999 and reappointed in 2003. He has been a member of the Board of Directors of the *Ente Cassa di Risparmio* of Florence since and was re-elected in November of 2000 and in November of 2003. With a decree of the Ministry of Health on October 31st 2001 he was appointed member of the ministerial commission on University Hospitals and served in this position until 2002. From 2000 to 2004 he was a member of EURAB (*European Research Advisory Board*). Since 2003 he has been a member of the *Comité national d'Evaluation des établissements publics à caractère scientifique culturel et professionnel* upon appointment by the President of France.
Since 1970 he has collaborated in the elaboration and discussion of the Proposals for Laws on the University and on Research.
From 1974 to 1977 he was a member of the Board of Directors of the University of Florence.
Since 1981 he has been a member of the *Fondazione Internazionale Nova Spes* (for the Global Development of People and Society) and director of the *Istituto per una Scienza Aperta* of the same Foundation.
From 1983 to 1988 he was director of the Physics Department of the University of Florence and promoted and directed the creation of the *Laboratorio Europeo di Spettroscopie non Lineari* (L.E.N.S.) and of the *Centro Eccellenza Optronica* (C.E.O.).

He was a member of the Board of Directors of the consortium promoting study and research (*Consorzio per l'Incremento degli Studi e delle Ricerche*) of the Physics Institute of the University of Trieste from 1985 to1991.
From 1988 to 2002 he was president of the technical and scientific committee for the evaluation of requests for financing of applied research projects for the development of Southern Italy in collaboration with the *Ministero per gli Interventi Straordinari nel Mezzogiorno* and presently with the ministry for Economic Planning (*Ministero del Tesoro, del Bilancio e della Programmazione Economica*).
In 1993-'94 he was a member of the Committee of Experts of MURST for the formulation of an agreement on Scientific and Technological parks in Southern Italy.
From 1994 to 2000 he was president of the consortium "Ortelius", that created the Data Base for all the institutes of advanced education in the European Union.
From 1994 to 1996 he was a member of the Technical and Scientific Commission of the Ministry of the University and Scientific and Technological Research aimed at identifying the types of intervention required in the economically depressed areas in Italy.
He is a member of the *National Geographic Society*, of the *Forum per i Problemi della Pace e della Guerra*, of the *Centre for the Study of Decorative Arts*, and the *Director's Advisory Committee* of the *Italian Academy for Advanced Studies in America* at Columbia University.
He is now or has been a member of the Board of Directors of various institutions including: Officine Galileo, from 1985 to 1988; Società Galileo Vacuum Tec, from 1988 to 1990; Istituto Nazionale di Ottica (INO), from 1987 to 1996; Fondazione Scienza e Tecnica, from 1987 to 2000; Fondazione "Progettare Firenze", since 1995; Conservatorio di Santa Maria degli Angeli, since 1985; British Institute of Florence, since 1995; Scuola di Musica di Fiesole, since 1996.
He has received several awards like the title of *Commendatore della Repubblica Italiana* (N° 8073 *dell'elenco Nazionale sez. V*), on December 27th 1992; the honorary degree of *Doctor of Humanae Litterae* confered on May of 1997 by the University of New York; in May of 2000 he received the Sir Harold Acton Award from New York University; the title of *Chevalier de l'Ordre National de la Légion d'Honneur was awarded to him in June of* 2000 by the President of France; the honorary degree of *Doctor of Humanae Litterae* was awarded to him in December 2003 by the University of Arizona.

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

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

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

Number and composition of the Board of Directors

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

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

In compliance with art. 2 of the Code (principle 1.P.1.), the present Board of Directors of El.En., is composed of executive directors (including the president) in compliance with application criteria 2.C.1. and non-executive members: of the eight persons that are now board members, three directors including the president are formally executive members (Clementi, Cangioli and Bazzocchi) since they have authorized signature and five (Blasi, Legnaioli, Ferrario, Pecci, Modi) are formally non-executive.
In relation to the board member Modi, please refer to the preceding paragraph.
(2.P.2 and 2.P.3) As far as the non-executive members are concerned, in theory the recommendation contained in principle 2.P.2 related to those cases where the contribution of specific and expert qualifications of the board members are required and that, contained in principle 2.P.3 which, instead, requires a certain availability of time to dedicate to the acquisition of a significant role in the discussions of the board of El.En. would appear to be a contradiction; instead, it is evident that the more qualified these people are the more experience they are gaining now and have gained in the past in contexts that are analogous or more complex.

All things considered, the board members of El.En., notwithstanding the fact that they are outstanding and experienced individuals, still dedicate enough time and thought to their activity as board members to be continually active in the meetings and discussions of the commissions of which they are part. This is particularly true in the case of the two independent directors and of the board member Pecci.
The positions held by non-executive directors in other companies is shown on the following chart:

Name	**Position and name of company**	**Number of large sized companies or those quoted on the stock market (also foreign)**
Michele Legnaioli	• Sole director of Valmarina s.r.l. • Board member of Brain Technology s.p.a • Director of Next Light s.r.l.	0
Paolo Blasi	• Executive advisor of the Banca d'Italia • Board member of the Ente Cassa di Risparmio di Firenze	2
Angelo Ercole Ferrario	• President and executive board member of LASERFIN s.r.l..	0
Alberto Pecci	• President of the Pecci textile group • Board member of KME Group Spa, a company quoted on the stock market.	1

Maximum number of positions which can be held in other companies

During the board meeting held on May 15th 2008, for which the duly transcribed minutes exist, the board expressed their intent in relation to the maximum number of positions as director or auditor which El.En. directors could hold in other companies that are quoted on the regular Italian and foreign stock markets, in financial institutions, banks, insurance companies or others of significant dimensions. During this meeting, the board elaborated their evaluations on the basis of the involvement related to each role (executive, non-executive, independent board member) also in relation to the type and size of the company in which the positions were held as well as the eventuality of their belonging to the El.En. Group and established that their executive board members could not hold positions as directors and/or auditors in more than five companies quoted on the stock market.

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

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

In compliance with art. 21 of the statutes, the Board of Directors is the body to which the most ample powers of ordinary and extraordinary administration are conferred and which is responsible for the management of the company.
In conformity with principles 1.P.1. and 1.P.2, and with art. 20B of the company by-laws, the Board of Directors, meets at least once every quarter in order to receive information from the delegated bodies and, also, to inform the Board of Statutory Auditors on the activity conducted in relation to the operations of major economic and financial importance made by the company and by the subsidiaries, as well as the transactions involving potential conflict of interest, those with related parties, and those which are atypical or unusual with respect to the normal operations of the company.
The fixed schedule for the meetings is planned so as to assure that the Board of Directors is able to carry out their functions in an informed and responsible manner. It also has the purpose of guaranteeing the conduction on the part of the Board of Directors of all the necessary and essential activities of a strategic nature and the verification in relation to the exercising of the powers delegated to them also in reference to the main subsidiaries which are subject to activities of management and coordination which include among the components of their respective controlling bodies one of the executive board members if not the president of El.En. or, in some cases, the president of the scientific-technical commission

The scheduled meetings, moreover, have the purpose of allowing the non-executive board members to acquire all the elements necessary for the evaluation of the organizational, administrative and accounting arrangements both of El.En. and the main subsidiaries, with their actual operations set up by the executive board members (1.C.1. lett. b).
On the other hand, the provision that the incumbent head of the executive board members report to the Board of Directors and to the Board of Statutory Auditors, at least on a quarterly basis, on the activities conducted during the year, on the general trend of the operations and on their foreseeable evolution, as well as on all the main operations of major economic and financial significance performed by the Company or by its main subsidiaries, usually in advance but, in any case, before the next meeting of the Board, not only is required by law in compliance with 150 TUF, but is part of the policy of creating all the conditions necessary so that the Board can evaluate the overall results of the management and periodically compare the results actually obtained with those programmed (1.C.1 lett. e) as well as evaluating the reaction of the management towards situations in potential conflict of interest (1.C.1.lett.b).

In particular, in view of the future approval by the Board and, as a preventive measure, the executive board members, in compliance with art. 20 E mentioned above, must promptly report the operations in potential conflict of interest, those with related parties, as well as those which are atypical or unusual with respect to the normal operations of the company. Moreover, in compliance with Art. 6 of the Internal Regulations for operations with related parties of the Company, the board member who, directly or indirectly, has an interest is required to absent himself/herself from a board meeting during which discussions on this subject are taking place.

During the financial year 2011 the Board of Directors met four times on the following dates:

1. March 15th
2. May 13th (Blasi and Ferrario absent)
3. August 29th
4. November 14th (Blasi absent)

During the financial year 2012, the Board of Directors of El.En. met on the following dates:

1. March 15th

and, on November 14th 2011 established the following calendar of meetings in compliance with the company regulations:

2. May 15th intermediate Director's report on operations as of March 31st 2012;
3. August 29th – Half-yearly Director's report on operations
4. November 14th – Intermediate Director's report on operations as of September 30th 2012.

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

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

It should be noted that, as far as the presence of the single board members at the Board meetings is concerned, three executive directors including the president, must be present unless prevented from attending (because they are at one of the foreign subsidiaries, for health reasons, or in mourning). As far as the independent board members are concerned, unless prevented from attending for the same reasons, they attend the board meetings and participate actively in the discussions.
The exact percentage of attendance for each board member is shown on Chart 2 in the Appendix of this report.

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

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In compliance with art. 20 E of the company statutes, besides the attributions which by law cannot be delegated and are part of the specific duties and functions of the Board, the following activities are reserved as the exclusive right of the Board of Directors:
- establishing the general direction to be taken by the management and overseeing the general trend of the management with particular reference to situations of conflict of interest;
- the study and approval of the strategic, industrial and financial plans of the company and of the structure of the Group of which it is the leader (1.C.1. lett.a);
- the attribution and the revocation of powers to the board members or to the executive committee with the definition of the content, the limits, and the means of exercising them (1.C.1. lett. c), as well as the adoption of measures specifically intended to avoid the concentration of excessive power and responsibility in the management of the company (2.P.4);
- the determination of the amounts of remuneration of the delegated bodies, of the president and the board members charged with special tasks and, in the case that the assembly has not already taken measures in this direction, the subdivision of the overall salary owed to the single members of the Board of Directors and the executive commission (1.C.1. lett. d);
- the creation of committees and commissions, and the establishment of their fields of expertise, attributions and means of functioning, also with an aim to the creation of the form of corporate governance in compliance with the self-disciplining codes for the companies quoted on the stock market. (5.P.1);
- the approval, usually given in advance, of operations of major strategic, economic, and financial importance, with particular reference to the operations with related parties, to those in which a board member has personal interest for himself or for a third party or that are atypical or unusual. (1.C.1 lett. f);
- the verification of the adequacy of the type and size of the organizational, administrative and general accounting structures set up by the delegated bodies (1.C.1 lett. b);
- the appointment of the general managers and the determination of their duties and powers;
- the appointment of agents for single acts or categories of acts.
- the appointment or the revocation, in accordance with the opinion expressed by the Board of Statutory Auditors of the executive responsible for drawing up the company financial documents (art. 154-*bis* T.U.F.)

In implementation of the functions attributed to them by the above mentioned regulation, through the activity initiated and coordinated by the controls commission as well as the half-yearly reports presented by the provost for internal controls and by the director in charge of drawing up the accounting and company documents, during the meetings held on March 15th and August 29th the Board of Directors established by sectors (activities pertaining to L.262/05: means of operating of the legal area, quality control, with particular reference to the critical issues derived from non-conformity, accidents, customers complaints) the adequacy of the organizational, administrative and general accounting structures set up by the executive board members, with particular reference to the system of internal controls and the management of conflicts of interest (Applicative criteria 1.C.1., lett. b).

In relation to the organizational, administrative and general accounting structure of the subsidiary companies with strategic importance set up by the executive directors, with particular reference to the internal control system and the management of conflicts of interest (Applicative criteria 1.C.1., lett. b) as part of the activity of the internal controls commission for 2009, El.En. has identified and has confirmed for the year 2011, Cynosure Inc. as a significant company on the basis of the incidence of several indicators, including its incidence of the total of the consolidated assets and on the consolidated sales. This company, which is quoted on Nasdaq, for this reason is subject to the controls for the evaluation of their compliance with the Sarbanes Oxley Act 404.

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

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

During the board meeting held on March 15th 2011, on the basis of the recommendations of the remuneration committee, the members approved the incentive remuneration plan for 2011 while the various members directly involved absented themselves from the meeting and in compliance with article 7 of the Code, the incentive remuneration plan policy for administrators and directors with strategic responsibilities to be submitted for the approval of the shareholders' meeting. The incentive remuneration plan for 2011 was later confirmed by the assembly on May 13th 2011.

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

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

Art. 20 of the company statutes grants the faculty to the Board to examine and approve in advance all the operations of El.En. and of it subsidiaries in which one or more of the directors have an interest either for themselves or for a third party (Applicative criteria 1.C.1., lett. f).
Moreover, article 6 of the internal regulations for dealings with related parties requires that the Board Member who holds an interest, directly or indirectly, must inform the Board in advance and then absent themselves from the meeting, except in those cases in which they have to remain in order to not compromise the quorum, in which case instead of absenting himself/herself, he/she must abstain from the vote.

Art. 20 of the company statutes grants the faculty to the Board to examine and approve in advance all the operations with related parties, in conformity with those identified on the basis of IAS 24 and *Regolamento Parti Correlate CONSOB*, of El.En., and of its subsidiaries, when these operations have significant strategic, economic or financial importance for El.En. (Applicative criteria 1.C.1., lett. f).

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

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

At the time the proposal is brought before the assembly the Board evaluates the size, composition and functioning of the Board itself and of its committees in terms of determining the number of board members, and subsequently for the division and delegating of functions and the election of the committees (Applicative criteria 1.C.1., lett. g).
During the annual meeting for the approval of the financial, the Board makes a qualitative evaluation of the presence of the requisites for independence of the independent board members which are held to be sufficient also in quantitative terms according to the terms of the Code and the law.

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

4.4. MANAGING DIRECTORS

Executive directors

The Board of Directors now serving, elected by the shareholders' meeting held on April 30th 2009, with the vote cast on May 15th 2009, appointed from among its members, three executive members, one of which is also the president. These members have, separately from each other and with individual signature, all the ordinary and extraordinary powers of administration for the conduction of all activities that are part of the company purpose, excluding only those powers the attribution of which is prohibited in conformity with art. 2381, sub-section 3, c.c. and the company statutes**.**

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

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

For this reason the Board reserves the right to further evaluate the expediency of appointing a *lead independent director* as described in Applicative criteria 2.C.3. or whether to adopt other criteria.
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In fact, to acquire greater manoeuvring space in order to be able to align the company in practice with the recommendations contained in Applicative Criteria 2.C.3., during the definition of the areas of competence pertaining to the Board as per Art. 20 E, the company added explicit reference to the company statutes, the possibility/duty to proceed, upon the attribution of powers to the board members, to the adoption of measures aimed at avoiding in effect the concentration of excessive power and responsibility in the management of the company.

President of the Board of Directors (2.P.5)
In conformity with art. 2. of the Code, art. 20 A of the El.En. company statutes assigns to the President the possibility/duty of organizing the work of the Board, by proceeding with the convocation and the organization of the Order of the Day as well as the coordinating of the Board's activities, the conduction of the various meetings, and the rapid communication of information to the board members so that they can act and decide knowledgeably and autonomously.

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

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

During the board meetings he also makes it a habit to inform and involve the non-executive members in the company activities, the strategies of the Group and the prospects for their long-term realization.
As already described and explained above in relation to the conferring of powers, the Board of Directors at this time does not feel that it is opportune to appoint one of the two independent members as *lead independent director* to collaborate with the president in order to further re-enforce the connection between the executive and non-executive directors.

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

Information given to the Board of Directors

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

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

4.5. OTHER EXECUTIVE BOARD MEMBERS

One of the non-executive board members, Stefano Modi, is also the director of the research and development sector of El.En. and therefore is not qualified as an executive board member as per art. 2381, sub-section 2, c.c., however he is considered “executive for the purposes of the Applicative criteria 2.C.1. and 7.C.1.

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

4.6. INDEPENDENT DIRECTORS

During the meeting held on March 15th 2011 in relation to its non-executive members deemed independent in conformity with art. 147-*ter*, sub-section 4 TUF, the Board evaluated the presence of the requisites for independence bearing in mind compliance with art. 148 sub-section 3 TUF and criteria 3.C.1 and 3.C.2. of the Code.

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

On May 15th 2009, at the first meeting after the election, while forming the internal commissions, the Board decided that the requisites for independence existed in relation to the two non- executive board members elected as such (Applicative criteria 3.C.4.).
The independence of the directors is subsequently evaluated annually during the meeting for the approval of the financial on the basis of information obtained from the directors themselves (3.C.4): according to policy, in fact, the company sends a questionnaire to the two directors qualified as independent which contains the declaration concerning the relations of economic or personal control with the company, the subsidiaries or executives of the company.
In this regard it should be noted that during the approval of the financial for 2011 and of this Report, the Board, in the presence of the Board of Statutory Auditors, on the basis of the information supplied by the independent directors did not find any variation in the conditions and the requisites for independence in conformity with the law and with the Code.

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

As far as Applicative criteria 3.C.6. is concerned, the independent board members who, as mentioned above, participate in all three of the commissions created within the Board, during 2011 did not believe it necessary to convene formal meetings in the absence of the other directors because during the meetings of the commissions, and above all that for internal controls, they have the opportunity to consult and discuss many topics with each other and to have direct access to the management of the company.

4.7. LEAD INDEPENDENT DIRECTOR

El.En. Spa believes that a concentration of company positions in a sole person has not occurred, in conformity with principle 2.P.4, and that none of the three executive board members, including the president, has ever effectively become the sole and principal person responsible for the management of the company. None of them, even if a significant shareholder, is a controlling shareholder.
For this reason the Board of Directors has decided at this time to not proceed with the appointment of a *lead independent director* as per Applicative criteria 2.C.3. and to adopt other delegating criteria.
In fact, to acquire greater manoeuvring space in order to be able to align the company in practice with the recommendations contained in Applicative Criteria 2.C.3., if necessary, during the definition of the areas of competence pertaining to the Board as per Art. 20 E, the company added explicit reference to the company statutes, the possibility/duty to proceed, upon the attribution of powers to the board members, to the adoption of measures aimed at avoiding in effect the concentration of excessive power and responsibility in the conduction of the company.
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5. TREATMENT OF COMPANY INFORMATION

In conformity with art. 4 of the Code, the confidential information is managed by the executive board members so as to guarantee its preservation and diffusion in conformity with the laws now in effect. The information which is not publicly known and which, if rendered public, is of a nature that could significantly influence the price of the financial instruments, is divulged following the specific instructions from the executive board members, in compliance with art. 114 D.Lgs. 58/98, in order to guarantee the parity, punctuality and completeness of the information
In particular, any news related to El.En. is carefully evaluated by the executive directors, along with the employees and collaborators who elaborate the data and are aware of information related to the company, first on the basis of its nature – whether it is confidential or not - and, secondly as to what is the best and most correct means of diffusion.
Moreover, on March 30th 2007 the Board of Directors, on the basis of a proposal made by the executive board members, approved a special procedure called "Regulations for the treatment of El.En. company information" ("*Regolamento per il trattamento delle informazioni societarie di El.En. s.p.a.*") with which, besides putting into practice the above mentioned policy for the diffusion of information, they intend to codify, in a form which is simple but safe and confidential, the internal management of the information and knowledge of special importance for the company activities and the conduction of its functions and, where necessary, in order to prevent illegal behaviour and for the fulfilling of the obligations imposed by law for quoted companies, for the purposes of a correct divulgation of information which is of interest to the stock market, i.e., price sensitive.
The above mentioned regulations were adopted, therefore, with the double intent of preventing, on one hand, an uncontrolled diffusion of information which could compromise the legitimate interests of the company and of its stockholders and, on the other, to insure a correct, rapid and impartial communication to the market of the important sensitive information which, as per art. 181 TUF could significantly influence the prices of the financial instruments issued by the Company which involve El.En. itself or its subsidiaries.

Moreover, following the acceptance by the Italian legislators of the European regulations regarding *market abuse*, this document also includes the rules for the institution and management of the persons who have access to sensitive information in compliance with art. 115 TUF and the relative Consob regulations implementing them.
As already mentioned, moreover, in conformity with articles 2.6.3 and 2.6.4 of the markets organized and managed by Borsa Italiana s.p.a. then in effect, from 2003 until March 31st of 2006, the Company had adopted an internal ethics code for the Group concerning *internal dealing.*
After the modifications made on the TUF by the law on saving (*Legge sul Risparmio*) and the regulations issued by Consob to implement them, the obligation to communicate all operations made by significant subjects as prescribed in the ethics code became law, and the threshold of the operations to be communicated was reduced to 5.000,00 Euros; for this reason it was necessary to adopt a new text for the internal regulations which described the current regulations.
In following the recommendations of Borsa Italiana, El.En. accepted the new ethics code which is called the "Ethics code for operations performed on financial instruments of El.En. by significant persons" ("*Codice di comportamento per operazioni compiute su strumenti finanziari di El.En. s.p.a. da persone rilevanti*") adopted by the Board of Directors after the vote on March 31st 2006 and subsequently modified by the vote on November 13th 2006, the imposition on the significant persons and those closely connected to them, as defined in art. 152-*sexies* Regolamento Consob 11971/1999, to respect a blackout period of 15 days prior to the approval of the financial for the year and the relative intermediate reports.

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

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

6. INTERNAL COMMITTEES OF THE BOARD OF DIRECTORS (ex art. 123-bis, sub-section 2, letter d), TUF) – ART. 5 CODE

Since 2000, and after that at each re-election, the Board has created from among its members three commissions which are supposed to take initiatives and to be consulted.
In conformity with Criteria 5.C.1 the commissions:
a) are all composed of three non-executive members, two of which are independent;
b) are governed by regulations defining their duties and functions approved by the Board of Directors and periodically updated by the Board. As mentioned earlier, they were revised during the adaptations to new regulations or to new internal reorganizations of the company, in December 2003 and in 2007. Further additions were made to the regulations governing the internal controls committee in 2010 and it was also modified in 2011. Additions were also made to the regulations governing the remuneration committee in 2011.
c) the composition reflects the recommendations expressed in the Code and the last time the members were replaced was on May 15th 2009 after the election of the present board;
d) the regulations of each committee state that minutes must be made to record the content of each meeting;
e) the regulations of each committee state that in order to carry out their duties and their functions, the committee has access to the information and company functions necessary for this task, as well as the faculty of consulting outside experts and of disposing of any financial resources placed at their disposal by the Company to the extent required for carrying out the activities with which they have been entrusted;
f) the regulation of each commission states that persons from outside the company may be sent to participate in the meetings when their presence constitutes a useful auxiliary for the conducting of the activities and functions of the commissions.

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7. NOMINATION COMMITTEE – ART. 6 CODE

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

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

The composition has always been in conformity with the Code.

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

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

Moreover, the Board elected on May 9th 2006, voted on May 15th 2006 to appoint all non-executive members to the committee, two of which were independent from the nominations committee appointed by the preceding Board, as did the current Board elected on April 30th 2009 by their vote cast on May 15th 2009; therefore, the current committee is composed of the board members Pecci, Blasi and Legnaioli.

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

In 2009 the committee met on March 31st in view of the elections for the Board which were then held on April 30th. All of the components were present and the meeting lasted for 40 minutes. This year a meeting was held on March 15th in consideration of the renewal of the Board by the assembly which has been called for the approval of the 2011 financials. Although a date has not yet been set, it will in any case be held before the meeting of the shareholders in order to carry out the tasks assigned to it by the regulations in relation to the imminent election of the new board.

The nominations committee this year has been made up mostly of independent directors.

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

Upon invitation by the committee, the secretary and the provost for internal controls participate in the meetings and, when necessary, a member of the Board of Statutory Auditors. (Applicative criteria 5.C.1., lett. f).

In compliance with art. 9 of the regulations of the committee, they are entrusted with the tasks described in art. 6 of the C*odice di Autodisciplina delle Società Quotate*. The committee therefore has the following functions:

a) they must guarantee the transparency of the procedures for the selection of the directors.

b) for the purpose of informing the shareholders in advance about the personal and professional characteristics of the candidates which make them, in the opinion of the nominators, suitable for the appointment, they preside over the appointing procedures in compliance with art. 19 of the company by-laws.

c) they can receive proposals from the shareholders as well as making their own proposals;

d) to the Board of Directors they can propose candidates for the position of director in conformity with art. 2386, first sub-section, c.c., in the case that it is necessary to replace an independent director; (Applicative criteria 6.C.2., lett. a)
e) they can indicate candidates for the office of independent director to be submitted to the shareholders' meeting, bearing in mind any suggestions that might be made by the shareholders; (Applicative criteria 6.C.2., lett. b)
f) they can give their opinion to the Board of Directors concerning the size and composition of the Board as well as in relation to any professional figures whose presence on the committee would be useful. (Applicative criteria 6.C.2., lett. c).
When carrying out their functions and duties, the commission has the concrete possibility of gaining access to the company information and operations necessary to conduct their activity, as well as making use of outside advisors and any financial resources put at their disposal by the Company to the extent that is necessary to carry out the tasks which have been assigned to them.
During 2009, the committee in particular presided over the procedures for nomination in conformity with article 19 of the statutes. During this financial year the nominating committee has not had to intervene since there were no occasions which required appointments or replacements of directors.

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

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

8. REMUNERATION COMMITTEE – ART. 7 CODE

In order to guarantee the most complete information and total transparency in the remuneration paid to the directors, in 2000 the Board of Directors created the remuneration committee from among its own members (Principle 7.P.3.).

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

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

During the meeting held on May 15th 2009, the current Board confirmed the members of the preceding committee. Therefore, at this time the committee is composed of three members all of which are non-executive and two of which are independent.

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

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

Number of meetings held by the committee during this year: 1 (one).

Average duration of the meetings: 45 minutes.

Presence of each individual member at the meetings of the committee: refer to Table 2.

Number of meetings scheduled for the current year: 1 (one) one of which was held on March 15th .

The outgoing committee, considering the imminent expiration of their mandate, has not scheduled any further meetings.

This year the remuneration committee met on March 15th.

During 2011 the committee was composed of non-executive members, most of which were independent. (Principle 7.P.3.).

During 2011 the remuneration committee was composed of at least three members (Applicative criteria 5.C.1., lett. a).

The salaries of non-executive and independent directors were voted by the assembly and since the committee is composed only of non-executive directors, the executive directors to which the remuneration proposals refer do not participate in the meetings of the commission in which the proposals of the committee are made concerning their own salaries. (Applicative criteria 7.C.4.).

The secretary and the provost for internal controls participated in the meetings of the remuneration committee upon invitation from the committee and in relation to the specific subjects being dealt with. (Applicative criteria 5.C.1., lett. f).

Functions of the remuneration committee

The remuneration committee has the functions that were assigned to it by the regulations approved by the Board of Directors and revised the last time on May 13th 2011, which consist in the tasks described in art. 7 of the Code. Its role, consequently, is to advise and to propose:

- the commission periodically evaluates the adequacy, the overall consistency and the concrete application of the general policy adopted for the remuneration of the executive directors, the other directors who have special functions, and the executives with strategic responsibilities, supervises their application on the basis of information supplied by the executive directors and transmits general recommendations to the Board of Directors;
- presents to the Board of Directors proposals for the remuneration of the executive directors and the other directors who have special functions as well as setting the performance objectives related to the variable component of this remuneration; it also monitors the application of the decisions adopted by the board and, in particular, verifies that the performance objectives have actually been achieved.
- reports to the shareholders on the manner in which they have carried out their functions;

In making their recommendations, the committee may stipulate that a significant part if the overall salaries of the board members, as well as those of directors with strategic responsibilities, be dependent on the economic results of the Company and to the reaching of certain objectives specified in advance by the Board of Directors and consistent with the incentive remuneration policy approved by the shareholders' meeting.

During 2011 the remuneration committee was involved chiefly in evaluating what had occurred with the incentive salary plan for 2010 and in the definition of a proposal for the remuneration policy of incentive salaries and the incentive salary plan for 2011. Consistently with the definition of the 2011 plan and the incentive policy directives, the commission established the amount to be set aside as an incentive remuneration for the executive directors and the directors with strategic responsibilities which is to be submitted to the shareholders' meeting for approval.

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

When carrying out their functions and duties, the remuneration commission has access to the company information and operations necessary to conduct their activity, as well as making use of outside advisors according to the terms established by the Board. (Applicative criteria 5.C.1., lett. e).

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

9. REMUNERATION OF THE DIRECTORS

The contents of the report on remuneration published in compliance with art. 123 *ter*-TUF and art. 84-quarter of the Consob regulations should be added on to the information which follows. This information is available on the El.En. site: www.elengroup.com/investor relations/assemblee, company by-laws and documents.

* * *

The Board has defined the guide lines for the incentive policy for the executive directors and the directors with strategic responsibilities (7.P.4.) which they have submitted for the approval of the shareholders' meeting during the meeting for the approval of the 2010 financials.
The variable component is adequately determined in relation to the set portion of the remuneration of the above mentioned persons.
The payment of the variable component which has been accumulated will be paid during the subsequent financial year.

Remuneration plans based on stocks
There are none.

Remuneration of the executive directors
A significant portion of the salaries of the executive directors depends on the earnings of the Company and/or reaching certain goals specified in advance by the Board (Applicative criteria 7.C.1.) proposed by the remuneration committee consistently with the incentive policy, for which the guide lines and the maximum amount which can be paid out, were approved by the share holders' meeting on May 13th 2011 (7.P.2).

The incentive remuneration plan proposed by the Board on March 15th was later definitively confirmed by the Board on May 13th, after the approval of the shareholders' meeting.

Remuneration of directors with strategic responsibilities
In relation to the directors with strategic responsibilities (Applicative criteria 7.C.3.), at this time the Board of Directors of El.En. has identified only one director with strategic responsibilities who is also a board member and therefore also qualified as executive in compliance with art. 2 (applicative criteria 2.C.1). This person, like the other executive directors is the recipient of an incentive remuneration adopted in accordance with the general policy described above. This person, moreover, has benefitted from his position as an employee and not as a board member, from the employee incentive plan for 2008-2013 described in the Director's report on operations which accompanied the financials for 2011, in the section titled "*stock options offered to directors and employees*" in compliance with art. 84-*bis* of the *Regolamento Emittenti Consob* on the internet site of El.En., www.elengroup.com, Italian version, "*sez. investor relations – assemblea*".
The Board of Directors decided to assign an incentive remuneration to the president of the technical-scientific commission who, although he is not a director of El.En. is considered a figure of strategic importance in consideration of the fact that the main characteristic of the business of the company is that it is based on research.

Incentive mechanisms for the prevost for internal control and the director of the financial reports
The incentive mechanisms directed at the provost for internal controls and the director who manages the compilation of the financial reports company are established by the managing director of internal controls and are deemed to be consistent with the roles that are assigned to them (*applicative criteria 7.C.3*.).

Remuneration of the non-executive directors

The remuneration of the non-executive directors is established by the shareholders meeting at a set sum and is in no way connected to the economic results of El.En. (Applicative criteria 7.C.4.).

The remuneration of the non-executive directors is represented by the base salary established by the shareholders' meeting for all of the board members when they are appointed and currently amounts to 12.000,00 Euros a year.
The non-executive directors are not included in the incentive plans involving stock options (Applicative criteria 7.C.4.).

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

Except for the severance pay indemnity established by the assembly in compliance with art. 17 of the TUIR, at the moment of appointment of the president or the executive board members for a maximum amount of 19.500,000 Euros a year, no agreements have been stipulated between El.En. and the directors concerning an indemnity in case of resignation or dismissal/discharge without just cause or if the relationship with the Company ceases on account of an offer of public acquisition.
At this time there are no further rights assigned in relation to the severance pay indemnity described above, there are no agreements that stipulate the assignment or maintenance of non-monetary benefits in favor of subjects who have terminated their employment, nor consulting contracts that have been stipulated for a period following the termination of employment; no agreements exist in relation to payments for non-disclosure agreements.

10. INTERNAL CONTROLS COMMITTEE OF THE BOARD OF DIRECTORS

In 2000 the Board of Directors created the internal controls commission from among its own members (Principle 8.P.4.) the independent members of which were confirmed when the mandate was renewed on November 13th 2003 and May 9th 2006; on May 15th 2006 its third component, again a non-executive member, Alberto Pecci, was appointed. On May 15th 2009 the Board confirmed as members of the commission three non-executive members, two of which were independent.

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

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

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

During this year the commission met twice, on March 15th , and on July 28th.

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

For the current year a meeting has been held on March 15th and another is scheduled for August 29th.

In 2011 the internal controls commission was composed of non-executive directors, most of whom were independent (Principle 8.P.4.).

In 2011 the internal controls commission was composed of at least three members (Applicative criteria 5.C.1., lett. a).

All of the members of the internal controls commission have experience in the fields of accounting and finance which the Board felt was adequate at the time of the appointment (Principle 8.P.4).

The Board of Auditors, the director in charge of drawing up the financial statements, the executive director of internal controls, the secretary and the provost for internal controls, participated in the meetings of the internal controls commission upon invitation by the commission and where necessary in relation to single subjects in the order of the day (Applicative criteria 5.C.1., lett. f).

Functions attributed to the commission for internal controls

According to the regulations last modified on May 13th 2011, the commission is responsible for the tasks described in art. 8 of the Code, as well as those derived from the CONSOB *Regolamento Part Correlate* regarding the regulations for dealings with related parties.

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

Consequently, starting on December 31st 2011 the committee has been assigned those tasks described in the *Regolamento Consob* 17221/2010 related to operations with related parties and those mentioned in art. 8 of the *Codice di Autodisciplina* for listed companies.

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

(a) examines, analyzes and expresses an opinion in advance on the procedures and on the relative modifications adopted by the Board of Directors in relation to operations conducted with related parties;
(b) carries out the tasks which have been assigned to it in those procedures in relation to the instruction and examination of the operations with related parties governed by these same procedures

Moreover, in relation to art. 8 of the Self-disciplining Code (*Codice di Autodisciplina delle Società Quotate*), in offering advice and proposals, it must analyze the problems and implement the practices for the control of the company activities and in particular, as far as is compatible with the functions attributed by the law to the Board of Statutory Auditors of companies listed on the stock market, it must:

a) assist the Board of Directors in defining the directives for internal control, in the periodic evaluation of the adequacy of the system, of the efficiency and effectiveness of the system, as well as the verification activity aimed at the identification and management of the main risks involving the company and its subsidiaries, and the determining of compatibility criteria for the risks which have been identified involving the company or its subsidiaries, through a sound and correct management of the company.
(b) evaluate, together with the executive who draws up the company accounting documents and the auditors, the adequacy of the accounting principles being used and their consistency in relation to the drawing up of the consolidated statement of the Group;
(c) express, upon request of the executive director appointed for this purpose, opinions on certain aspects related to the identification of the main risks for the company, as well as the planning, implementing and management of the internal controls system;
(d) examine the work plan set up by the provosts for internal controls as well as the periodic reports that they issue;
(e) assist the Board of Auditors, when specifically requested, in the evaluation of the proposals formulated by the auditing company in order to receive the assignment; evaluate the work plan set up for the auditing and the results displayed in the report and the letter with suggestions;
(f) assist the Board of Auditors, when specifically requested, in the supervision of the effectiveness of the auditing process;
(g) report to the Board, at least twice a year, on the occasion of the approval of the financial and the half-yearly report, on the activity conducted and on the adequacy of the system of internal controls;
h) carry out the other tasks which from time to time may be assigned to it by the Board of Directors.
During 2011 the commission evaluated, in particular, the progress being made in relation to L. 262/2005 and the means being employed for protection in the legal area, the quality control system, and, in particular, the management of critical situations derived from non-compliance, accidents, client complaints.
The Board of Auditors also participates in the work of the internal controls committee (Applicative criteria 8.C.4.).
Normally the meetings of the commission for internal controls are recorded in the book of minutes (Applicative criteria 5.C.1., lett. d).
When carrying out its functions, the commission for internal controls may have access to the company information and operations which are necessary for it to conduct its activities, and it may also, when opportune, consult with outside experts, in accordance with the terms established by the Board. (Applicative criteria 5.C.1., lett. e).
At this time the committee has not found it necessary to make use of outside consultants or to use the special financial resources provided for carrying out its duties.

11. INTERNAL CONTROLS SYSTEM

While mandating the various bodies involved in the system of internal controls (executive director, provost, commission, etc.) the Board has defined the various directives of the internal controls system in such a way that the principal risks pertaining to El.En. and its subsidiaries are correctly identified, adequately measured, managed and monitored, and, at the same time, the criteria for the compatibility of these risks with a sound and correct management of the company is determined (Applicative criteria 8.C.1, lett. a)

The essential elements of the system of internal controls (Applicative criteria 8.C.1, lett. d) of El.En. set up and used in order to guarantee a sound and efficient management for the purpose of proceeding with the identification, prevention and management, as far as possible, of any risks of a financial or operative nature which might involve the company, are represented, on the one hand by the rules and procedures, and on the other, by the bodies for corporate governance and control.

The rules consist mainly of a series of fundamental principles which El.En has always adopted for its operations and which, in 2008 where codified in the Ethics Code; secondly, they consist of a series of second level procedures (those in *ex* Legislative Decree 231/01, L.262/05, L.81/09, internal regulations on the treatment of confidential information, operations with related parties, internal dealing, etc.) which make it possible to apply them to the specific situation of the company and to implement the above mentioned general principles.
On the other hand, the internal controls commission, the provosts for internal controls, the executive responsible for the company financial documents, the supervising bodies 231, the Board of Statutory Auditors, the auditing company are all charged with the supervision of the compliance, with the rules and procedures on the basis of the competence and functions defined and attributed by the Board, of the rules and different bodies at their respective levels.

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

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

Initially, El.En. instituted a task force with the objective of analysing the system of internal controls with reference to the tasks assigned by law to the executive responsible for the accounting and company documents collaborating with Price Waterhouse Coopers company (a company which is different from that which audits the books of El.En.).
The analysis was conducted using as a model the CoSo Report – Internal Control Integrated Framework and upon conclusion of the project a report was written which summarized the results which had emerged; on the basis of these results they identified the specific instruments to apply in order to guarantee the coordination and functioning of all the elements of the SCI which were related to information and data on the economic and financial situation of the company, in compliance with the law and/or diffused on the market.

Since that time, the provost has carried out this activity with an aim to continuous improvement and constant verification of the instruments being used.

Through the activities implemented and coordinated by the internal controls committee, as well as the reports presented periodically by the internal controls provost and the superintending institution 231, during the meetings held on March 15th, May 13th , August 29th , and November 14th , the Board evaluated as adequate the efficiency, effectiveness and correct functioning of the internal controls system (Applicative criteria 8.C.1., lett. c).

11.1. EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROLS

The Board has appointed Andrea Cangioli as executive director in charge of supervising the functioning of the internal controls system (Applicative criteria 8.C.1., lett.b).
In the name of the Board of Directors, he is in charge of the supervision of the functioning of the internal controls system and carries out the tasks and the functions as per the Code and in particular: the identification of the main risks for the company (strategic, operative, financial, compliance), bearing in mind the characteristics of the activity conducted by El.En. and by its subsidiaries, and submits them for periodic examination by the Board (Applicative criteria 8.C.5., lett. a); implementing the directives defined by the Board of Directors, including the planning, activation and management of the internal controls system and constant verification of its adequacy, effectiveness and efficiency (Applicative criteria 8.C.5., lett. b); adaptation of the system to the dynamics of the operating conditions and the legislative and regulating situation (Applicative criteria 8.C.5., lett. b); proposing to the Board of Directors the appointment, dismissal or remuneration of one or more provosts for internal controls (Applicative criteria 8.C.5., lett. c).

11.2. PROVOST FOR INTERNAL CONTROLS

Since 2000 the Board has appointed one or more persons to verify that the internal controls system is always adequate, fully operative and functioning (provost(s) for internal controls) (Applicative criteria 8.C.6., lett. a).
The current provosts for internal controls are Cristina Morvillo and, exclusively in relation to the drawing up of the financial statements, Lorenzo Paci' the appointment of which occurred on the basis of the executive director in charge of supervising the systems for internal controls and the opinions expressed by the internal controls commission (Applicative criteria 8.C.1.).

The Board is the body in charge of the remuneration of the provost(s) for internal controls; consistent with the company policy, upon proposal from the executive director in charge of supervising the functions of the internal controls system and, on the basis of the opinion expressed by the commission for internal controls, the Board established the salary. (Applicative criteria 8.C.1).

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

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

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

During 2011 the activities of the provost for internal controls were concentrated mainly on coordinating the various systems used for internal controls, with particular reference to D. Lgs. 231/2001, on the implementation of the procedures related to the organizational model being adopted, on the protective measures in the legal area and on the quality system with particular reference to the management of non-conformity, accidents and customer complaints.

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

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

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

El.En. has a model for organization, management and control in compliance with Legislative Decree n. 231/2001.
As far as the subsidiaries of strategic importance are concerned, Cynosure Inc. is subject to US law and therefore cannot be evaluated in relation to the adoption of model 231.
The model has already been adopted by the subsidiary ASA srl and is now in the process of being adopted by the subsidiary Deka M.E.L.A. s.r.l..

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

11.4. INDEPENDENT AUDITORS

The auditing of the books in conformity with art. 155 ss. TUF in force at time of the appointment, now replaced by the laws introduced by D.lgs 39/2010) is done by an auditing company enrolled in the professional registry of CONSOB; the assembly held on May 9th 2006 appointed RECONTA ERNST & YOUNG s.p.a for the auditing of the financial statements for the year and the consolidated financial statement of the Company for the years 2006-2011, in conformity with art. 159 TUF, in force at the time. The mandate of the firm expires when the financial statement for 2011 is approved. The shareholders' meeting will then have to appoint a new company as auditor in compliance with articles 13, 17, 19 D. Lgs. 39/2010.

11.5. MANAGER CHARGED WITH PREPARING THE COMPANY'S FINANCIAL REPORTS

The executive in charge of drawing up the accounting and company documents is Enrico Romagnoli who is the manager of the accounting office of El.En. and also has the position of head of Investor Relations.
The executive in charge of the accounting documents is appointed according to the statutes by the Board of Directors and in compliance with art. 20 G must possess all of the requisites of honesty in accordance with the law for auditors and directors and the professional characteristics and requisites both in terms of education and formation but also in terms of experience in the work place which are adequate for the tasks assigned to him.

The provost in charge of the accounting documents has access to all the powers and means that are necessary for conducting this activity.
The principles and the means that are implemented by the provost are described in detail in Appendix 1.

12. INTERESTS OF THE DIRECTORS AND OPERATIONS WITH RELATED PARTIES

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

The Board, moreover, in conformity with art. 2391-*bis* of the Civil Code and the recommendations of art. 9.C.1 of the Code, on March 30th 2007 adopted a special procedure called "*Regolamento per la disciplina delle operazioni con parti correlate di El.En. s.p.a.*" (El.En. Regulations for the operations with related parties) has been revised, and contains the rules which govern the approval and conducting of operations initiated by the company, either directly or through one of the subsidiary companies, with parties with which there is a pre-existing equity investment, a professional or employee relationship, or a close family relationship which could condition the conclusion, regulating or substance of a contractual relationship. This set of rules has rendered, in formal terms, the intent which, in any case, in the past has always been followed by the Company, to act in such a way as to guarantee that the performance of operations with related parties (meaning also the operations in which the correlation exists on account of the interest of an director or an auditor for himself or for a third party) takes place with the greatest transparency and correctness both in substance and in procedure.
The Company and its directors in any case must act and conform to the regulations of the Civil Code concerning this subject (articles 2391 e 2391-*bis*).
Moreover, the specific procedure controlling the relations with related parties and the existence of conflicts of interest which involve the administrative and controlling bodies is contained in the manual of administrative and management procedures, in force since 2000.
This procedure specifies that the provost for internal controls must proceed every six months with the verification, by means of interviews with the members of the Board of Directors and the Board of Statutory Auditors, of the existence of other related parties or of situations which might determine a conflict of interest.
In practice, this verification is conducted by means of a written interview consisting of a questionnaire which is filled out and signed by the above mentioned officers and kept in a file by the provost for internal controls.
The procedure approved by the Board contains the criteria for identifying the operations which must be approved by the Board after the opinion of the internal controls commission has been expressed. (Applicative criteria 9.C.1.).
Besides the regulations on this subject contained in the statutes (art. 20 E) and the internal regulations according to which, in particular, the executive board members are required, in conformity with the above mentioned art. 20 E, in view of the necessity of approval in advance, to immediately call attention to operations potentially in conflict of interest, those with related parties, and those which are atypical or unusual with respect to the normal operations of the company, in a review of the internal Regulations, and in particular of art. 6, the Board decided that a board member having an interest of his own or on behalf of a third party in a specific operation must reveal this information in advance at the meeting which has been called to deliberate this subject and that he/she must absent themselves from the meeting (Applicative criteria 9.C.2).

13. APPOINTMENT OF STATUTORY AUDITORS

In conformity with art. 144-*sexies Regolamento Emittenti Consob* and art. 10 of the Code, principle 10.P.1. and applicative criteria 10.C.1, as well as art. 148, sub-section 2 TUF as last modified by D.Lgs. 27/2010 art. 25 of the company statutes the following procedure must be applied for the appointment of the auditors.

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

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

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

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

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

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

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

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

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

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

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

In the case that there is more than one list, for the election of the members of the Board of Statutory Auditors the procedure described below must be followed:

a) the votes obtained by each list must be divided by one, two, three, etc. according to the progressive number assigned to each candidate;

b) the quotients that are thus obtained must be assigned progressively to the candidates of each list

in the order in which they appear on the list and they will placed in a single classification in descending order.
c) the candidates that receive the highest quotients will be elected.
At least one acting Auditor must be taken from the minority list which obtained the greatest number of votes. Consequently, in the case that the three highest quotients were obtained by candidates belonging to the majority lists, the last acting auditor to be elected must, in any case, be taken from the minority list which obtained the most votes, even though he obtained a quotient that was lower than that of the majority candidate with the third highest quotient.
In the case in which the candidates have obtained the same quotient, the candidate on the list which has not yet elected any Auditor will be elected, or in the case that all the lists have elected the same number of Auditors, the candidate on the list which obtained the greatest number of votes will be elected. In the case of the same number of votes for the list and the same quotients, a new election will be held by the entire ordinary Assembly, and the candidate who receives the simple majority of votes will be elected.
The presidency of the Board of Statutory Auditors is assigned to the acting Auditor elected first on the minority list who has obtained the greatest number of votes, or, if there is no minority list, to the acting auditor elected first from the list which received the greatest number of votes. In the case of the substitution of the acting Auditor, he will be replaced by the substitute Auditor belonging to the same list as the one who is being replaced.
In the case that no list has been presented before the expiration date, the Assembly will vote with the relative majority of partners present at the Assembly.
In the case that only one list has been presented the acting and supplementary auditors will be elected from that list in the order in which they appear on the list.
In the case that no minority list receives votes the integration of the Board of Statutory Auditors will take place by means of a vote with the relative majority of the partners present at the Assembly.
The appointment of the Auditors for the completion of the Board in conformity with article 2401 c.c. is made by the relative majority of the Assembly.

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

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

They must act with autonomy and independence also in relation to the shareholders who have elected them (10.P.2.): the current Board comes from a single list presented by Andrea Cangioli, since no other lists were presented at the time of the elections held on May 15th 2007.
The company constantly places at their disposal their staff and the resources which the Board deems useful in order to conduct their functions in conformity with the current version of art. 25 of the statutes.
As already mentioned, for the purposes of implementing Applicative Criteria 10.C.7, the statutory board of auditors participates regularly and actively in the meetings and the activities of the internal controls commission and collaborates with the provost for internal controls. The acting auditor, Dr. Paolo Caselli, moreover, in accordance with the vote made by the Board on March 31st 2008 and confirmed on May 14th 2010, is also a member of the supervising body as per *ex* D.Lgs. 231/2001.

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

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

The current Board of Statutory Auditors was elected by the Assembly on April 30th 2010 and their term will end upon the approval of the financials for 2012.
The Board is composed of three acting auditors and two supplementary auditors:

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

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

duodecies and following) are considered ineligible and dismissed if they are candidates or elected auditors.

As of December 31st 2011 the components of the Board of Statutory Auditors of the company were also members of the controlling bodies of the following subsidiary companies:

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

The average duration of the meetings of the Board of Statutory Auditors is 2,5 hours.
The number of meetings of the Board of Statutory Auditors scheduled during this year is four, two of which have already been held (on January 10th and March 15th 2012).

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The Board of Statutory Auditors:

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

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

- while conducting the evaluations mentioned above, applied all of the criteria stated in the Code with reference to the independence of the directors (Applicative criteria 10.C.2.).

An auditor who, either for himself or for a third party has an interest in a particular operation of El.En. must inform immediately and in detail the other auditors and the president of the Board concerning the nature, terms, origin and extent of his interest and in compliance with art. 6 of the internal regulations for operations with related parties, must leave the meeting which is voting in this regard. (Applicative criteria 10.C.4.).
The Board of Statutory Auditors supervised the independence of the auditing company and verified both that the regulations are followed as well as the nature and entity of the different services for controlling accounts rendered to El.En. and to its subsidiaries by the same auditing company and by the entities belonging to its network (Applicative criteria 10.C.5.).
The Board of Statutory Auditors is coordinated in its activities with the functions of the internal audit and with the internal controls commission (Applicative criteria 10.C.6. and 10.C.7.).

The Board of Statutory auditors has continued among other things to exert its control on the operations with related parties and to actively participate as one of the components of the supervising body *ex* D. Lgs. 231/2001; it has also carried out the functions attributed to it by D. Lgs. 39/2010 with particular reference to the selection of the auditing company to be proposed as successor to the present one whose mandate is about to expire.

15. RELATIONS WITH SHAREHOLDERS

El.En. has created a special section in its Internet site which is easy to find and to access and which contains all of the information concerning El.En. which is of importance to its shareholders so that they can gain the knowledge they need to exercise their rights (Applicative criteria 11.C.1.).

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

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

In conformity with art. 11 of the Code, the Board of Directors endeavours to encourage the participation of the shareholders in the assemblies and to facilitate the exercising of the rights of its partners also by creating a continuous dialogue with them. The Board of Directors endeavours to set a convenient time, date and place (usually the company headquarters) for the meetings and to comply rapidly with the requirements set by law in relation to the convening of the assembly, the communication that the assembly has been convened, and the participation of the shareholders at the assembly.
In conformity with the Code, all of the directors normally attend the assemblies and, during the assemblies all of the information and news concerning El.En. are communicated to the shareholders, naturally in compliance with the regulations related to price sensitive information.
The president of the Board of Directors and the executive board members have unanimously agreed to appoint one of the employees, Enrico Romagnoli, to be responsible for the relations with institutional investors and the other shareholders. The *investor relations manager* is part of a company department which is composed of employees who elaborate accounting and administrative documents and information (11.C.2).

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

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

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

"***Article 11***

Assembly

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

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

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

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

Article 12

Place of asssembly

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

Article 13

Convocation of the Assembly

The Assembly is convoked normally by the Administrative body, in conformity with the relative regulations, by means of a notice which is published, in accordance with the law, on the internet site of the company and in the daily newspaper "LA NAZIONE" (except in those cases where the law states otherwise).

The notice must state the day, the time and the place where the meeting is being held and the list of subjects which will be discussed.

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

Article 14

Attendance at the Assembly

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

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

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

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

Article 15
Presidency of the Assembly

The Assembly is presided over by the President of the Board of Directors or, if he is absent or impeded, by the Vice-President; if neither of them are present, then by the person elected with the greatest majority of votes by the shareholders present.
The Assembly elects, even among the non-shareholders, a Secretary and, if deemed necessary, scrutinizers.
The presence of a secretary is not necessary if the minutes are kept by a notary.
The President of the Assembly has the duty of verifying that the meeting complies with regulations and of ascertaining the identity and legitimate rights of those present. Once the validity of the constituents of the Assembly has been certified, it cannot be invalidated because some of those present have left the meeting.
The President also has the task of presiding over the regular conduction of the meeting of the Assembly, directing and moderating the discussion and establishing, when necessary the duration of each intervention, determining the methods and order for voting and ascertaining the results, all in conformity with the regulations which, formulated by the Board of Directors and approved by the ordinary Assembly can govern the orderly and functional activity of the meeting both in ordinary and extraordinary assembly.

Article 16
Minutes

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

Article 17
Ordinary Assembly

For the first convocation the ordinary assembly is considered to be duly constituted when the number of shareholders present represents at least half of the capital stock calculated in conformity with art. 2368, sub-section 1, c.c.; the assembly votes by absolute majority. For the second convocation the ordinary assembly, whatever the portion of capital stock represented is, votes according to the absolute majority of those present on the subjects which should have been decided earlier.
For appointment of the Board of Statutory Auditors the regulations as per Art. 25 of the present Statute must be observed.
In conformity with the laws and regulations, write-in votes are allowed.

Article 18
Extraordinary Assembly

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

In particular, since 2000 El.En. has included in its Statute the possibility for its shareholders to use write-in votes (absentee ballots) and this has been mentioned in every notification of convocation of assembly along with the instructions for casting the write-in vote (11.C.1 e 11.C.3).
The notifications of convocation of assembly and the relative courtesy communications concerning

the actual date of the meeting are published both on the Internet site of the company and in a national daily newspaper.
The president of the Board of Directors, who generally presides over the assembly, must proceed with a detailed description of the proposals and the subjects in the Order of the Day of the shareholders' meeting (11.C.4) in such a way as to guarantee that the assembly is conducted in an efficient and orderly fashion. For this purpose, the shareholders meeting held on May 15th 2007 approved the assembly regulations drawn up by the board (11.C.5), which were later modified on May 13th 2011 in the part related to attendance at the assembly. In fact, the modification made on article 14 of the company by-laws which was approved by the shareholders' meeting on October 28th 2010 after the innovations introduced by lawmakers with D. Lgs. No. 27 of January 27th 2010 in relation to article 2370 C.C. regarding the right to attend the assembly and exercising of the right to vote, and the introduction of art. 83-sexies TUF, a rule which established the so-called record date, made it necessary also to revise the current assembly regulations.

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

Art. 1 – Subject and area of application

This set of regulations governs the orderly and efficient conduction of the shareholders' meeting of El.En. s.p.a. ("the Company") both for the ordinary and extraordinary assemblies.
The regulations can be consulted at company headquarters or on the Internet site of the Company (www.elen.it investor relations section) as well as whenever an assembly meets.

Art. 2 – Place and presidency of the assembly meetings

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

Art. 3 – Attendance at the assembly

3.1. The right to attend the assembly is governed by article 14 of the Company by-laws according to which the persons who may attend the assembly are: the shareholders and those who have a legitimate right to attend the assembly, who possess the right to vote on the condition that, they have made the deposit for the number of shares possessed within the established term and following the methods required by law.
3.2. Upon invitation by the president, the employees of the Company, consultants and representatives of the company in charge of auditing the accounts may attend the assembly meetings when their presence is considered useful or opportune in relation to the subjects to be discussed or the work to be conducted.
3.3. Experts, financial analyst, and journalists, with the consent of the president, may also attend the meetings of the assembly unless there are objections on the part of the shareholders present. For this purpose, those who wish to attend must send the president a written request by the second weekday before the date set for the assembly.
3.4. Before starting the description and discussion of the various items in the Order of the Day, the president must inform the assembly of the presence and participation in the meeting of those persons indicated in sub-sections 3.2.ande 3.3. above.

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

4.1. Only the approved and authorized persons, as per article 3 above, after showing personal identification and verification of their legitimate right, may have access to the assembly rooms
4.2. The personal identification and verification of the legitimate right to attend the assembly must be conducted by auxiliary personnel hired specifically for this purpose, at the entrance to the rooms

where the meeting will be held and normally take place during the thirty minutes prior to the time set for the beginning of the meeting, unless otherwise stated in the notice of convocation.

4.3. at the entrance to the meeting rooms those persons who have the right to attend the assembly must display personal identification and the certification described in the notice of convocation to the auxiliary personnel. Once the identification and the verification has taken place as per sub-section 4.2. above, the auxiliary personal will give the attendees a special voucher which they must keep for the duration of the assembly meeting and return to the auxiliary personnel should they leave the meeting, even temporarily.
4.4. In order to facilitate the verification of the powers of representation to which they have the right, the persons who attend the assembly as legal or voluntary representatives of shareholders or of other persons who possess the right to vote, may send the documents proving their powers to the Company within the two days preceding the date set for the meeting.
4.5. Except for the audio-visual equipment which may be authorized by the president to assist the creation of the written report (minutes) and documentation of the meeting of the assembly, no type of recording equipment (including cell phones), photographic equipment or similar.

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

5.1. The president of the assembly is assisted in drawing up the minutes by a secretary appointed, even from among the non-shareholders, by the assembly on the basis of a proposal made by the president himself or by a notary and, when necessary in conformity with the law, by two scrutinizers designated in the same way among the non-shareholders. The secretary or the notary can be assisted by persons of their choice and, as an exception to art. 4.5, upon authorization by the president, they may use audio-visual recording equipment
5.2. Among his duties, the president also has that of ascertaining and guaranteeing the legitimacy of the individual delegations and, in general, the legitimacy of the attendees present at the assembly and, consequently, also to verify and declare the legitimate constitution of the assembly. The president may create a presidential office which has the task of assisting him in the verification of the legitimacy of the participation and of the voting, as well as the specific assembly procedures.
The president may solve any conflicts which may arise related to the legitimacy of the attendees.
5.3. The President of the assembly may make use of the security services provided by the auxiliary services which have been specifically hired for the occasion.
5.4. In the case that the number of shareholders present does not reach the amount of capital stock necessary for the legitimate constitution of the assembly in conformity with articles 17 and 18 of the company statutes, the president of the assembly, after an appropriate amount of time, in any case not less than an hour after the time set for the beginning of the meeting, will communicate this information to the attendees and postpone the discussion of the Order of the Day until the next convocation.
5.5. Once the legitimate constitution of the assembly has been ascertained, the president of the assembly declares that the discussions may begin.

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

6.1.The president of the assembly must describe to the attendees the subjects and the proposals on the agenda, by using, whenever he deems opportune, the opinions of directors, auditors and employees of the Company. The subjects and the proposals can be dealt with in a different order that is approved on the basis of a proposal by the president with a vote by the majority of the capital represented, and, in the same way, a proposal by the president to deal partially or completely may be approved.
6.2. The president of the legitimate assembly also has the duty of directing and moderating the discussions and the right to intervene by establishing the methods and maximum duration of each intervention.
The president of the assembly has faculty to: call a conclusion to the discussions which are lasting

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

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

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

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

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

Art. 7 – Voting and conclusion of the meeting

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

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

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

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

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

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

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

Art. 8 – Final provisions

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

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

The Board of Directors reported to the assembly in relation to the activities conducted and endeavored to make sure that adequate information concerning the necessary elements were supplied to the shareholders so that they can make informed decisions on those matters that were of competence of the assembly (Applicative criteria 11.C.4).

During 2011 no significant variations occurred in the Market capitalization of the El.En. stock or in the structure of the company.

Consequently, no evaluation by the Board was necessary concerning whether or not it was opportune to propose modifications of the by-laws in relation to the percentage set for the exercising of the shares and the prerogatives advanced for the protection of the minorities (Applicative criteria 11.C.6.).

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

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

18. CHANGES SINCE THE CLOSING OF THE FINANCIAL YEAR

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

For the Board of Directors
The President – Gabriele Clementi

TABLE 1 – INFORMATION ON OWNERSHIP

On the basis of information supplied by El.En.

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

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

SIGNIFICANT OWNERSHIPS IN SHAREHOLDERS' CAPITAL			
Person declaring	Direct shareholder	Quota % of the ordinary capital	Quota % of the voting capital
ANDREA CANGIOLI	ANDREA CANGIOLI	13,425	13,425
GABRIELE CLEMENTI	GABRIELE CLEMENTI	11,083	11,083
BARBARA BAZZOCCHI	BARBARA BAZZOCCHI	10,464	10,464
ALBERTO PECCI	ALBERTO PECCI	0,345	0,345
ALBERTO PECCI	S.M.I.L. di Alberto Pecci & C. s.a.s.	8,218	8,218
ELENA PECCI	ELENA PECCI	0,079	0,079
ELENA PECCI	IMMOBILIARE IL CILIEGIO s.r.l.	7,512	7,512
MARSILETTI CARLO ALBERTO	REX CAPITAL s.p.a.	2,204	2,204
EL.EN. s.p.a.	EL.EN. s.p.a.	2,138	(2,138)*
PIO BURLAMACCHI	PIO BURLAMACCHI	2,001	2,001

* voting right suspended by law

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

Board of Directors as of December 31st 2011											Internal controls committee		Remuneration committee		Nomination committee	
Position	Members	From	Until	List (M/m)	Executive	Non Executive.	Indep. As per the Code	Indep. for TUF	Percentage of attendance at meetings	Number of other positions	Members	Percentage of attendance at meetings	Members	Percentage of attendance at meetings	Members	Percentage of attendance at meetings
President and executive director	Gabriele Clementi	April 30th 2009	Appr. of annual report 2011	M	X				100%	0						
Executive director	Andrea Cangioli	April 30th 2009	Appr. of annual report 2011	M	X				100%	1						
Executive director	Barbara Bazzocchi	April 30th 2009	Appr. of annual report 2011	M	X				100%	0						
Director	Paolo Blasi	April 30th 2009	Appr. of annual report 2011	M		X	X	X	50%	2	X		X	100%	X	-
Director	Michele Legnaioli	April 30th 2009	Appr. of annual report 2011	M		X	X	X	100%	0	X	100%	X	100%	X	-
Director	Alberto Pecci	April 30th 2009	Appr. of annual report 2011	M		X			100%	1	X	100%	X	100%	X	-
Director	Stefano Modi	April 30th 2009	Appr. of annual report 2011	M		X			100%	0						
Director	Angelo Ercole Ferrario	April 30th 2009	Appr. of annual report 2011	M		X			75%	0						
Number of meetings held during 2011				Board of Directors: 4 (four)		Internal controls committee 2 (two)				Remuneration committee: 1(one)				Nomination committee: 0 (zero)		

Quorum required for the presentation of lists during the last appointment	4,5%			

<u>TABLE 3</u>: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Position	Member	since	until	List (M/m)	Indipendence from Code	Percentage of attendance at the board meetings	Number of other positions in companies quoted on the Italian stock market
President	**Vincenzo Pilla**	30/04/2010	Approval annual report 2012	**M**	**X**	**89%**	1
Acting auditor	**Paolo Caselli**	30/04/2010	Approval annual report 2012	**M**	**X**	**100%**	0
Acting auditor	**Gino Manfriani**	30/04/2010	Approval annual report 2012	**M**	**X**	**100%**	0
Supplementary auditor	**Lorenzo Galeotti Flori**	30/04/2010	Approval annual report 2012	**M**	**X**	/	0
Supplementary auditor	**Manfredi Bufalini**	30/04/2010	Approval annual report 2012	**M**	**X**	/	0
Number of meetings held in 2011: 10							
Upon the occasion of the last appointment, the CONSOB, with vote 17148/2010 of January 27th 2010 set the amount required for the presentation of the lists at 4,5% of the capital stock.							

Appendix 1: Paragraph on the "Main characteristics of the systems for risk management and internal controls in relation to the financial information process" in compliance with art. 123-bis, sub-section 2, lett. b), TUF

This document contains a description of the "Principal characteristics of the risk management and internal controls systems now in existence in relation to the financial information process" in conformity with art. 123-bis, sub-section 2, lett. b), TUF (henceforth called the System).

***

1) Premise

El.En. has defined their own system for risk management and internal controls in relation to the process of financial information which is consistent with international best practice and is based on the CoSO Report model to which, for the computer aspects, the COBIT model "Control Objectives for Information and Related Technology") has been added.

The CoSO Report defines internal controls as the process, implemented by the Board of Directors by the management and by all of the employees, which is supposed to furnish a reasonable assurance for the achievement of the company goals.:

- Effectiveness and efficiency of the operating activities (*operation*);
- Reliability of the financial information reported (*reporting*), for the purpose of guaranteeing that the financial reporting supplied a true and correct representation of the financial and economic situation in conformity with the generally accepted accounting principles.
- Conformity with the laws and with the applicable regulations (*compliance*).

Among the companies that have been considered significant according to the methodology described below, there is Cynosure Inc., the American company which is subject to the regulations contained in the Sarbanes Oxley Act 404. Considering that the company in question has the same model of reference as the Parent Company as the basis of its internal controls systems, and that numerous analogies exist between the American and Italian regulations, the company was judged to be in conformity with law 262/05.

The internal controls system of El.En. is based on the following principal features:

Control environment: this is the environment in which the individuals work and represents the control culture which has permeated the organization. It consists of the following elements: Ethics Code, company structure, systems of powers of attorney and proxy, organizational arrangements, procedure for fulfilling the obligations in relation to internal dealing, organizational model *ex* D.Lgs 231/2001.

Identification and evaluation of risks: this is the process which is intended to guarantee the identification, analysis, and management of company risks particularly in relation to the analysis of risks of an administrative and accounting nature, related to accounting information and to the controls meant defend against the risks which have been identified.

Control activities: this is the set of control policies and procedures which has been defined to create a defence against company risks for the purpose of reducing them to an acceptable level as well as guaranteeing that company objectives are reached. It is composed of the following elements:

i. *Administrative and accounting procedures*: the set of company procedures that are significant in relation to the drawing up and diffusion of accounting information (like related administrative and accounting procedures, in particular, statements and periodic financial reports and matrices of the administrative and accounting controls;

ii. *Company procedures that are significant for the purpose of preventing and monitoring operative risks like:* quality management system ISO 9001:2008.

Monitoring and information sheets: this is the process that has been created in order to ensure an accurate and rapid collection of information as well as the set of activities which are necessary in order to verify and periodically evacuate the adequacy, effectiveness and efficiency of the internal controls. We focus on the process of evaluation of the adequacy and the actual application of the procedures and of the controls of the accounting information, so as to enable the Executive Director in charge of the Internal Controls System and the Provost for Internal Controls to issue the declarations required in conformity with art. 154-*bis* TUF.

***

2) Description of the main characteristics of the System for managing risks and internal controls existing in relation to the process of financial information.

The system of internal controls related to the process of financial information is intended to guarantee the reliability, the accuracy, and the timeliness of the financial information.

a) Phases of the System for managing risks and internal controls existing in relation to the process of financial information

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

a.1) Identification and evaluation of the risks in financial information:
The process for identifying and evaluating risks (*risk assessment*) related to financial and accounting information is directed by the provost for internal controls and shared with the Executive Director in charge of the System for Internal Controls and the Internal Controls Commission.

The process of *risk assessment* is divided into the following activities:
- **analysis and selection of significant financial information** diffused on the market (analysis of the last statement or of the last available half-yearly statement of the Parent Company or consolidated for the purpose of identifying the principal area of risk or and the significant related processes.
- **identification of the significant subsidiary companies and of the significant administrative and accounting areas**, for each entry of the consolidated statement on the basis of defined quantitative criteria;
- **identification and evaluation of the risks** inherent in the significant administrative and accounting areas, as well as of the relative financial processes and flows, on the basis of the analysis of qualitative and quantitative indicators;
- **communication** to the function involved, of the areas of intervention for which it is necessary to create or update the administrative and accounting procedures**.**

a.2) Identification of the controls for the risks which have been identified
After the identification of the risks we proceeded with the identification of the specific controls needed to reduce to an acceptable level the risk related to the failure to reach certain objectives of the system both in relation to the company and to the process. For this purpose El.En. has

defined, within the system of administrative and accounting procedures, the so-called “administrative and accounting control matrices” which are documents which describe the control activities existing in every significant administrative and accounting process. The controls described in the matrices should be considered an integral part of the administrative and accounting procedures of El.En.

At *the procedural level* specific controls have been identified like the verifications of the correct recording of accounts on the basis of supporting documentation, the issuing of authorizations, the conducting of reconciliations, and of verifications of consistency. The controls identified at the procedural level, moreover, have been classified according to their characteristics in manual or automatic and then in “previous” or “subsequent”.

At the company level specific controls have been identified as “pervasive”, meaning that they characterize the entire company, like assigning of responsibilities, powers, and jobs, and controls of a general nature on the computer systems, the separation of incompatible jobs.

<u>a.3) Evaluation of the controls for the risks which have been identified:</u>
The periodic verification and evaluation of the adequacy, effectiveness and efficiency of the administrative and accounting controls is divided into the following phases:
- **Continuous supervision,** by the managers of the operations/company which is an integral part of the current management;
- **Conducting of the activities of control and monitoring** for the purpose of evaluating the adequacy of the plan and the actual effectiveness of the controls being used, conducted by the executive delegated to internal controls who makes use of the assistance of financial management office for the testing activities.

Following up the verifications described related to the effectiveness of the accounting control system a written report on the efficiency of the system was made which, along with the Executive Director of the Internal Controls System, was communicated by the Executive Director to the Internal Controls Commission and Statutory Auditors.

b) Roles and functions involved
In particular, the main responsibilities which are intended to guarantee the correct functioning of the System are as follows:
• the ***Board of Directors*** is responsible for the appointment of the Executive responsible for drawing up the company and accounting documents, for ascertaining that the Executive has all the necessary prerequisites (in terms of authority, professional competence and independence), powers and means for carrying out the tasks which have been assigned to him; for the institution of a regular flow of information through which the Executive may report the results of the activities conducted and any critical issues which may emerge, also with an aim to taking the necessary steps to overcome the significant critical issues. In carrying out their functions, the Board makes use of the assistance of the ***Internal Controls Committee***, which has the duty to advise and to recommend also in reference to the administrative and accounting internal controls system;
• the ***Executive Director in charge of the internal controls system*** is responsible for the implementation and monitoring of the Internal Controls System, with particular reference to the Administrative and Accounting procedures; for the evaluation, together with the Executive in charge of Internal Controls, of the results of the periodic risk assessments; for the evaluation, bearing in mind the preliminary activity of the Executive, of the effectiveness of the procedures being used; for the revision of the “other information of a financial nature” released to the market.

- The ***Executive Director in charge of drawing up the company financial statements***, besides the responsibilities he is assigned jointly with the Executive Director in charge of the internal controls system, is also responsible for evaluating and monitoring the level of adequacy and effectiveness of the administrative and financial internal control system by conducting investigative activities.

EL.EN. GROUP
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31st 2011

FINANCIAL CHARTS AND EXPLANATORY NOTES

Consolidated statement of financial position

	Notes		31/12/2011		31/12/2010
Statement of financial position					
Intangible assets	1		23.958.312		6.991.986
Tangible assets	2		27.807.086		29.075.514
Equity investments:	3				
- in associates		306.283		520.506	
- other investments		135.846		173.291	
Total equity investments			442.129		693.797
Deferred tax assets	4		6.354.281		5.521.103
Other non current assets	4		5.217.436		7.642.922
Total non current assets			**63.779.244**		**49.925.322**
Inventories	5		69.344.148		55.650.185
Accounts receivables:	6				
- from third parties		49.151.139		44.780.858	
- from associates		1.378.867		1.933.542	
Total accounts receivables:			50.530.006		46.714.400
Tax receivables	7		5.989.431		7.051.225
Other receivables:	7				
- from third parties		6.992.660		6.580.528	
- from associates		63.565		37.241	
Total other receivables			7.056.225		6.617.769
Financial instruments	8		24.332.276		44.676.217
Cash and cash equivalents	9		48.364.542		41.514.927
Total current assets			**205.616.628**		**202.224.723**
TOTAL ASSETS			**269.395.872**		**252.150.045**
Common stock	10		2.508.671		2.508.671
Additional paid in capital	11		38.593.618		38.593.618
Other reserves	12		36.170.908		34.896.907
Treasury stock	13		-2.575.611		-2.575.611
Retained earnings / (deficit)	14		20.278.069		19.448.171
Net income / (loss)			-270.336		1.267.547
Group stockholders' equity			**94.705.319**		**94.139.303**
Minority interests in consolidated subsidiaries			80.405.058		77.585.072
Total equity			**175.110.377**		**171.724.375**
Severance indemnity	15		2.761.474		2.701.696
Deferred tax liabilities	16		1.172.423		666.833
Other accruals	17		6.683.048		5.627.198
Financial liabilities:	18				
- to third parties		6.684.237		4.881.763	
Total financial liabilities			6.684.237		4.881.763
Non current liabilities			**17.301.182**		**13.877.490**
Financial liabilities:	19				
- to third parties		12.997.172		6.459.617	
Total financial liabilities			12.997.172		6.459.617
Accounts payables:	20				
- to third parties		34.452.352		34.937.474	
- to associates		124.139		200.145	
Total accounts payables			34.576.491		35.137.619
Income Tax payables	21		761.740		2.143.609
Other payables:	21				
- to third parties		28.648.910		22.807.335	
Total other payables			28.648.910		22.807.335
Current liabilities			**76.984.313**		**66.548.180**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY			**269.395.872**		**252.150.045**

Consolidated statement of income

Statement of income	Note		31/12/2011		31/12/2010
Revenues:	22				
- from third parties		209.561.074		188.079.913	
- from associates		1.575.767		1.717.080	
Total revenues			211.136.841		189.796.993
Other revenues and income:	23				
- from third parties		2.435.267		2.184.634	
- from associates		10.781		21.478	
Total other revenues and income			2.446.048		2.206.112
Total revenues and income			**213.582.889**		**192.003.105**
Purchase of raw materials:	24				
- to third parties		94.259.954		76.809.703	
- to associates		104.153		308.782	
Total purchase of raw materials			94.364.107		77.118.485
Change in inventory of finished goods and WIP			(6.254.266)		397.376
Change in inventory of raw material			(4.138.942)		(4.035.986)
Other direct services:	25				
- to third parties		20.521.447		18.053.201	
- to associates		31.410		22.100	
Total other direct services			20.552.857		18.075.301
Other operating services and charges:	25				
- to third parties		44.535.278		41.140.617	
- to associates		206.391		185.537	
Total other operating services and charges			44.741.669		41.326.154
For staff costs	26		50.364.293		44.825.113
Depreciation, amortization and other accruals	27		10.973.625		8.875.092
EBIT			**2.979.546**		**5.421.570**
Financial charges:	28				
- to third parties		(2.027.964)		(1.514.912)	
- to associates					
Total financial charges			(2.027.964)		(1.514.912)
Financial income	28				
- from third parties		2.181.855		1.563.123	
- from associates				170	
Total financial income			2.181.855		1.563.293
Share of profit of associated companies			(689.056)		(320.384)
Other net expenses	29		(45.145)		(461.015)
Other net income	29		63.646		
Income (loss) before taxes			**2.462.882**		**4.688.552**
Income taxes	30		2.751.687		4.255.005
Income (loss) for the financial period			**(288.805)**		**433.547**
Minority interest			(18.469)		(834.000)

Net income (loss)	**(270.336)**	**1.267.547**
Basic net (loss) income per share	(0,06)	0,27
Diluted net (loss) income per share	(0,06)	0,27

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

Consolidated statement of comprehensive income

	31/12/2011	31/12/2010
Reported net (loss) income	-288.805	433.547
Cumulative conversion adjustments	3.388.015	7.162.529
Unrealized gain (loss) on marketable securities	-1.348	14.790
Total comprehensive (loss) income	3.097.862	7.610.866
Referable to:		
Parent Shareholders	707.513	3.196.770
Minority Shareholders	2.390.349	4.414.096

Consolidated statement of cash flows

Statement of cash flows	Note	31/12/2011	related parties	31/12/2010	related parties
Cash flow generated by operating activity:					
Profit (loss) for the financial period		-288.805		433.547	
Amortizations and depreciations	27	7.346.979		6.409.950	
Devaluations of equity investments	29	45.145		457.297	457.297
Share of profit of associated companies		689.056	689.056	320.384	320.384
Stock Options	12-26	2.005.549		2.034.145	
Change of employee severance indemnity	15	59.778		94.348	
Change of provisions for risks and charges	17	871.910		484.156	
Change of provisions for deferred income tax assets	4	-833.178		-1.089.905	
Change of provisions for deferred income tax liabilities	16	505.590		249.820	
Stocks	5	-11.006.738		-5.119.335	
Receivables	6	-2.527.253	554.675	-10.141.707	113.997
Tax receivables	7	1.061.794		988.431	
Other receivables	7	-326.203		-1.689.453	
Payables	20	-1.704.184	-76.006	10.001.293	98.607
Income Tax payables	21	-1.381.869		1.693.466	
Other payables	21	5.375.542		4.760.622	
		181.918		9.453.512	
Cash flow generated by operating activity		-106.887		9.887.059	
Cash flow generated by investment activity:					
(Increase) decrease in tangible assets	2	-4.270.109		-5.213.144	
(Increase) decrease in intangible assets	1	-229.286		-444.340	
(Increase) decrease in equity investments and non current assets	3-4	1.942.953	-474.833	-4.160.205	-152.406
Increase (decrease) in financial receivables	7	3.676	-26.324	51.257	46.000
(Increase) decrease investments which are not permanent	8	20.343.941		-14.873.034	
Cash flow from purchase of subsidiary companies		-20.843.960			
Cash flow generated by investment activity		-3.052.785		-24.639.466	
Cash flow from financing activity:					
Increase (decrease) in non current financial liabilities	18	1.802.474		-45.233	
Increase (decrease) in current financial liabilities	19	6.537.555		846.676	
Change in Capital and Reserves		43.612		14.874	
Change in Capital and Reserves of third parties		142.932		48.783	
Change in Treasury Stock		-359.274		-1.039.378	
Dividends distributed	31	-1.384.548		-204.900	
Cash flow from financing activity		6.782.751		-379.178	
Change in cumulative translation adjustment reserve and other no monetary changes		3.226.536		7.073.650	
Increase (decrease) in cash and cash equivalents		6.849.615		-8.057.935	
Cash and cash equivalents at the beginning of the financial period		41.514.927		49.572.862	
Cash and cash equivalents at the end of the financial period		48.364.542		41.514.927	

All of the cash and cash equivalents consist of cash on hand and balance in the checking accounts of the banks.

Interest earned during this financial period amounts to about 746 thousand Euros.

Current income taxes for this financial year amounted to 3,5 million Euros.

Statement of changes in consolidated Stockholders' equity

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

STOCKHOLDERS' EQUITY:	**Balance 31/12/2010**	**Net income allocation**	**Dividends distributed**	**Other operations**	**Comprehensive (loss) income**	**Balance 31/12/2011**
Common stock	2.508.671					2.508.671
Additional paid-in capital	38.593.618					38.593.618
Legal reserve	537.302					537.302
Own shares	-2.575.611					-2.575.611
Others reserves:						
Extraordinary reserves	33.663.109	117.428				33.780.537
Reserve for contribution on capital account	426.657					426.657
Cumulative conversion adjustments reserve	-1.237.873				978.164	-259.710
Other reserves	1.507.712	-1		178.410		1.686.122
Retained earnings	19.448.171	1.150.120	-944.244	624.337	-315	20.278.069
Profits (loss) of the year	1.267.547	-1.267.547			-270.336	-270.336
Parent company's stockholders' equity	94.139.303	0	-944.244	802.747	707.513	94.705.319
Capital and reserves of third parties	78.419.072	-834.000	-440.304	869.941	2.408.818	80.423.527
Profit (loss) of third parties	-834.000	834.000	0	0	-18.469	-18.469
Minority interests	77.585.072	0	-440.304	869.941	2.390.349	80.405.058
Total Stockholders' equity	171.724.375	0	-1.384.548	1.672.688	3.097.862	175.110.377

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

Other operations in the stockholders' equity of the Group refer to:
- the variation in the reserve for stock options (other reserves) for 178 thousand Euros, which includes the counterpart of the costs determined in accordance with IFRS 2 of the Stock Option Plans assigned to El.En. SpA for the quota which matured on December 31st 2011.
- the changes in the undivided earnings which, among other things, summarizes the increase in the stockholders' equity registered for Cynosure as a consequence of the stock option plans now in force net of the decrease for the purchase of treasury stock.

EXPLANATORY NOTES

INFORMATION ON THE COMPANY

The parent company El.En. SpA is a corporation which was founded and is registered in Italy. Headquarters of the company are in Calenzano (Florence), Via Baldanzese 17.
Ordinary stock of the company is quoted on the MTA which is managed by Borsa Italiana SpA.
The Consolidated Statement for the El.En. Group was examined and approved by the Board of Directors on March 15th 2012.
The amounts shown in this statement are in Euros, which is the working currency of the Parent Company and many of its subsidiaries.

PRINCIPLES USED FOR DRAWING UP THE STATEMENT AND ACCOUNTING STANDARDS

PRINCIPLES USED FOR DRAWING UP THE STATEMENT

The consolidated statement has been drawn up on the basis of the principle of historical cost with the exception of a few categories of financial instruments, the evaluation of which has been conducted on the basis of the principle of *fair value.*

This consolidated Annual Report consists of:

- the Consolidated Statement of financial position,
- the Consolidated Statement of income,
- the Consolidated statement of comprehensive income
- the Consolidated statement of Cash Flows
- the Statement of changes in the Stockholders' equity,
- the following Explanatory Notes

The economic information which is provided here is related to the financial years 2011 and 2010. The financial information, however, is supplied with reference to December 31st 2011 and December 31st 2010.

The Parent Company El.En. SpA has engaged the Independent auditors Reconta Ernst & Young SpA to audit the consolidated financial statement dated December 31st 2011.

CONFORMITY WITH IFRS STANDARDS

This consolidated statement for the financial year ending December 31st 2011 has been drawn up in conformity with the International Accounting Standards (IFRS) promulgated by the International Accounting Standard Board (IASB) and approved by the European Union. With IFRS we mean also the International Accounting Standards (IAS) still in effect, as well as the interpretive documents issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).

ACCOUNTING STANDARDS AND EVALUATION CRITERIA

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

Accounting standards, amendments and interpretations applied since January 1st 2011

IAS 24 ***Related party transactions (amendment)***
The principle includes a modification of the definition of related party. The new definition emphasizes the asymmetry in the identification of the related subjects and gives a better definition in what circumstances persons and key management personnel must be considered related parties. The modification of IAS 24 also introduced a significant

change because of the exemption made for public institutions. These changes did not have any impact on the financial position or the earnings of the Group.

IAS 32 ***Financial instruments: Presentation (amendment)***
The principle includes a modification of the definition of financial liability in the classification of the issuing of rights in foreign currency (and of some options and warrants) as equity instruments, in the cases in which these instruments are attributable on a pro-rata basis to the possessors of the same class of instruments (not derivative) representative of capital of the entity, or for the purchase of a set number of instruments representative of capital of the entity for a set amount in any currency. This change did not have any impact on the financial position or the earnings of the Group.

IFRIC 14 ***Prepayments of a Minimum Funding Requirement (amendment)***
This modification removes an unintentional consequence which occurs when an entity is subjected to the Minimum Funding Requirement and makes an advance payment in order to comply with these requirements. The modification makes it possible for an entity to treat the advance payments related to the anticipation of a minimum contribution as an asset. This change did not have any impact on the financial position or the earnings of the Group.

Improvements made to the IFRS (issued in May 2010)
In May 2010 the IASB issued a third series of improvements to the standards mainly for the purpose of eliminating some of the inconsistencies and clarifying the terminology. Each standard includes specific transitory rules. The adoption of the following improvements comported changes in the accounting policies but did not have any effect of the financial or economic situation or the performance of the Group.

IFSR 3 ***Business combinations***
The options available for the evaluation of the profit share of third parties were modified. It is possible to evaluate by fair value or, as an alternative, in relation to the proportional quota of the identifiable net assets of the company acquired only the components of the profit shares of third parties which represent an actual quota of the equity, which guarantees the possessors a quota that is in proportion to the net assets of the company in case of liquidation. All the other components must be evaluated at fair value on the date of acquisition.

IFRS 7 ***Financial instruments – additional information***
The modification is intended to simplify and improve the information sheet by reducing the volume of information given concerning the guarantees held and the request for more qualitative information to improve contextualization of the qualitative part.

IAS 1 ***Presentation of the financial reports***
This modification clarifies the fact that an analysis of each of the other components of the statement financial position can be included, as an alternative, in the chart showing the changes in the stockholders' equity or explanatory notes.

The modifications in the standards which are shown below have not had any impact on the accounting policies, the financial position or the earnings of the Group:

- ***IFRS 3 – Business combinations*** – The modification clarifies the fact that the potential amounts derived from business combinations made before the adoption of IFRS 3 (as modified in 2008) must be entered into accounts in compliance with IFRS 3 (2005).
- ***IFRS 3 – Business combinations*** - Payments based on shares (replaced voluntarily or not replaced) and their entering into accounts in the context of a combination.
- ***IAS 27 – Consolidated and separate financial statement*** – Application of the rules for the transition from IAS 27 (revised in 2008) to the standards consequently modified.
- ***IAS 34 – Interim financial statements*** – the modification requires an additional information sheet for the fair value and for the variations in the classification of the financial assets as well as the changes in the potential assets and liabilities of the interim statement.

The following interpretations and amendments did not have any effect on the accounting policies, the financial position or the earnings of the Group:

- ***IFRIC 13 – Customer loyalty programs*** (determining the fair value of the awards)
- ***IFRIC 19 –Extinguishing financial liabilities with equity instruments***

The Group has not adopted in advance any other standard, interpretation or improvement issued but not yet in force.

In the paragraphs that follow there are descriptions of the standards that, on the date of compilation of the consolidated statement of the Group had been issued but were not yet in force. The list refers to the standards and interpretations that the Group has reasonable belief will be applicable in the future. The Group intends to adopt these standards where applicable when they come into force.

IAS 1 Presentation of the financial statement – Presentation of the other components of the comprehensive income – The modification of IAS 1 changes the grouping of the other components of the comprehensive income. The entries that could be reclassified in the statement of income in the future (for example to cancellation or to liquidation) must be represented separately from the entries that will never be reclassified. The modification concerns only the method of presentation and does not have any effect on the financial position or the performance of the Group. This modification will be in force on statements starting on July 1st 2012 or later.

IAS 12 Income taxes – recoverability of underlying assets- The modification clarifies the determination of deferred taxes on real estate investments evaluate at fair value. The modification introduces the rebuttable assumption that the deferred taxes related to real estate investments evaluated at fair value according to IAS 40 should be determined on the basis of the fact that the accounting value will be recovered through the sale. Moreover, it introduces the requirement that the calculation of the deferred taxes on assets which cannot be amortized which are measured according to the re-determined cost method defined in IAS 16, are always measured on the basis of the sale of the property. The modification applies to statements issued on January 1st 2012 or later.

IAS 19 Benefits to employees (modification) - the IASB has issue numerous changes in IAS 19. These vary from radical changes like the elimination of the corridor method and the concept of expected performance of the assets of the plan to simple clarifications in the terminology. The modification applies to statements issued on January 1st 2013 or later .

IAS 27 Separate financial statement (revised in 2011) – After the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to the entering into accounts of the subsidiary companies , jointly controller or associated companies, in the separate financial statement. The modifications apply to statements issued on January 1st 2013 or later.

IAS 28 Equities in associated companies (revised in 2011) – After the new IFRS 11 and IFRS 12, IAS 28 has been renamed "Equities in associated or jointly controlled companies", and describes the application of the corridor method for equities in jointly controlled companies as well as the associated companies. The modifications apply to statements issued on January 1st 2013 or later.

IFRS 7 Financial instruments: transfer of financial assets– The modifications require further information on the financial instruments which have been transferred but not cancelled from the accounts, in order to allow those using the financial reports to understand the relation between those assets that have not been cancelled from accounts and relative liabilities. Moreover, the modifications require an information sheet concerning the residual involvement of the assets that have been transferred and cancelled, in order to allow those using the financial reports to evaluate the nature and the risk connected to the residual involvement of the company in the assets that were cancelled from accounts. The modifications apply to statements issued on July 1st 2011 or later. The modifications apply only to the information given for the financial reports and do not have any effect on the financial position of the Group or its performance.

IFRS 10 – Consolidated financial statement – partially replaces IAS 27 Consolidated and separate statements which governs the accounting entries of the consolidated statement. It also includes the questions raised by SIC-12 Consolidation – Companies with special purposes. This standard establishes a single model of control that is applied to all companies including the special purpose entities. The changes introduced by IFRS 10 with respect to the requirements contained in IAS 27, require the management to make significant discretional evaluations in order to determine which companies are controller and, therefore, should be consolidated by the controlling company. This standard will apply to financial reports issued on January 1st 2013 and later.

IFRS 11 Joint Arrangements – replaces IAS 31 Equities in Joint Ventures and SIC-13 Entities with joint control - non-monetary contributions by ventures.
IFRS 11 eliminates the option of entering into accounts the jointly controlled companies using the proportional consolidation method. The jointly controlled companies that respect the definition of a joint venture. on the other hand, must be entered into accounts using the shareholders' equity method.

IFRS 12 Disclosure of Involvement with other entities – includes all of the rules related to the information sheet which were previously included in IAS 27 in relation to the consolidated statement as well as all of the information rules contained in IAS 31 and IAS 28. This information sheet is related to the equities of a company in subsidiary companies, jointly controlled companies, associated companies and structured vehicles. New information statistics are also planned. This standard will apply to financial reports issued on January 1st 2013 and later.

IFRS 13 – Evaluation at fair value- establishes that a single guide line be used in applying the IFRS for all the evaluations of fair value. IFRS 13 does not modify the cases in which the use of fair value is required, but supplies guide lines for the evaluation at fair value for IFRS purposes, when the application of fair value is required or permitted. This standard will apply to financial reports issued on January 1st 2013 and later.

AREA OF CONSOLIDATION

SUBSIDIARY COMPANIES

The consolidated financial statement of the El.En. Group includes the statements of the Parent Company and of the Italian and foreign companies that El.En. S.p.A. controls directly or indirectly through a majority of votes in the ordinary assembly, or, in the case of Cynosure Inc., where they have the power to appoint and to remove the majority of members of the Board of Directors. The companies that are currently included in the area of consolidation are shown on the chart below, which also shows the percentage held either directly or indirectly by the Parent Company.

Company name:	Notes	Headquarters	Currency	Subscr. capital	Percentage held: Direct	Indirect	Total	Consolidated Percentage
Parent company:								
El.En. SpA		Calenzano (ITA)	EURO	2.508.671				
Subsidiary companies:								
Deka M.E.L.A. Srl		Calenzano (ITA)	EURO	40.560	75,00%		75,00%	75,00%
Cutlite Penta Srl		Calenzano (ITA)	EURO	103.480	90,67%		90,67%	90,67%
Esthelogue Srl	1	Calenzano (ITA)	EURO	100.000	50,00%	50,00%	100,00%	90,00%
Deka Technologies Laser Sarl		Lyons (FRA)	EURO	76.250	100,00%		100,00%	100,00%
Deka Lasertechnologie GmbH		Munchen (GER)	EURO	51.129	100,00%		100,00%	100,00%
Deka Laser Technologies Inc.	2	Carlsbad (USA)	USD	25	11,78%	80,71%	92,49%	92,49%
Ot-las Srl		Calenzano (ITA)	EURO	57.200	90,00%		90,00%	90,00%
Lasit SpA	3	Vico Equense (ITA)	EURO	1.154.000	52,67%	17,33%	70,00%	68,27%
BRCT Inc.		Branford (USA)	USD	no par value	100,00%		100,00%	100,00%
Quanta System SpA		Solbiate Olona (ITA)	EURO	1.500.000	60,00%		60,00%	60,00%
Asclepion Laser Technologies GmbH	4	Jena (GER)	EURO	2.025.000	50,00%	50,00%	100,00%	80,00%
Arex Srl	5	Solbiate Olona (ITA)	EURO	20.500		51,22%	51,22%	30,73%
AQL Srl	6	Vimercate (ITA)	EURO	50.000		100,00%	100,00%	67,58%
ASA Srl	7	Arcugnano (ITA)	EURO	46.800		60,00%	60,00%	45,00%
Cynosure Inc.		Westford (USA)	USD	12.802	23,38%		23,38%	23,38%
Cynosure GmbH	8	Langen (GER)	EURO	25.565		100,00%	100,00%	23,38%
Cynosure Sarl	8	Courbevoie (FRA)	EURO	970.000		100,00%	100,00%	23,38%
Cynosure KK	8	Tokyo (JAP)	YEN	10.000.000		100,00%	100,00%	23,38%
Cynosure UK	8	Cookham (UK)	GBP	1		100,00%	100,00%	23,38%
Suzhou Cynosure Medical Devices Co.	8	Suzhou (CHINA)	YUAN	no par value		100,00%	100,00%	23,38%
Cynosure Spain	8	Madrid (SPAIN)	EURO	864.952		100,00%	100,00%	23,38%
Cynosure Mexico	8	S. Jeronimo Aculco (MEX)	MEX	no par value		100,00%	100,00%	23,38%
Cynosure Korea	8	Seul (S. KOREA)	KRW	350.800.000		100,00%	100,00%	23,38%
With Us Co Ltd	9	Tokyo (JAP)	YEN	100.000.000		51,25%	51,25%	51,25%
Deka Japan Co. Ltd		Tokyo (JAP)	YEN	10.000.000	55,00%		55,00%	55,00%
Wuhan Penta Chutian Laser Equipment Co Ltd	10	Wuhan (CHINA)	YUAN	20.467.304		55,00%	55,00%	49,87%
Lasit Usa Inc.	11	Branford (USA)	USD	30.000		100,00%	100,00%	68,27%
Cutlite do Brasil Ltda		Blumenau (BRASIL)	REAL	1.404.000	78,00%		78,00%	78,00%
Lasercut Technologies Inc.	12	Branford (USA)	USD	50.000		100,00%	100,00%	100,00%
Pharmonia Srl	13	Calenzano (ITA)	EURO	50.000		100,00%	100,00%	80,00%
Deka Medical Inc	14	San Francisco (USA)	USD	10		100,00%	100,00%	100,00%
Quanta France Sarl	15	Paris (FRA)	EURO	35.000		60,00%	60,00%	36,00%

(1) owned by Elen SpA (50%) and Asclepion (50%)
(2) owned by BRCT Inc. (80,71%) and by ElEn SpA (11,78%)

by ElEn Spa (11,78%)
(3) owned by Elen Spa (52,67%) and Ot-las (17,33%)
(4) owned by Elen SpA (50%) and Quanta System SpA (50%)
(5) owned by Quanta System SpA (51,22%)
(6) owned by Quanta System SpA (8,35%) and Lasit SpA (91,65%)
(7) owned by Deka Mela Srl (60%)
(8) owned by Cynosure Inc. (100%)
(9) owned by BRCT (51,25%)
(10) owned by Cutlite Penta Srl (55%)
(11) owned by Lasit SpA (100%)
(12) owned by BRCT (100%)
(13) owned by Asclepion (100%)
(14) owned by BRCT (100%)
(15) owned by Quanta System SpA (60%)

Operations conducted during this year
For the operations conducted during this year, please refer to the description given in the paragraph "Significant events which occurred during 2011" in the Director's report on operations.

ASSOCIATED COMPANIES

El.En. SpA holds directly and indirectly equities in companies for which, however, it does not have control. These companies are evaluated according to the stockholders' equity method. The equities possessed in associated companies are the following:

Company name:	Headquarters	Subscr.capital	Percentage held: Direct	Indirect	Total	Consolidated percentage
Immobiliare Del.Co. Srl	Solbiate Olona (ITA)	24.000	30,00%		30,00%	30,00%
Actis Srl	Calenzano (ITA)	10.200	12,00%		12,00%	12,00%
SBI S.A.	Herzele (BE)	1.200.000	50,00%		50,00%	50,00%
Elesta Srl	Calenzano (ITA)	110.000	50,00%		50,00%	50,00%
Grupo Laser Idoseme SL (1)	Donostìa (SPAIN)	1.045.280		30,00%	30,00%	18,00%
Quanta System Asia Pacific Co.LTD (2)	Bangkok (Thailand)	5.000.000		49,00%	49,00%	29,40%

Capital stock of the associated companies is expressed in Euros except for Quanta System Asia Pacific Co Ltd expressed in Thailandese BAHT

(1) held by Quanta System S.p.A. (30%)
(2) held by Quanta System S.p.A. (49%)

Operations conducted during this period
For the operations conducted during this year, please refer to the description given in the paragraph "Significant events which occurred during 2011" in the Director's report on operations.

EQUITIES IN OTHER COMPANIES

No operations of this type were conducted during this year.

TREASURY STOCK

On March 3rd 2008, the shareholders' meeting of the Parent Company El.En. SpA, voted to authorize the Board of Directors to acquire, in compliance and within the limits established by articles 2357 and following of the Civil Code, within 18 months of that date, treasury stock representing not more than 10% of the capital stock in accordance with the law, at a price which was not less than 20% more nor more than 10% more than the official price for negotiations registered on the day preceding the purchase. With the same vote they authorized the method for disposing of the shares which can be put back into circulation within 3 years of the purchase at a price which is not less than 95% of the average of the official prices for negotiations registered during the five days preceding the sale, all of which must take place respecting the laws in force in this regard.
Consequently, between March and April 2008 the Board of Directors of El. En. SpA proceeded with the purchase of 103.148 shares of the company at an average price of 24,97 Euros for a total of 2.575.611 Euros and these shares are still held in the portfolio of the company.
Upon request of the Board of Directors, the Shareholders' Meeting of the Parent Company which met on October 28th 2010 renewed the authorization of the Board to purchase in one or more tranches, on the regular stock market, and therefore according to the conditions described in art. 144 *bis*, sub-section 1, letter b) of the *Regolamento Emittenti Consob*, and following the operative procedures established by the organization and management regulations of the market issued by the Borsa Italiana S.p.A., within 18 months of that date, treasury stock representing a number of ordinary shares which, in any case, considering the number of shares already held in the portfolio, does not exceed one-fifth of the capital stock, respecting the laws and regulations, at a price that is not more than 20% less or over 10% more than the official price for negotiations registered on the day preceding the purchase. The vote of the shareholders' also authorized the Board of Directors to put the shares back into circulation within ten years of the date of purchase, including those already held in the portfolio on December 28th 2010, at a price that is not less than 95% of the average official price for negotiations registered during the five days preceding the sale, all of which must take place respecting the regulations in force.

STANDARDS OF CONSOLIDATION

The statements used for the consolidation of the annual reports are those of the individual companies. These statements are opportunely reclassified and rectified in such a way as to make them uniform with the accounting standards and IFRS evaluation criteria selected by the Parent Company.

In drawing up the consolidated financial statement the assets and liabilities, the income and charges of the companies included in the area of consolidation have all been included. We have not included the payables and receivables, income and charges, profits and losses which have been generated by transactions made between the consolidated companies.
The book value of the equity in each of the subsidiaries is eliminated in the place of the corresponding portion of the stockholders' equity of each of the subsidiaries including the final adaptation at fair value on the date of purchase; the difference which emerges, if it is in the black (positive), is treated as goodwill, and as such is entered into accounts, in accordance with IFRS 3, as illustrated below. If it is in the red (negative) it is entered directly into the Statement of income.
The amount of capital and reserves of subsidiary companies corresponding to equities of third parties is entered under a heading of the stockholders' equity titled "Capital and Reserves of third parties"; the portion of the consolidated economic result which corresponds to the equities of third parties is entered into accounts under the heading "Profit (loss) this year pertaining to third parties".

CONVERSION OF AMOUNTS IN FOREIGN CURRENCY

The accounting situation of each consolidated company is drawn up in the working currency of the particular economic context in which each company operates. In these accounting situations, all of the transactions which take place using a currency that is different from the working currency are recorded applying the exchange rate that is current at the time of the transaction. The monetary assets and liabilities listed in a currency which is different from the working currency are subsequently adapted to the exchange rate current on the date of closure of the period being presented.

CONVERSION OF FINANCIAL STATEMENTS IN FOREIGN CURRENCY

For the purposes of the Consolidated Statement, results, assets, and liabilities are expressed in Euros, the working currency of the Parent Company, El.En. SpA. For drawing up the Consolidated Statement, the accounting situations with a working currency which is different from the Euro are converted into Euros using, for the assets and liabilities, including goodwill and the adjustments made at the time of consolidation, the exchange rate in force on the date of closure of the financial period being presented and, for the Statement of income, the average exchange rates for the period which approximate the exchange rates in force on the date of the respective transactions. The relative differences

in exchange rates are shown directly in the stockholders' equity and are displayed separately in a special reserve of the same. The differences in the exchange rate are shown in the Statement of income at the time that the subsidiary is sold.
The first time that the IFRS were applied, the cumulative differences generated by the consolidation of the foreign companies with a working currency different from the Euro were reclassified into Retained earnings, as is allowed by the IFRS 1; consequently, only the differences in conversion accumulated and entered into accounts after January 1st 2004 are involved in the determination of the capital gains and losses deriving from their possible sale.
For the conversion of the financial statements of the subsidiary and associated companies using a currency that is not the Euro, the exchange rates used are as follows:

	Exchange Rate	**Average exchange rate**	**Exchange Rate**
Currencies	**31/12/2010**	**30/12/2011**	**30/12/2011**
USD	1,3362	1,3920	1,2939
Yen	108,65	110,96	100,20
Baht	40,17	42,43	40,99
Yuan	8,82	9,00	8,16
Real	2,22	2,33	2,42

USE OF ESTIMATES

In applying the IFRS, the drawing up of the Consolidated Annual Report requires estimates and assumptions to be made which affect the assets and liability figures of the financial statement and relative information and potential assets and liabilities at the date of reference. The definitive results could differ from such estimates. The estimates are used to enter the provisions for risks on receivables, for obsolescence of stocks, amortization and depreciation, devaluation of assets, stock options, employee benefits, taxes and other provisions. The estimates and assumptions are periodically reviewed and the effects of any variation are reflected in the Statement of income.
Goodwill is annually subjected to an impairment test in order to determine any loss in value.

EVALUATION CRITERIA

A) INTANGIBLE FIXED ASSETS WITH A FINITE AND INDEFINITE LIFE
Intangible assets are those assets lacking an identifiable physical consistency able to produce future economic benefits. They are entered at the historical purchase cost, shown net of the amortization applied in the course of the financial years and directly ascribed to the single headings. The Group has chosen to maintain historical cost, rather than fair value, as the measurement criteria for intangible fixed assets. In the case in which, independently of the amortization already entered, there should be a loss of value, the fixed asset is correspondingly devalued; if, in subsequent financial years the reasons for the devaluation should cease to exist, the value is restored to a maximum limit of its original value, adjusted only by the amortization.
The costs incurred internally for the development of new products and services constitute, depending on the individual case, tangible or intangible assets generated internally and are entered in the assets only where all the following conditions are satisfied: 1) where the technical possibility or intention to complete the asset so as to make it available for use or sale exists; 2) where there is a capacity for the Group to use or sell the asset; 3) the existence of a market for the products and services deriving from the asset, or of utility for internal purposes; 4) the ability of the asset to generate future economic benefits; 5) the availability of sufficient technical and financial resources to complete the development and sale or internal use of the products and services deriving from it; 6) reliable assessment of the costs attributable to the asset during its development. The capitalization of development costs includes only the expenses incurred which may be directly attributed to the development process. Research costs are entered in the Statement of income in the financial year in which they are incurred. The Other Intangible Fixed Assets with a finite useful life are assessed at purchase or production cost and amortized at a constant rate during their estimated useful life.
Goodwill and other activities which have an indefinite life are not subject to systematic amortization but to an annual impairment test.

Business combinations and goodwill

Business combinations since January 2010
Business combinations are entered into accounts using the acquisitions method. The cost of an acquisition is evaluated as the sum of the amount transferred measured at fair value on the date of the acquisition and the amount of any minority equities in the company acquired. For each business combination the purchaser must evaluate at fair value any minority equities in the company acquired or else in proportion to the quota of the minority equity in the net assets

indentified in the company acquired. The costs of acquisitions are entered into accounts and classified among the management expenses.
When the Group acquires a business, it must classify or designate the financial assets acquired or liabilities assumed in compliance with the terms of the contract acquired, the economic conditions and the other pertinent conditions in force on the date of the purchase. This includes the verification conducted in order to establish if an incorporated derivative must be separated from the primary contract.
If the business combination takes place in more than one phase, the purchaser must recalculate the fair value of the equity held previously and evaluated with the stockholders' equity method and report in the statement of income any profits or losses which have been registered.
Every potential amount must be reported by the purchaser at fair value on the date of acquisition. The variation in the fair value of the potential amount classified as asset or liability will be reported in compliance with IAS 39, in the statement of income and in the chart showing the other components of the overall statement of income. If the potential amount is classified in the shareholder's equity, its value must not be recalculated until its extinction is entered into accounts against the capital and reserves.
Goodwill is initially evaluated at the costs which emerges from the excess between the sum of the amounts paid and the amount recognized for the minority quotas with respect to the identified net assets acquired and the liabilities assumed by the Group. If the amount is less than the fair value of the net assets of the subsidiary acquired, the difference is reported in the statement of income.
After the initial reporting, the goodwill is evaluated at the cost reduced by the amount of the losses accumulated. For purposes of the verification for reduction of value, on the date of acquisition, the goodwill acquired in a business combination must be allocated to each of the "cash generating units" (CGU) which have been identified, from which one expects benefits from the business combination, no matter whether the other assets or liabilities from the entity acquired are assigned to that unit. The identification of the Cash Generating Units corresponds to the individual juridical entities.
If the goodwill has been allocated to a financial cash generating unit and the entity divests part of the assets of that unit, the goodwill associated with the divested assets must be included in the accounting value of the assets when the profits or losses derived from the divestment are determined. The goodwill associated with the divested asset must be determined on the basis of the relative values of the divested asset and the part of the financial cash generating unit that has been kept.
Goodwill derived from acquisition made prior to January 1st 2004 is entered at the value registered under this heading in the last consolidated financial report drawn up on the basis of the previous accounting principles (December 31st 2003)
Goodwill related to equities in associated companies is included in the overall value of these companies. In the case that a negative goodwill emerges, it is immediately entered in the statement of income.

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

B) TANGIBLE FIXED ASSETS
The assets have been entered at the purchase cost or production cost, inclusive of accessory charges, net of depreciation. Ordinary maintenance expenses have been entirely entered in the Statement of income. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and amortized according to the residual possibility of use of the said item**.**
The Group uses the method of original cost as opposed to fair value as the assessment criteria for tangible fixed assets. Specifically, in accordance with such standards, the value of land and of the buildings constructed on it is separated and only the building is amortized.
The aliquots used for depreciation are the following:

Description	*Depreciation percentage*
Buildings	
- buildings	3.00%
Plants and machinery	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
- other plants and machinery	15.50%
Industrial and commercial equipment	
- miscellaneous and minute equipment	25.00%
- kitchen equipment	25.00%
Other goods	
- motor vehicles	25.00%
- forklift	20.00%
- lightweight constructions	10.00%
- electronic office equipment	20.00%

- furniture	12.00%

C) FINANCIAL CHARGES
Financial charges are registered in the Statement of income at the time in which they are sustained.

D) LOSSES IN VALUE OF ASSETS
At each date referred to in the financial year shown, the tangible and intangible assets with a finite life have been assessed for the purposes of identifying any indicators of loss in value. The recoverable value of the goodwill and intangible assets with an indefinite life, where present, have been estimated at each date of reference. If there is any indication of a reduction in value the presumed cashing-in value is estimated.
The presumed cashing-in value is the higher of the two variables, net sales price and utility value. In determining the utility value, expected cash flow are discounted using a pre-tax discount rate which reflects the current market value of the money rate referred to the investment period and specific risks of the business. For a business not generating highly independent flows of funds, the cashing-in value is determined in relation to the cash-generating unit which the said business belongs to. A loss of value is entered in the Statement of income wherever the value entered for the asset or the relative cash generating unit which it is allocated to, is higher than the presumed cashing-in value. With the exception of goodwill, value losses are readjusted wherever the causes which have generated them cease to exist.

E) FINANCIAL ASSETS: EQUITIES
Financial assets which consist of equities in associated companies are evaluated according to the stockholders' equity method, that is to say, for an amount equal to the corresponding fraction of the stockholders' equity shown in the last financial statement of the companies, after having subtracted the dividends and after having made the rectifications required by the accounting standards used for drawing up the consolidated statement in conformity with the IFRS to make them compatible with the accounting standards used by the Parent Company.
Joint-venture companies are evaluated in the consolidated statement with the stockholders' equity method, starting on the date in which the joint-venture is initiated up to the date on which it ceases to exist.

F) FINANCIAL INSTRUMENTS
Equities in other companies
The equities in other companies which are not subsidiaries or associated (usually with an ownership of less than 20%) are classified at the time of purchase, among the financial assets "available for sale" or among the assets "evaluated at fair value through the Statement of income" with the current or non-current assets. Changes in the value of equities that are classified as available for sale are entered into a reserve of the stockholders' equity which will be entered into the Statement of income at the time of sale. Changes in the value of the equities classified as assets evaluated at fair value through the Statement of income are entered directly into the Statement of income. These equities are evaluated at cost according to IAS 39.

Financial instruments and financial assets at fair value with variations entered in the statement of income.
This category includes the assets held for negotiation and the designated assets, at the time that they were first reported, as financial assets at fair value with variations entered in the statement of income. The Group evaluates its financial assets at the time for value registered in the statement of income (held for negotiation) if the intention to sell them within a brief period of time is still appropriate.

Stocks – financial assets available for sale
The financial assets that are available for sale are evaluated at fair value, with effect on the shareholders equity with the exception of the losses due to reduction in value, until the financial asset is eliminated; at this time the total entered earlier in the shareholder's equity must be entered in the statement of income.

Commercial receivables
The receivables are entered at cost (identified using the nominal value) net of any value losses, corresponding to their presumed cashing-in value.

Other financial assets
Financial assets are added and removed from the financial statement according to the date of negotiation and are initially evaluated at cost, inclusive of the charges directly connected with the acquisition. At the subsequent dates of the financial statement, the financial assets to be held until expiry date are shown at cost amortized according to the effective interest rate method, net of any devaluation applied to reflect value losses.
Financial assets other than those held until expiration are classified as held for negotiation or available for sale and are estimated at fair value each financial year with attribution respectively in the Statement of income under the heading

"Financial Revenue (Charges)" or in a special reserve of the Stockholders' equity, in the latter case until such time as they are cashed-in or until they have suffered a loss in value.

Cash and cash equivalents
This heading includes cash reserves and bank accounts and other short-term financial investments with a high level of availability which can be easily converted into cash at a negligible risk of varying in value.

Treasury stock
Treasury stock is entered against stockholders' equity. No profit/loss is shown in the Statement of income for the purchase, sale, issue or cancellation of treasury stock.

Commercial payables
Commercial payables, the due date of which falls within the normal commercial terms, are not discounted and are entered at cost (identified as their nominal value).

Financial liabilities
Financial liabilities are initially entered at fair value net of the transaction costs directly attributable to them. Subsequently, financial liabilities are estimated with the criteria of amortized cost, using the effective original interest rate method.

G) INVENTORY
Stocks of raw materials and finished products are evaluated at the cost or market value; the cost is determined using the method of average weighted cost. The evaluation of inventories is based on the basis of the direct costs of the raw materials and the labor and the indirect costs of production (variable and fixed). Devaluation provisions are also set aside for materials, finished products, spare parts and other supplies considered obsolete or with a slow turnover bearing in mind the possibilities of reuse and sale.

Inventory stocks of works in progress are evaluated on the basis of production costs, with reference to the average weighted cost.

H) EMPLOYEE BENEFITS
SEVERANCE INDEMNITY
Up until December 31st 2006 the severance indemnity fund was considered a defined benefit plan. The regulating of this fund was changed by law no. 296 of December 27th 2006 ("Legge Finanziaria 2007) and later decrees and regulations issued during the first months of 2007. On the basis of these modifications, and with particular reference to companies with at least 50 employees, this institution is now considered a defined benefit plan exclusively for the amounts which matured before January 1st 2007 (and not yet liquidated in the financial statement) whereas for the quotas which mature after that date, it is considered a defined contribution plan.

For defined benefit plans, the amount already matured is projected to estimate the amount to be paid at the moment of termination of the employment contract and subsequently recalculated, using the "Projected unit credit method". This kind of accounting methodology is based on theories of a demographic and financial nature so as to make a reasonable estimate of the amount of benefits which each employee has already matured on the basis of the work done.

By means of the actuarial estimate, the current service cost which defines the amount of rights matured during the financial year by employees is entered under the "labour costs" heading of the Statement of income and the interest cost, which constitutes the figurative charge which the company would have to pay if it took out a loan equal to the severance indemnity on the market, is entered among the "Financial Revenue (Charges)".

The actuarial profits and losses accumulated up until last year which reflect the effects of changes in the actuarial hypotheses used, are entered pro-quota in the Statement of income for the rest of the average working life of the employees when their net value not entered at the end of the preceding year exceeds the value of the liability by 10% (so-called corridor method).
For defined contribution plans the Group pays its contribution to a public or private pension fund on an obligatory, contractual or voluntary basis. Once the contributions have been paid the Group has no further obligations. The contributions they have paid are entered into the statement of income under the heading of "Cost of work" when owed.

REMUNERATION PLANS IN THE FORM OF PARTICIPATION IN THE CAPITAL (STOCK OPTION PLANS)
The costs of staff labor remunerated by means of a *stock option plan* are determined on the basis of the fair value of the options granted to the employees at the date of assignment.
The calculation method for the determination of *fair value* bears in mind all the characteristics of the options (duration of the option, price and conditions for exercising the options etc), as well as the value of the stock at the date of

assignment, of the volatility of the stock and of the interest rate curve again at the date of assignment consistently with the duration of the plan. The Black & Scholes pricing model is used.
The cost is shown in the Statement of income during the period in which the rights granted mature, considering the best possible estimate of the number of options becoming exercisable.
In conformity with the IFRS 1, the said standard has been applied to all the assignments subsequent to November 7th 2002 which had still not matured by January 1st 2005.

I) PROVISIONS FOR LIABILITIES AND CONTINGENCIES

The Group has shown the provisions for future contingencies wherever, in the face of a legal or implicit obligation to third parties, it is probable that the Group will have to use its resources to honor such an obligation and when a reliable estimate of the amount of the obligation itself can be made. Variations in such estimates are reflected in the Statement of income for the financial year in which the variation takes place.

L) RECOGNITION OF REVENUE

The revenue from the sale of goods is recorded when the significant risks and benefits of the ownership of the goods are transferred to the purchaser, which is normally the time when they are delivered or shipped.
Financial revenue and charges are entered on the basis of interest matured on the net value of the relative financial asset or liability using the actual interest rate.

M) ENTRIES IN FOREIGN CURRENCY

Assets and liabilities in foreign currency, with the exception of real estate, are entered at the exchange rate in effect on the day that the financial period was closed and the relative profits and losses are entered into the Statement of income.

N) GRANTS IN CAPITAL ACCOUNT AND IN OPERATING ACCOUNT

Contributions, from both public and third party private bodies are entered when there is reasonable certainty of receiving them and of satisfying the conditions for obtaining them. Contributions received for specific expenses are shown among the other liabilities and credited to the Statement of income at the moment in which the conditions for entering them are satisfied. Contributions received for specific assets, the value of which is entered among the tangible or intangible assets, are shown either as direct reduction of the assets themselves or among the other liabilities and are credited to the Statement of income in relation to the period of depreciation of the assets they refer to. Grants in operating account are shown entirely in the Statement of income at the moment in which the conditions for entering them are satisfied.

O) FINANCIAL LEASING

Financial leasing operations are entered into accounts using the financial methodology which stipulates that the fixed asset acquired and its relative financing be entered into accounts. The relative amounts of depreciation and financial charges are entered in the Statement of income.

P) TAXES

Income taxes include the current and deferred taxes calculated on the taxable income of the companies of the Group. Current taxes represent an estimate of the amount of the income taxes calculated on the taxable income for the period. Deferred income tax assets and liabilities have been calculated on the basis of differences of a temporary nature between assets and liabilities recognized for tax purposes and the corresponding figures on the financial statements applying the current tax rate in force or essentially in force at the date of reference. Deferred tax assets have been entered as assets when it is probable that they will be recovered, in other words when it appears likely that the entity of the taxable amount in the future will be sufficient to recover the assets. The possibility of recuperating assets for deferred tax assets is re-examined at the closing of each financial year.

Q) EARNINGS PER SHARE

The basic earnings per ordinary share are calculated by dividing the portion of the Group's net profit attributable to ordinary shares by the weighted average of the ordinary shares in circulation during the financial year, excluding treasury stock. For the purposes of calculating the diluted earnings per share, the weighted average of the shares in circulation is modified by assuming the subscription of all the potential shares deriving from the conversion of stock options having a diluting effect.

STOCK OPTION PLANS

El.En. spa

The chart below shows information related to the stock options voted during the year 2008 by the Parent Company El.En. S.p.A. Stock option plans were implemented within the company with the aim of providing the Group with an instrument for encouraging employee incentive and loyalty.

	Max. expiration date	Outstanding options	Options issued	Options cancelled	Options exercised	Expired option not exercised	Outstanding options	Exercisable options	Exercise price
		01.01.11	01.01.11-31.12.11	01.01.11-31.12.11	01.01.11-31.12.11	01.01.11-31.12.11	31.12.11	31.12.11	
Plan 2008/2013	May, 15 2013	160.000	0	8.000	0	0	152.000	76.000	€ 24,75

For the stock option plan, the fair value was determined following the "Black & Scholes" pricing model using the following hypotheses:

Market interest rate for risk free investments: 4,8%
Historical volatility: 26,11%
Time interval used for calculating volatility: 3 years prior to the date of issue

The overall fair value of the stock options is 770 thousand Euros.

During the financial year 2011 the average price registered for El.En. SpA, shares was about 11,98 Euros.

With regard to the characteristics of the individual stock option plans as well as the increases of capital decided on to implement it, please refer to the description contained in note (10) of this report.

Cynosure Inc.

The chart below shows a summary of the main elements of the Cynosure stock option plan in existence during 2011.

Outstanding options	Options granted	Options cancelled, expired	Options exercised	Outstanding options	Exercisable options
01.01.11	01.01.11- 31.12.11	01.01.11- 31.12.11	01.01.11- 31.12.11	31.12.11	31.12.11
2.097.750	411.104	91.808	41.543	2.375.503	1.829.238

The chart below shows the average pick-up price and the average lifespan of the options in circulation on December 31st 2011.

Average exercise price	Outstanding options	Exercisable options	Average life
	31.12.11	31.12.11	
$14,66	2.375.503		6,67
$15,47		1.829.238	6,06

ACQUISITIONS MADE THIS YEAR

HOYA ConBio®
On June 27th 2011 the American subsidiary Cynosure Inc. acquired the activities in the medical and aesthetic laser sector from HOYA ConBio® for 24,5 million dollars. The purpose of this operation was to extend the portfolio of products offered by Cynosure by adding the "photoAcoustic Energy" technology owned by HOYA ConBio®, which uses extremely brief impulses of Energy to penetrate the skin in nanoseconds, thus minimizing the heat effect during each application; this technology is designed for a variety of uses including photo-rejuvenation, removal of tattoos and pigmented skin lesions, reduction of wrinkles and acne scars.

The chart below shows the assets and liabilities registered at fair value at the time of acquisition.

	Fair value on the date of acquisition (USD/000)
Assets	
Property and equipment	525
Prepaids and other assets	150
Accounts receivable	1.506
Inventory	2.741
Intangible assets	7.580
Total	**12.502**
Liabilities	
Accounts payable	-1.479
Other liabilities	-603
Total	**-2.082**
Net assets identifiable to fair value	**10.420**
Goodwill	14.080
Cash paid per agreement	**24.500**

The intangible fixed assets acquired include brands for the amount of 2,6 million dollars, licenses and patents for 2 million dollars and lists of clients for 3 million dollars.

Please refer to note 33 of this document for details on the impact of this operation on the economic and financial position of the Group.

Elémé Medical
On February 2nd 2011 the American subsidiary Cynosure Inc. acquired some of the activities of Elémé Medical, for an amount of 2,5 million dollars. The purpose of this operation was to extend the portfolio of products offered by Cynosure Inc. to include the *"SmoothShapes"* technology which reduces the effects of cellulitis, and to acquire the intellectual property rights for this technology. The purchase price for this operation was allocated among the tangible, intangible assets and liabilities, while the residual amount was registered as goodwill for the synergy expected in the use of *SmootShapes* technology along with the other anti-cellulitis products and in the utilization of the existing distribution channels.

The chart below shows the assets and liabilities registered at fair value at the time of acquisition.

	Fair value on the date of acquisition (USD/000)
Assets	
Property and equipment	363
Accounts receivable	161
Inventory	736
Intangible assets	988
Total	**2.248**
Liabilities	
Accrued warranty and royalty	(238)
Total	**(238)**
Net assets identifiable to fair value	**2.010**
Goodwill	460
Cash paid per agreement	**2.470**

Since the date of acquisition of the assets the two operations described above have contributed to the revenue of the Group an amount of around 18,6 milion dollars. The transaction costs for the two operations have been entered into accounts and included among the costs for operating services and charges.

Comments on the Main Assets

Non-current assets

Intangible fixed assets (note 1)

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

Categories	Balance 31/12/10	Variation	(Devaluation)	(Amortizations)	Conversion Adjustemnts	Balance 31/12/11
Goodwill	6.089.082	11.271.407			32.747	17.393.236
Patents and rights to use patents of others	34.125	1.969.893		-144.391	-9.425	1.850.202
Concessions, licences, trade marks and similar rights	810.270	2.246.948		-370.754	3.786	2.690.250
Other	58.509	2.616.928		-607.000	-43.813	2.024.624
Intangible assets in progress and payments on account						
Total	**6.991.986**	**18.105.176**		**-1.122.145**	**-16.705**	**23.958.312**

Goodwill

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

At the end of each impairment test of the possible reduction in value, the single entries of goodwill have been placed in the respective "*cash generating unit*" (CGU) which has been identified. The identification of the CGU coincides with each juridical subject and corresponds to what the directors envision as their own activity.

The following chart shows the accounting value of goodwill for each "*Cash generating unit":*

CASH GENERATING UNIT (CGU)	**Goodwill 31/12/2011**	**Goodwill 31/12/2010**
Cynosure Inc.	14.209.271	2.969.017
Quanta System SpA	2.079.260	2.079.260
ASA Srl	439.082	439.082
Cutlite Penta Srl	407.982	407.982
Asclepion Laser Technologies GmbH	72.758	72.758
Arex Srl	55.000	55.000
Ot-Las Srl	7.483	7.483
Deka MELA Srl	31.500	31.500
Deka Laser Technologies	27.000	27.000
Quanta France	63.900	-
Totale	17.393.236	6.089.082

As of December 31st 2011 the recoverable value of the CGUs shown on the chart was subjected to an impairment test in order to verify the existence of any losses in value by comparing the accounting value of the unit and the recoverable amount, i.e., the current value of the expected future financial flows which one supposes will be derived from the continued use and from the eventual disuse at the end of the useful life of the unit. Results of these tests are shown below.

Cynosure Inc.:
The variation in the amount spent on goodwill for Cynosure Inc. can be attributed, primarily to the effects of the difference in the Exchange rate and to the acquisition of the activities of HOYA ConBio® and Elémé Medical which occurred during the first half of 2011. For an analysis of the individual operations please refer to the Director's report on operations and to the chapter dedicated to "Acquisitions made this year" in this document.
The recoverable amount was determined with the Discounted Cash Flow Method (DCF) by using the cash flow contained in the economic-financial plan set up by the Cynosure management for the years 2012 to 2014. In order to determine the recoverable amount of the CGU we considered actualized financial flows for the 3 years for which there was an explicit forecast added to the terminal value, assumed at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.
The actualization rate applied to the expected cash flows (WACC) was 8,51%; for the cash flows related to the years following the period which had explicit forecasts, we hypothesize a long term growth rate "g" of'1,5%.
The determination of the recoverable amount on the basis of these parameters made it possible to avoid any reduction in the value of the goodwill.
We also conducted an analysis of the sensitivity of the results: the recoverable amount remain significantly higher than the accounting value even assuming as a hypothesis a growth rate "g" of 0,5% and a WACC + 1% equal to 9,51%.

Quanta System SpA:
the recoverable amount was determined using the Discounted Cash Flow (DCF) method by actualizing the cash flows contained in the economic-financial plan approved by the Board of Directors of Quanta System SpA, which covered a time span from 2012-2014. In order to determine the recoverable amount of the CGU they considered the actualized financial flows for the 3 years of explicit forecasts added to the terminal value, assumed at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.
The actualization rate applied to the expected cash flows (WACC) is 10,68%; for the cash flows related to the years following the period of explicit forecasts, we hypothesize a long term growth rate "g" of 1,5%.
By determining the recoverable amount on the basis of these parameters it was possible to avoid making any reductions in the value of the goodwill.
An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the accounting value assuming the following hypothesis: a growth rate "g" of 0,5% and a WACC +1% equal to 11,68%.

Cutlite Penta Srl: the recoverable amount was determined using the Discounted Cash Flow (DCF) method by actualizing the cash flows contained in the economic-financial plan approved by the Board of Directors of Cutlite Penta Srl, which covered a time span from 2012-2014. In order to determine the recoverable amount of the CGU we considered the actualized financial flows for the 3 years of explicit forecasts added to the terminal value, assumed at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.
The actualization rate applied to the expected cash flows (WACC) is 10,68%; for the cash flows related to the years following the period of explicit forecasts, we hypothesize a long term growth rate "g" of 1,5%.
By determining the recoverable amount on the basis of these parameters it was possible to avoid making any reductions in the value of the goodwill.
An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the accounting value assuming the following hypothesis: a growth rate "g" of 0,5% and a WACC +1% equal to 11,68%.

ASA Srl: the recoverable amount was determined using the Discounted Cash Flow (DCF) method by actualizing the cash flows contained in the economic-financial plan approved by the Board of Directors of AsA Srl, which covered a time span from 2012-2014.
This company located in Vicenza, is a subsidiary of Deka MELA Srl, which operates in the sector of physical therapy. Even in the presence of a difficult financial situation, over the past few years it has shown a growing sales volume and constant revenue. This result has made it possible to distribute significant dividends. In order to determine the recoverable amount of the CGU we considered the actualized financial flows for the 3 years of explicit forecasts added to the terminal value, assumed at the same value of the perpetual revenue of the flow generated during the last year for which there was explicit forecast.
The actualization rate applied to the expected cash flows (WACC) is 10,68%; for the cash flows related to the years following the period of explicit forecasts, we hypothesize a long term growth rate "g" of 1,5%.
By determining the recoverable amount on the basis of these parameters it was possible to avoid making any reductions in the value of the goodwill.
An analysis of the sensitivity of the results was also conducted: the recoverable amount remains higher than the accounting value assuming the following hypothesis: a growth rate "g" of 0,5% and a WACC +1% equal to 11,68%.

***Quanta France Sarl*:** In July of 2011 Quanta System Spa increased the amount if its equity in Quanta France Sarl, by buying 42% from other partners (at a price of about 27 thousand Euros) and therefore now holds a total of 60%. Moreover, after the vote of the shareholders' meeting of the subsidiary to increase the capital stock, it underwrote its own quota for an amount of 15 thousand Euros. The operations were entered into accounts in conformity with IFRS3 as a step acquisition the effects of which generated a goodwill of about 64 thousand Euros.

The verification of the procedures used for the impairment tests to determine if they were in conformity with the regulations prescribed in the international accounting standards was approved independently by the same Board of Directors of the Parent Company.

Other immaterial assets

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

The increase with respect to December 31st 2010 is mostly due to the acquisition of the assets of HOYA ConBio® and of Elémé Medical made by Cynosure Inc. this year.

Under the heading “concessions, licenses, trademarks and similar rights” we have entered among other things, the overall costs sustained by the subsidiary Cynosure, Asclepion and Quanta System for new software. The increases under this heading as well as those under the heading of “others” (which also includes the costs sustained by the subsidiary Quanta System for the creation of its new web site) are related to the acquisitions made by Cynosure described above.

Tangible fixed assets (note 2)

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

Cost	**Balance 31/12/10**	**Increments**	**Devaluations**	**Other operations**	**(Disposals)**	**Conversion Adjustments**	**Balance 31/12/11**
Lands	2.420.641					5.491	2.426.132
Buildings	14.756.456	2.086				15.305	14.773.847
Plants and machinery	4.132.190	142.805			-24.737	-2.011	4.248.247
Industrial and commercial equipment	26.795.942	3.486.402		1.606.066	-2.366.175	681.286	30.203.521
Other goods	11.265.923	1.634.175		28.040	-1.013.336	202.266	12.117.068
Tangible assets under construction	16.645	197		-14.693		1.235	3.384
Total	**59.387.797**	**5.265.665**		**1.619.413**	**-3.404.248**	**903.572**	**63.772.199**

Depreciation provisions	**Balance 31/12/10**	**Depreciation**	**Devaluations**	**Other operations**	**(Disposals)**	**Conversion Adjustments**	**Balance 31/12/11**
Lands							
Buildings	1.576.475	447.325		2		3.228	2.027.030
Plants and machinery	1.815.247	414.436		-543	-24.732	1.530	2.205.938
Industrial and commercial equipment	18.536.786	4.102.711		1.330.707	-1.798.988	705.078	22.876.294
Other goods	8.383.775	1.260.362		13.029	-1.000.546	199.231	8.855.851
Tangible assets under construction							
Total	**30.312.283**	**6.224.834**		**1.343.195**	**-2.824.266**	**909.067**	**35.965.113**

Net value	**Balance 31/12/10**	**Increments**	**Other operations**	**(Depreciations and devaluations)**	**(Disposals)**	**Conversion Adjustments**	**Balance 31/12/11**
Lands	2.420.641					5.491	2.426.132
Buildings	13.179.981	2.086	-2	-447.325		12.077	12.746.817
Plants and machinery	2.316.943	142.805	543	-414.436	-5	-3.541	2.042.309
Industrial and commercial equipment	8.259.156	3.486.402	275.359	-4.102.711	-567.187	-23.792	7.327.227
Other goods	2.882.148	1.634.175	15.011	-1.260.362	-12.790	3.035	3.261.217
Tangible assets under construction	16.645	197	-14.693			1.235	3.384
Total	**29.075.514**	**5.265.665**	**276.218**	**-6.224.834**	**-579.982**	**-5.495**	**27.807.086**

In accordance with the current accounting standards, the value of the land has been separated from the value of the buildings located upon it and the lands have not been amortized since they constitute an element having an unlimited useful life. The value of the lands on December 31st 2011 was 2.426 thousand Euros.

The heading of “Buildings” includes the building complex in Via Baldanzese a Calenzano (Florence), where the company operates along with the four subsidiaries Deka M.E.L.A., Cutlite Penta, Esthelogue Srl and Pharmonia Srl, the new building complex in Via Dante Alighieri also in Calenzano, purchased in 2008, the building in the city of Torre Annunziata purchased in 2006 for the research, development and production activities of the subsidiary Lasit SpA, the building located in Branford, Connecticut, which the subsidiary BRCT possesses where Lasercut Technologies Inc. operates and the building which since May of 2008 houses the activities of the subsidiary Asclepion GmbH.

The increments in the category of “Plants and machinery” are related in particular to the investments made by the Parent Company El.En. SpA, by Wuhan Penta Chutian, Asclepion GmbH and ASA Srl.

The equipment which the subsidiary Cynosure assigns to most of their sales agents working in the US for sales demonstrations continues to represent a major investment. Further increases in the category of “Equipment” are related to investments made by El.En. and by the subsidiaries, Deka Medical Inc., Deka Technologie Laser Sarl, Esthelogue Srl e Deka Mela Srl; for this latter, also as a result of the different treatment of the sales which are financed by the clientele by means of operative leasing, considered in conformity with the IAS/IFRS standards as revenue from multi-year rents, there is the consequent capitalization of the costs of the machinery. The amount entered under the heading of “other operations” refers to the significant acquisition of assets made by Cynosure Inc. as described above. The sales registered under Equipment refer mostly to the subsidiary Cynosure.

The increase in the category of “Other Goods” refers mainly to the purchase of new motor vehicles.

The tangible assets held in leasing amount to 0,6 million Euros and are mostly entered among the industrial and commercial equipment.

Equity investments (note 3)

The chart below provides information on the equity investments:

	31/12/11	31/12/10	Variation	Var. %
Equity investments in:				
associated companies	306.283	520.506	-214.223	-41,16%
other companies	135.846	173.291	-37.445	-21,61%
Total	442.129	693.797	-251.668	-36,27%

Equities in associated companies

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

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

Immobiliare Del.Co. Srl:	259	thousand Euros
Actis Srl:	1	thousand Euros
SBI S.A.:	307	thousand Euros
Elesta Srl:	-145	thousand Euros
Grupo Laser Idoseme SL:	-228	thousand Euros
Quanta System Asia Pacific Co.LTD	112	thousand Euros

The chart below shows a summary of the data related to the associated companies:

	Total Assets	Total liabilities	Net income (Loss)	Revenues and other income	Charges and expenses
Actis Active Sensors Srl (*)	227.919	122.276	178	95.821	95.643
Elesta Srl (ex IALT Scrl)	1.540.578	1.829.788	-527.682	929.481	1.457.163
Immobiliare Del.Co. Srl	1.177.891	1.108.348	27.520	151.790	124.271
S.B.I. SA	784.882	171.779	-126.610	115.527	242.137
Quanta System Asia Pacific Co.LTD	579.702	352.172	101.975	405.881	303.906
Grupo Laser Idoseme SL	8.834.402	9.260.062	-1.526.756	4.389.365	5.916.121

(*) Data as of December 31st 2010

Other equities

The value of the equity of Quanta System Spa in Centro Laser Scarl (equal to 4,46% of the capital stock) was devaluated in order to adapt it to the value of the corresponding fraction of the shareholders' equity and therefore decreased from 36.152 Euros on December 31st 2010 to 18.457 Euros on December 31st 2011.
Morover, the amount of the equity of El.En. Spa in Alfa Laser Srl (equal to 19% of the capital stock) was subjected to direct devaluation for an amount of 17.950 Euros, in order to adapt its value to the sales price of the operation which was concluded on January 31st 2012.

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

Other non current assets	31/12/2011	31/12/2010	Variation	Var. %
Securities	5.096.801	7.476.074	-2.379.273	-31,83%
Deferred tax assets	6.354.281	5.521.103	833.178	15,09%
Other non current assets	120.635	166.848	-46.213	-27,70%
Total	11.571.717	13.164.025	-1.592.308	-12,10%

The heading of Securities refers to investments made this year by Cynosure in mid-term government bonds for an amount of about 6,6 million dollars which are entered into accounts as non-current assets. It should be recalled that the amount entered under this heading on December 31st 2010 for 3,4 million dollars as non-current assets was reclassified on December 31st 2011 among the current assets, since it is related to bonds that mature in 2012.

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

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory:

Inventories:	**31/12/11**	**31/12/10**	**Variation**	**Var. %**
Raw materials and consumables	27.625.779	23.048.840	4.576.939	19,86%
Work in progress and semi finished products	15.317.124	11.089.966	4.227.158	38,12%
Finished products and goods for sale	26.401.245	21.511.379	4.889.866	22,73%
Total	69.344.148	55.650.185	13.693.963	24,61%

A comparison in the final inventories shows san increase in their volume which is due to the increase in the volume of production and in part also to the acquisition of the assets of Hoya ConBio® and Elémé Medical made by Cynosure Inc. this year.

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

Inventory:	**31/12/2011**	**31/12/2010**	**Variation**	**Var. %**
Gross amount	77.081.772	63.028.511	14.053.261	22,30%
minus: devaluation provision	-7.737.624	-7.378.326	-359.298	4,87%
Total	69.344.148	55.650.185	13.693.963	24,61%

The incidence of the obsolescence provision on the gross value of the inventory fell from 11,71% on December 31st 2010 to 10,04% on December 31st 2011.

Commercial receivables (note 6)

Receivables are composed as follows:

Debtors:	**31/12/11**	**31/12/10**	**Variation**	**Var. %**
Trade debtors	49.151.139	44.780.858	4.370.281	9,76%
Associated debtors	1.378.867	1.933.542	-554.675	-28,69%
Total	50.530.006	46.714.400	3.815.606	8,17%

Trade debtors:	**31/12/2011**	**31/12/2010**	**Variation**	**Var. %**
Italy	18.436.593	16.237.360	2.199.233	13,54%
European Community	10.513.733	10.418.826	94.907	0,91%
Outside of European Community	27.268.804	23.629.342	3.639.462	15,40%
minus: devaluation provision for debtors	-7.067.991	-5.504.670	-1.563.321	28,40%
Total	49.151.139	44.780.858	4.370.281	9,76%

The increase in the commercial receivables shown on the chart above was caused by the increase in the volume of business and in part by the acquisition of the assets of Hoya ConBio® and Elémé Medical made by Cynosure Inc. this year.

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

Provision for bad debts	**2011**	**2010**
At the beginning of the period	**5.504.670**	**4.699.413**
Amounts accrued	2.359.476	2.093.340
Amounts utilized	-827.425	-1.437.905
Unused amounts reversed	-57.638	-22.188
Other operations		
Conversion adjustment	88.908	172.010
At the end of the period	**7.067.991**	**5.504.670**

Breakdown of trade receivables from third parties are shown below:

Account receivables vs. third parties:	**31/12/2011**	**31/12/2010**
To expire	24.073.282	20.999.542
Expired:		
30 days	9.660.866	10.221.204
60 days	4.277.097	3.034.361
90 days	2.742.800	2.840.064
180 days	3.123.508	3.229.965
over 180 days	5.273.586	4.455.722
Total	49.151.139	44.780.858

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

Account receivables in:	**31/12/2011**	**31/12/2010**
Euro	28.839.319	27.301.282
USD	6.958.826	5.114.442
Other currencies	13.352.994	12.365.134
Total	49.151.139	44.780.858

The value in Euro shown in the chart for the receivables originally expressed in US dollars or other currency represents the amount in currency converted at the exchange rate in force on December 31st 2011 and December 31st 2010.

For a detailed analysis of the trade and financial receivables from associated companies, please refer to the paragraph in the chapter titled “Related parties”.

Tax receivables/Other receivables (note 7)

The chart below shows a breakdown of tax receivables and other receivables:

	31/12/2011	31/12/2010	Variation	Variation %
Tax debtors				
VAT credits	4.537.951	5.807.188	-1.269.237	-21,86%
Income tax credits	1.451.480	1.244.037	207.443	16,67%
Total tax debtors	5.989.431	7.051.225	-1.061.794	-15,06%

Financial receivables				
Financial receivables from third parts	20.000	50.000	-30.000	-60,00%
Financial receivables from associated companies	63.565	37.241	26.324	70,69%
Total	83.565	87.241	-3.676	-4,21%
Other receivables				
Security deposits	616.631	542.394	74.237	13,69%
Down payments	1.952.611	1.975.770	-23.159	-1,17%
Other credits	4.403.418	4.012.364	391.054	9,75%
Total	6.972.660	6.530.528	442.132	6,77%
Total financial and other receivables	7.056.225	6.617.769	438.456	6,63%

The financial year closed with a VAT credit of over 4,5 million Euros which was mostly a result of the intense export activity of the Group and the difficulty in obtaining reimbursements beyond the annual compensation quotas.

Among the income tax receivables we have entered credits derived from the difference between the pre-existing tax credit or down payment and the tax debt which had matured by the date to which the financial statement refers.

For a detailed analysis of the financial receivables from associated companies, please refer to the following chapter regarding “Related parties”, in this document.

Financial instruments (note 8)

Investments which are not permanent:	31/12/2011	31/12/2010	Variation	Var. %
Other investments	24.332.276	44.676.217	-20.343.941	-45,54%
Total	24.332.276	44.676.217	-20.343.941	-45,54%

The amount entered under the heading of “Other investments” is made up of temporary uses of cash used in particular by Cynosure with the cash they hold. In particular, these investments consist of instruments belonging to the category of “financial assets available for sale” consisting prevalently of investments in bonds or similar securities, made for an amount of about 31 million dollars (59 million dollars on December 31st 2010). It should be recalled that under this heading investments for an amount of about 3,4 million dollars which on December 31st 2010 were entered among the non-current assets as described above in note 4 have been reclassified.

Cash at Bank and on Hand (note 9)

Cash at bank and on hand is composed as follows:

Cash at Bank and in hand:	31/12/2011	31/12/2010	Variation	Var. %
bank and postal current accounts	48.256.782	41.447.509	6.809.273	16,43%
cash in hand	107.760	67.418	40.342	59,84%
Total	48.364.542	41.514.927	6.849.615	16,50%

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

Net financial position as of December 31st 2011

The net financial position of the Group as of December 31st 2011 expressed in thousands of Euros, was as follows:

Net financial position		
	31/12/2011	**31/12/2010**
Cash and bank	48.365	41.515
Financial instruments	24.332	44.676
Cash and cash equivalents	**72.697**	**86.191**
Short term financial receivables	**20**	**50**
Bank short term loan	(11.265)	(5.290)
Part of financial long term liabilities due within 12 months	(1.732)	(1.169)
Financial short term liabilities	**(12.997)**	**(6.460)**
Net current financial position	**59.720**	**79.782**
Bank long term loan	(4.548)	(2.164)
Bonds	(425)	(784)
Other long term financial liabilities	(1.711)	(1.934)
Financial long term liabilities	**(6.684)**	**(4.882)**
Net financial position	**53.035**	**74.900**

The net financial position of the Group has decreased since December 31st 2010, and now amounts to 53 million Euros; most of which is held by the subsidiary Cynosure Inc.
Among the uses made of cash this year, the most important were the acquisition by Cynosure of the assets of Elémé Medical and Hoya ConBio® for the amounts, respectively, of 2,5 million dollars 24,5 million dollars. Dividends were paid to third parties for 944 thousand Euros by El.En. Spa, by Deka Mela Srl for 105 thousand Euros and by ASA Srl for 335 thousand Euros.
Cash was further absorbed by the increase in net working capital which was proportionally greater than the increase in the volume of business.

The financial position benefitted for an amount of about 1,6 million Euros from the effects in the exchange rate with the rise in the value of the US currency and the consequent re-evaluation of the large amount of cash held by Cynosure. From the net financial position we have excluded financial credits towards associated companies for an amount of 64 thousand Euros since they are connected to a policy of financial support of the companies belonging to the Group (for detailed information see the paragraphs on operations with related parties). In continuation of past policy, we felt it opportune not to include this type of financing in the net financial position displayed above.

For further details and information, please refer to the statement of cash flow.

Comments on the main liabilities

Capital and Reserves

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

Capital stock (note 10)

As of December 31st 2011, the capital stock of the El.En Group, which coincides with that of the Parent Company, was as follows:

Authorized	Euros	2.591.871
Underwritten and deposited	Euros	2.508.671

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

Categories	**31/12/2010**	**Increase.**	**(Decrease.)**	**31/12/2011**
No. of Ordinary Shares	4.824.368			4.824.368
Total	**4.824.368**			**4.824.368**

Shares are nominal and indivisible and each of them gives the holder the right to one vote in all the ordinary and extraordinary assemblies as well as the other financial and administrative rights granted in accordance with the law and the Statute. At least 5% of the net profits of the financial year must be set aside for the legal reserve in accordance with art. 2430 of the civil code. The remainder is distributed to the shareholders, unless the assembly votes otherwise. The Statute does not allow advance payments on the dividends. Dividends not cashed within five years from the date of emission are returned to the Company. No special statutory clauses exist with regard to the participation of shareholders in the remaining assets in the event of liquidation. No statutory clauses exist granting special privileges.

Increases in capital for use in the stock option plan
The special assembly of El.En. SpA held on May 15th 2008 voted to authorize the Board of Directors, in accordance with and by effect of art. 2443 of the Civil Code, for a period of up to five years from the date of the deliberation, to increase the share capital of the Company once or several times upon payment, by a nominal maximum amount of 83.200,00 Euros through the issue of a maximum of 160,000 ordinary shares with a nominal value of euro 0,52 each, with entitlement equal to those of the ordinary company shares at the date of subscription, to be liberated by payment of a price to be determined by the Board of Directors in the respect of the dictates of art. 2441, sub-paragraph VI, civil code. – that is considering the stockholders' equity, also bearing in mind the official prices registered by the shares on the stock market over the last six months – and as a unitary value inclusive of the premium, not less than the greatest of the following: a) the value of each share determined on the basis of the consolidated stockholders' equity of the El.En. Group as of December 31st of the year previous to the issue of the options; b) the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organized and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options; c) the arithmetical average of the recorded official prices of the company's ordinary shares on the New Market, organized and managed by the Borsa Italiana SpA in the 30 days prior to the assigning of the options.
The Board of Directors of El.En. SpA, with the vote taken on July 15th 2008, implemented the authority of the shareholders meeting of May 15th 2008, to increase the capital stock by 83.200,00 for use in the stock option plan for 2008-2013 and approved the relative regulations. The option rights were assigned, by a vote taken on the same day, exclusively to employees of El.En. S.p.A. and the other companies of the Group which, at the time of assignment, were working in a subordinate position. The stock option plan is divided into two equal portions which can be implemented in conformity with the following terms:
a) up to a maximum amount of 41.600,00 Euros starting on July 15th 2011 until the date of approval of the proposed annual report for 2011 by the Board of Directors.

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

- if the shareholders' meeting, during the approval of the report for 2011, votes to distribute the profits, from the day that the relative dividends for 2011 become payable up until the date of approval of the company report for 2012 by the Board of Directors;
- otherwise, if the profits are not distributed for the year 2011, from the 15th of May 2012 up until the date of the approval of the proposed annual report for 2012 by the Board of Directors;
- if, during the approval of the report for 2012, the shareholders' meeting votes in favor of the distribution of the profits, from the date, if earlier than the 15th of May 2013, of the maturity of the payments of the dividends for 2012 up until May 15th 2013.
- otherwise, if it is decided to not distribute the profits for the year 2012, the period in which the rights can be exercised will terminate on the date, if earlier than May 15th 2013, of the approval of the proposed annual report for the year 2012 by the Board of Directors, and otherwise on the 15th of May 2013.

Therefore – exclusively for the above mentioned nominal sum of 41.600,00 Euros – the underwriting of the increase in capital approved by the Board of Directors can take place exclusively during the time intervals mentioned above for the exercising of the rights.
b) concerning the residual amount of the increase, equal to the nominal amount of 41.600,00 Euros, starting on July 15th 2012 up until the date of approval of the proposed annual report for the year 2012 by the Board of Directors.
Subsequently, the rights to the options may be exercised as follows:
- if the shareholders' meeting, during the approval of the report for 2012, approves the distribution of profits for the year 2012, from the date in which payment of dividends matures for the dividends for the year 2012 up until the 15th of May 2013;
- otherwise, if it is decided not to distribute the profits for the year 2012, the period for exercising the rights will terminate on the date, if before May 15th 2013, of the approval of proposed annual report for 2012, and otherwise, on May 15th 2013.
Therefore, the underwriting of the increase in capital approved by the Board of Directors for the residual amount of 41.600,00 nominal Euros can take place only during the time intervals indicated above for the exercising of the rights to pick up the options.

It should be noted that on the date of this report no stock options had been picked up.

Additional paid in capital (note 11)

On December 31st 2011 the share premium reserve, coinciding with that of the Parent Company, amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2010.

Other reserves (note 12)

Other reserves	**31/12/2011**	**31/12/2010**	**Variation**	**Var. %**
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	33.780.537	33.663.109	117.428	0,35%
Reserve for translation adjustments	-259.710	-1.237.873	978.163	-79,02%
Stock options reserve fund	1.672.730	1.494.320	178.410	11,94%
Reserve for contributions on capital account	426.657	426.657		0,00%
Other reserves	13.392	13.392		0,00%
Total	36.170.908	34.896.907	1.274.001	3,65%

As of December 31st 2011 the "extraordinary reserve" was 33.781 thousand Euros. The increase which took place with respect to December 31st 2010 is related to the destination of part of the profits from 2010 by the Parent Company El.En., in accordance with the decision voted by the stockholders' meeting on May 13th 2011.
The reserve "for stock options" includes the equivalent of the costs determined in accordance with IFRS 2 of the Stock Option Plans assigned by El.En. SpA.
The conversion reserve summarizes the effects of the variations in the exchange rate on the investments in foreign currency. As of December 31st 2011 the value can be attributed essentially to the re-evaluation of the US dollar. The effects for the year 2011 are shown in the column " Comprehensive (loss) income " in the stockholders' equity chart.
The reserve for contributions in capital account must be considered a reserve of profits.

Treasury Stock (note 13)

As described in detail in the paragraph related to the area of consolidation, at the date of closing of this document, December 31st 2011, the treasury stock purchased by the company amounted to a total of 103.148 shares at the average price of 24,97 Euros per share for a total amount of 2.575.611 Euros.

Profits/losses brought forward (note 14)

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

Non-current liabilities

Severance indemnity fund (note 15)

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

Balance 31/12/2010	Accrual	Utilization	Payment to complementary pension forms, to INPS fund and other movements	Balance 31/12/2011
2.701.696	1.033.031	-311.215	-662.038	2.761.474

The severance indemnity represents an indemnity which is matured by the employees during their period of employment and which is paid upon termination of employment.

For IAS purposes the payment of a severance indemnity represents a "long term benefit subsequent to the termination of employment"; this is an obligation of the "defined benefit " type which entails entering a liability similar to that entered for defined benefit pension plans.
As far as the companies located in Italy are concerned, after the modifications to the severance indemnity in conformity with the Law of December 27th 2006 (and later modifications), for IAS purposes, only the liability relative to the matured severance provision left in the company has been evaluated because the quota maturing has been paid to a separate entity (complementary pension type). Also for employees who have explicitly decided to keep the indemnity provision in the company, the indemnity matured since January 1st 2007 has been paid into the treasury Fund managed by INPS. This provision, according to the financial law 2007, guarantees the employees working in the private sector the payment of the severance indemnity for the amount corresponding to the payments deposited to the latter.

It should be recalled that the company uses the so-called "corridor method" in which the net cumulative value of the actuarial surplus and deficit is not registered until it exceeds in absolute terms 10% of the current value of the liabilities. On December 31st 2011 the net accumulated value of the actuarial profits not registered was equal to 141 thousand Euros. The present value of the liabilities as of December 31st 2011 was 2.577 thousand Euros.

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

Financial hypotheses	**Year 2010**	**Year 2011**
Annual implementation rate	4,50%	4,60%
Annual inflation rate	2,00%	2,00%
Annual increase rate of salaries (including inflation)	Executives 4,00% White collar workers 2,50% Blue collar workers 2,50%	Executives 4,00% White collar workers 2,50% Blue collar workers 2,50%

The amount entered in the column "Payment to complementary pension forms, to INPS fund and other movements" of the chart showing the activity in the severance indemnity fund mostly represents the severance indemnity quotas deducted from the fund because they were intended for other additional non-company funds or to the treasury Fund managed by INPS (with particular reference to the Parent Company El.En and the subsidiary Quanta System.), in accordance with the choices made by the employees.

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

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

The breakdown is as follows:

	Balance 31/12/2010	Accrual	(Utilization)	Other	Translation Adjustments	Balance 31/12/2011
Deferred tax assets on inventory devaluations	1.411.728	149.707	-91.796		5.606	1.475.245
Deferred tax assets on warranty reserve	286.350	7.850	-64.357		5.330	235.173
Deferred tax assets on bad debt reserve	810.635	456.858	-27.710		879	1.240.662
Deferred tax assets on loss brought forward from the previous years	779.127	79.412	-21.192		-70.917	766.430
Deferred tax assets on intercompany profits	1.598.955	329.037				1.927.992
Deferred tax assets on severance indemnity provision discount	-30.876	-7.735		100		-38.511
Other deferred tax assets	665.184	168.075	-218.766	119.722	13.075	747.290
Total	5.521.103	1.183.204	-423.821	119.822	-46.027	6.354.281
Deferred tax liabilities on advanced depreciations	178.633		-4.113			174.520
Deferred tax liabilities for contributions on capital account	143.500	125.728				269.228
Other deferred tax liabilities	344.700	269.508	-32.871	119.823	27.515	728.675
Total	666.833	395.236	-36.984	119.823	27.515	1.172.423
Net amount	4.854.270	787.968	-386.837	-1	-73.542	5.181.858

Deferred tax assets amounted to about 6.354 thousand Euros. The increase this year is due mainly to the fund for stock obsolescence, to the changes in the inter-Group profits on the end of year inventory, and to the devaluation made on some receivables.

Deferred tax liabilities amounted to 1.172 thousand Euros. The variations in the “other deferred tax liabilities” are related, among other things to an evaluation for tax purposes of some LIFO evaluated inventories and to the difference in some exchange rates which were not realized. A further increase was due to the installment payment of the taxes on some grants in capital account received during the year.

Other accruals (note 17)

The chart below shows the operations made with other accruals:

	Balance 31/12/2010	Accrual	(Utilisation)	Other	Translation Adjustments	Balance 31/12/2011
Reserve for pension costs and similar	484.806	97.624		-24.818		557.612
Others:						
Warranty reserve on the products	2.792.703	857.001	-190.298	-8.877	150.058	3.600.587
Reserve for risks and charges	2.308.689	227.506	-46.157	-10.000	811	2.480.849
Other minor reserves	41.000	3.000				44.000
Total other reserves	5.142.392	1.087.507	-236.455	-18.877	150.869	6.125.436
Total	5.627.198	1.185.131	-236.455	-43.695	150.869	6.683.048

The clients’ agents’ indemnity fund included in the entry “Reserve for pension costs and similar” on December 31st 2011, amounted to 506 thousand Euros as opposed to 438 thousand Euros on December 31st 2010.

According to IAS 37, the amount owed must be calculated using the actualization techniques to estimate as precisely as possible, the overall cost sustained for the payment of benefits to the agents after the termination of employment.

The technical evaluations were made on the basis of the hypotheses described below.

Financial hypotheses	Year 2010	Year 2011
Annual rate of implementation	4,50%	4,60%
Annual rate of inflation	2,00%	2,00%

The reserve for product guarantees is calculated on the basis of the costs for spare parts and servicing under warranty incurred in the previous financial year, adjusted to the volume of sales of the current financial year.

Other debts and potential liabilities

All of the companies belonging to the Group are subject to the risk of disputes and legal actions which may emerge during their normal operations. The subsidiary Cynosure, as part of their own 10-K related to the financial year 2011, has provided information concerning some of the disputes now in progress, in particular, a class action lawsuit begun in 2005 related to the unsolicited use of faxes without the prior permission of the receiving party. The American company firmly opposed the requests of the adverse parties, and their position was sustained by the first sentence of the Court of the state of Massachusetts in the month of July 2010 which denied the legitimacy of a class action suit for this particular subject. This sentence, which was appealed by the plaintiff, was confirmed by the court in January of 2012.

Amounts owed and financial liabilities (note 18)

Financial m/l term debts	31/12/2011	31/12/2010	Variation	Var. %
Bonds	425.099	784.264	-359.165	-45,80%
Amounts owed to banks	4.547.896	2.163.677	2.384.219	110,19%
Amounts owed for leasing	507.749	290.738	217.011	74,64%
Amounts owed to other financiers	1.203.493	1.643.084	-439.591	-26,75%
Total	6.684.237	4.881.763	1.802.474	36,92%

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

The mid- to long-term debts owed to banks as of December 31st 2011 mostly represent the amounts due after one year:

a) bank financing which was granted to Asclepion GmbH for the construction of the building where the company is now operating .

b) financing granted to El.En. S.p.A. by Mediocredito Italiano S.p.A. for 3,4 million Euros to be paid back in set amounts every six months starting on December 15th 2011 and terminating on June 15th 2016. Of this amount, on 1,7 million Euros the interest rate applied for the first installment was 2,40%; for the remaining 1,7 million the rate applied was 5,70%; for the following periods, the interests will be the same as the Euribor rate at six months, as registered on the second target working day before the expiration date of the preceding interest period, increased by a spread. The spread is 3,90 points on the first 1,7 million Euros reduced to 0,60 on the remaining 1,7 million Euros.

"Amounts owed to other financers" consist, among other things, in the quotas which are payable after one year for:

a) Facilitated financing for applied research, issued by MIUR, to Quanta System SpA, granted in several installments, for an amount of 673.500 Euros at the annual interest rate of 0,50%, payable in 14 semi-annual deferred installments, starting on January 1st 2009.
b) Financing issued by the Banca Nazionale del Lavoro to the subsidiary Quanta System SpA, granted for an overall amount of 500 thousand Euros at the rate of 2,56%, for a duration of five years from the date of issuance including a period of pre-amortization of 6 months, to be paid back in deferred quarterly installments including capital and interest starting on January 15th 2010.
c) Facilitated financing from Finlombarda/Regione Lombardia for applied research, issued to the subsidiary Quanta System SpA for a total of 900.000 Euros, at the rate of 0,50% on half of the capital and 4,01% annually on the other half, to be paid back in 14 half-yearly installments with the last installment on June 30th 2016.

d) Centrobanca facilitated financing for applied research, granted to the subsidiary Lasit for 231.060 Euros at the annual interest rate of 0,96% last installment August 5th 2014.

Debts guaranteed by real estate property

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

Current liabilities

Financial debts (note 19)

Below, a breakdown of the financial debts is given:

Financial short term debts	31/12/2011	31/12/2010	Variation	Var. %
Bonds	427.660	393.309	34.351	8,73%
Amounts owed to banks	11.264.978	5.290.231	5.974.747	112,94%
Amount owed for leasing	275.140	211.835	63.305	29,88%
Liabilities (forward exchange contracts)		57.416	-57.416	-100,00%
Amounts owed to other financiers	1.029.394	506.826	522.568	103,11%
Total	12.997.172	6.459.617	6.537.555	101,21%

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

The heading of “Amounts owed to banks” is mainly composed of:
- short- term financing granted to El.En. Spa by the Cassa di Risparmio di Firenze for 3,5 million Euros at the rate of 2,774% with expiration on January 4th 2012 date on which the financing was renewed, until April 4th 2012, for an amount reduced to 2,5 million Euros.
- debts for advance payments on invoices of the subsidiary Esthelogue Srl;
- short-term quota on the loan granted to El.En. (see note 18);
- short-term quota on the financing granted to Asclepion (see note 18);
- overdraft coverage granted by credit institutions to subsidiary companies and, in particular, to Quanta System SpA and With Us Co;
- bank financing granted to Wuhan Penta Chutian Laser Equipment Co., Ltd for an amount of about 1.200 thousand Euros of which 980 thousand (corresponding to 8 million Yuan) at an annual rate of 6,56%.

The entry “amounts owed to other financiers” includes the short-term financings described in the note above and also:.

a) Facilitated MPS financing for applied research, reference TRL01, granted to the Parent Company, El.En. Spa for an overall amount of 681.103 Euros at the interest rate of 2% annually with the last installment on July 1st 2012.
b) Facilitated financing IMI for applied research issued to the subsidiary Quanta System SpA, for an overall amount of 929.157 Euros at the interest rate of 2% annually, to be paid back in 16 half-yearly postponed installments starting on July 1st 2003;
c) Financing from Unicredit issued to the subsidiary Quanta System SpA, for an overall amount of 500.000 Euros at the rate of 2,85%, to be paid back in 6 monthly installments starting in April 2012.

Amounts owed for supplies (note 20)

Trade debts:	31/12/2011	31/12/2010	Variation	Var. %
Amounts owed to suppliers	34.452.352	34.937.474	-485.122	-1,39%
Amounts owed to associated companies	124.139	200.145	-76.006	-37,98%
Total	34.576.491	35.137.619	-561.128	-1,60%

No significant amounts owed on overdue debts for supplies were recorded at the end of the year.

The chart below shows the trade debts toward third parties for 2011 divided according to the currency.

Account payables in:	31/12/2011	31/12/2010
Euro	19.845.706	22.859.209
USD	9.525.890	5.767.242
Other currencies	5.080.756	6.311.023
Total	34.452.352	34.937.474

On the chart, the value in Euros of the debts originally expressed in US dollars or other currencies represents the amount of currency converted at the exchange rate in force on December 31st 2011 and December 31st 2010.

Income tax debts /Other short term debts (note 21)

The income tax debts matured for some of the companies belonging to the Group on December 31st 2011 amounted to 761.740 Euros and are entered net of the down payments and deductions.

The breakdown of the Other debts is shown on the chart:

	31/12/2011	31/12/2010	Variation	Variation %
Social security debts				
Debts owed to INPS	1.544.018	1.449.654	94.364	6,51%
Debts owed to INAIL	137.623	123.520	14.103	11,42%
Debts owed to other Social Security Institutions	232.232	237.879	-5.647	-2,37%
Total	1.913.873	1.811.053	102.820	5,68%
Other debts				
Debts owed to tax administration for VAT	1.105.834	837.771	268.063	32,00%
Debts owed to tax administration for deductions	1.069.974	1.017.490	52.484	5,16%
Other tax debts	92.043	194.926	-102.883	-52,78%
Owed to staff for wages and salaries	6.081.340	5.593.042	488.298	8,73%
Down payments	6.759.198	4.597.512	2.161.686	47,02%
Other debts	11.626.648	8.755.541	2.871.107	32,79%
Total	26.735.037	20.996.282	5.738.755	27,33%
Total Social security debts and other debts	28.648.910	22.807.335	5.841.575	25,61%

The amounts "Owed to staff" include, among other things, the debts for deferred salaries of personnel employed as of December 31st 2011.

The entry of "Down payments" is made up of down payments received from clients.

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

Analysis of debts according to due date

	31/12/2011			31/12/2010		
	Within 1 year	**From 1 to 5 years**	**More than 5 years**	**Within 1 year**	**From 1 to 5 years**	**More than 5 years**
Bonds	427.660	425.099		393.309	784.264	
Amounts owed to banks	11.264.978	3.210.094	1.337.802	5.290.231	588.850	1.574.827
Amounts owed to leasing company	275.140	507.749		211.835	290.738	
Liabilities (forward exchange contracts)				57.416		
Amounts owed to other financiers	1.029.394	1.203.493		506.826	1.643.084	
Amounts owed to suppliers	34.452.352			34.937.474		
Amounts owed to associated companies	124.139			200.145		
Income taxes debts	761.740			2.143.609		
Amounts owed to social security institutions	1.913.873			1.811.053		
Other liabilities	26.735.037			20.996.282		
Total	76.984.313	5.346.435	1.337.802	66.548.180	3.306.936	1.574.827

Sectorial information in conformity with IFRS8

31/12/11		Total	Medical	Industrial	Other
Revenues		212.176	170.339	40.735	1.102
Intersectorial revenues		(1.039)	0	(262)	(777)
Net Revenues		211.137	170.339	40.473	325
Other revenues and income		2.446	1.416	196	835
Gross Margin		109.059	91.426	16.841	793
	Inc.%	*51%*	*53%*	*41%*	*68%*
Margin		18.177	15.491	1.893	793
	Inc.%	*9%*	*9%*	*5%*	*68%*
Not assigned charges		15.197			
EBIT		2.980			
Net financial income (charges)		154			
Share of profit of associated companies		(689)	(686)	(11)	8
Other Income (expense) net		19			
Income (loss) before taxes		2.463			
Income taxes		2.752			
Income (loss) for the financial period		(289)			
Minority interest		(18)			
Net income (loss)		(270)			

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

31/12/2011	Total	Medical	Industrial	Other
Assets assigned	253.362	201.297	52.065	
Equity investments	183	65	118	
Assets not assigned	15.851			
Total assets	269.396	201.362	52.183	0
Liabilities assigned	65.917	48.458	17.460	
Liabilities not assigned	28.368			
Total liabilities	94.285	48.458	17.460	0

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

31/12/2011	Total	Medical	Industrial	Other
Changes in fixed assets:				
- assigned	15.678	16.106	(429)	0
- not assigned	20			
Total	15.698	16.106	(429)	0

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

Information according to the geographic area

31/12/11	Total	Italy	Europe	Row
Revenues	211.137	26.419	51.309	133.409

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

31/12/2011	Total	Italy	Europe	Row
Assets assigned	268.954	99.667	16.023	153.264
Equity investments	442	442		
Total assets	269.396	100.109	16.023	153.264
Liabilities assigned	94.285	43.609	9.565	41.112
Total liabilities	94.285	43.609	9.565	41.112

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

31/12/2011	Total	Italy	Europe	Row
Changes in fixed assets:				
- assigned	15.698	(558)	(301)	16.557
Total	15.698	(558)	(301)	16.557

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

Comments on the main entries in the Statement of income

Revenue (note 22)

The revenues registered on December 31st 2011 were 211,1 million Euros showing an increase of 11,2% (equal to about 21,3 million Euros).
All three sectors showed an increase in the sales volume; the increase of the medical sector was achieved from outside, thanks to the acquisition by Cynosure of the assets of HOYA ConBio® and Elémé, and the exclusive distribution, also by Cynosure of the Pinpointe system for the treatment of onicomicosis. The industrial sector grew progressively and confirmed its solid progress which the economic crisis had slowed down only slightly. Growth in the service sector was about 14% and reflects the increase in the number of systems installed and the services provide to them. For detailed comments on the single types of revenue, please consult the director's report on operations.

	31/12/2011	31/12/2010	Variation	Var. %
Sales of industrial laser systems	35.890.371	29.462.361	6.428.010	21,82%
Sales of medical laser systems	134.363.375	124.496.676	9.866.699	7,93%
Service and sales of spare parts	40.883.095	35.837.956	5.045.139	14,08%
Total	211.136.841	189.796.993	21.339.848	11,24%

Other income (note 23)

The analysis of the other income is as follows:

	31/12/2011	31/12/2010	Variation	Var. %
Recovery for accidents and insurance reimbursements	44.260	50.197	-5.937	-11,83%
Expense recovery	837.389	686.939	150.450	21,90%
Capital gains on disposal of fixed assets	241.951	229.886	12.065	5,25%
Other income	1.322.448	1.239.090	83.358	6,73%
Total	2.446.048	2.206.112	239.936	10,88%

The heading of "Expense recovery" refers mainly to reimbursements for shipping costs.

The entry "Other income" consists for the most part of grants for research projects which have been entered into accounts by the Parent Company, El.En. SpA for the amount of approx. 473 thousand Euros, by the subsidiary Quanta System for 261 thousand Euros and by the subsidiary Asclepion GmbH for 319 thousand Euros.

Costs for the purchase of goods (note 24)

The analysis is shown on the following table:

	31/12/2011	31/12/2010	Variation	Var. %
Purchase of raw materials and finished products	90.860.349	74.250.481	16.609.868	22,37%
Purchase of packaging	764.792	639.305	125.487	19,63%
Shipment charges on purchases	933.224	741.885	191.339	25,79%
Other purchase expenses	1.044.891	979.677	65.214	6,66%
Other purchases	760.851	507.137	253.714	50,03%
Total	94.364.107	77.118.485	17.245.622	22,36%

The increase in purchases was 22,4% and is a direct consequence of the rise in the business volume.

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

Breakdown of this category is shown on the chart below:

	31/12/2011	31/12/2010	Variation	Var. %
Direct services				
Assemblies outsourcing to third parties	4.324.748	4.043.160	281.588	6,96%
Technical services	1.303.623	828.826	474.797	57,29%
Shipment charges on sales	1.589.911	1.691.371	-101.460	-6,00%
Commissions	10.125.027	8.770.418	1.354.609	15,45%
Royalties	33.847	27.910	5.937	21,27%
Travel expenses	2.604.130	2.323.060	281.070	12,10%
Other direct services	571.571	390.556	181.015	46,35%
Total	*20.552.857*	*18.075.301*	*2.477.556*	*13,71%*
Operating services and charges				
Maintenance and technical assistance on equipments	1.892.220	1.556.909	335.311	21,54%
Services and commercial consulting	3.574.562	3.572.646	1.916	0,05%
Legal and administrative services	3.294.812	2.151.964	1.142.848	53,11%
Auditing fees and charges	959.982	991.508	-31.526	-3,18%
Insurances	1.394.751	1.309.427	85.324	6,52%
Travel and overnight expenses	3.835.192	3.404.127	431.065	12,66%
Promotional and advertising expenses	8.615.790	8.348.457	267.333	3,20%
Building charges	2.266.677	2.125.676	141.001	6,63%
Other taxes	439.605	383.747	55.858	14,56%
Expenses for vehicles	1.446.271	1.296.811	149.460	11,53%
Office supplies	444.291	499.569	-55.278	-11,07%
Hardware and Software assistance	389.501	320.181	69.320	21,65%
Bank charges	803.814	640.836	162.978	25,43%
Rent	3.175.496	2.929.896	245.600	8,38%
Other operating services and charges	12.208.705	11.794.400	414.305	3,51%
Total	*44.741.669*	*41.326.154*	*3.415.515*	*8,26%*

The most significant changes in the category of “other operating services” is related to the “Technical services” and “commissions” which increased because of the rise in business volume.

A significant sum, 3,3 million Euros, was also entered under the heading of ”Legal and administrative services” on December 31st 2011, which showed an increase of over 50% with respect to last year which is entirely due to the 1,7 million dollars spent by the American subsidiary Cynosure Inc. for the acquisition of the assets of Hoya ConBio® and Elémé.
The single most important entries in the category of “other operating services and charges” are represented by the salaries paid to members of Board of Directors and the statutory board of auditors for an amount of about 2.590 thousand Euros; costs of technical and scientific consulting and studies and research amounted to about 1.654 thousand Euros. For the costs and activities of research and development, please refer to the description given in the director’s report on operations.

Future commitments for use of goods belonging to others

The chart below shows a summary of the obligations that the Group will have for the use of goods belonging to others.

Operating lease commitments:	**31/12/2011**	**31/12/2010**
Within one year	2.685.648	2.536.295
After 1 year but not more than 5 years	7.034.105	3.427.766
More than five years	2.006.352	654.549
Total	**11.726.105**	**6.618.610**

Personnel costs (note 26)

The chart below shows the costs for staff:

Wages and salaries	39.353.899	34.624.879	4.729.020	13,66%
Social security costs	8.005.155	7.205.282	799.873	11,10%
Accruals for severance indemnity	918.347	871.924	46.423	5,32%
Stock options	1.993.413	2.034.145	-40.732	-2,00%
Other costs	93.479	88.883	4.596	5,17%
Total	50.364.293	44.825.113	5.539.180	12,36%

The cost for personnel was 50.364 thousand Euros, registering an increase of 12,4% with respect the 44.825 thousand Euros for the period last year. The figurative costs entered into accounts in relation to the stock options assigned to employees are part of the personnel costs. On December 31st 2010 these costs were 2.034 thousand Euros, while on December 31st 2011 they fell to 1.993 thousand Euros; these costs refer mainly to the stock options issued by the subsidiary Cynosure Inc.

Depreciation, amortization and other accruals (note 27)

The table below shows the breakdown for this category:

Depreciations, amortizations, and other accruals	31/12/2011	31/12/2010	Variation	Var. %
Amortization of intangible assets	1.122.145	427.741	694.404	162,34%
Depreciation of tangible assets	6.224.834	5.982.209	242.625	4,06%
Devaluations of fixed assets		1.117	-1.117	-100,00%
Accrual for risk on receivables	2.556.359	2.062.027	494.332	23,97%
Other accruals for risks and charges	1.070.287	401.998	668.289	166,24%
Total	10.973.625	8.875.092	2.098.533	23,65%

The “depreciations of tangible assets” and the “amortizations of intangible assets” increased mainly as a consequence of the acquisitions made this year by the American subsidiary Cynosure Inc.; for further details, please refer to Note 1 of this document.
The category “Accrual for risk on receivables” includes some devaluations effected for cautionary purposes on some receivables which have been collected very slowly due to the credit crisis which has limited the amount of cash available to firms in general.
The accrual for risks and charges includes, among other things, the product guarantee accrual which increase as a consequence of the increase in the sales volume.

Financial income and charges (note 28)

The breakdown of the category is as follows:

	31/12/2011	31/12/2010	Variation	Var.%
Financial incomes:				
Interests from banks	581.326	251.207	330.119	131,41%
Interests from associated company		170	-170	-100,00%
Interests on investments	1.539		1.539	
Income from negotiations	607	478	129	26,99%
Foreign exchange gain	1.434.942	1.268.350	166.592	13,13%
Other financial incomes	163.441	43.088	120.353	279,32%
Total	2.181.855	1.563.293	618.562	39,57%
Financial charges:				
Interest on bank debts for account overdraft	-469.020	-281.953	-187.067	66,35%
Interest on bank debts for medium and long - term loans	-62.282	-46.726	-15.556	33,29%
Foreign exchange loss	-1.318.467	-900.496	-417.971	46,42%
other financial charges	-178.195	-285.737	107.542	-37,64%
Total	-2.027.964	-1.514.912	-513.052	33,87%

The entry “Interest from banks”, showed an increase of about 330 thousand Euros, and rose from 251 thousand Euros on December 31st 2010 to 581 thousand Euros on December 31st 2011.
Interest owed on checking account overdrafts refers mainly to overdrafts granted by credit institutions to the Parent Company and to the subsidiaries.
The entry “other financial charges” includes, for the amount of 115 thousand Euros, the interest due on account of the application of accounting standard IAS 19 to the severance pay.

Other net income and charges (note 29)

	31/12/2011	31/12/2010	Variation	Var. %
Other charges				
Loss on equity investments		-3.718	3.718	-100,00%
Devaluation of equity investments	-45.145	-457.297	412.152	-90,13%
Total	**-45.145**	**-461.015**	**415.870**	**-90,21%**
Other income				
Profit on equity investments	63.646		63.646	
Total	**63.646**		**63.646**	

The heading of “Devaluations of equities” includes to the devaluations on the value of the equities held in the associated companies Alfa Laser fora n amount of 17.950 Euros, Centro Laser for an amount of 17.695 Euro and TFD for 9.500 Euros.
The entry under the heading “Profit on equity investments” is for the amount of 63.646 Euros, of which 10 thousand Euros refers to the entry of Quanta France into the area of consolidation with consequent re-evaluation of the quota that had been held previously, while the remainder is related to the sale of Laser International Ltd. By Quanta System.

Income taxes (note 30)

Description:	31/12/2011	31/12/2010	Variation	Var. %
IRES and other foreign income taxes	2.737.451	3.976.273	-1.238.822	-31,16%
IRAP	776.721	778.456	-1.735	-0,22%
IRES and other foreign income taxes - Deferred (Advanced)	-408.825	-807.615	398.790	-49,38%
IRAP - Deferred (Advanced)	7.694	354	7.340	2073,45%
Receivable for income tax	-357.640	-	-357.640	
Taxes related to the previous years	-3.714	307.537	-311.251	-101,21%
Total income taxes	2.751.687	4.255.005	-1.503.318	-35,33%

The costs for current and deferred taxes this year was 2.752 thousand Euros. The tax rate this year was augmented by the presence of some non-deductible revenue components in the statements of some of the companies of the Group, like the devaluations of equities, besides the fact that some of the companies in the red (one of which was Cynosure) for cautionary purposes decided not to enter deferred tax assets because they felt that the conditions for entering them did not yet exist.
There are also tax credits for research and development for an amount of 358 thousand Euros entered by the Parent Company El.en SpA and the subsidiary Quanta System SpA.

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

	2011	2010
Profit/loss before taxes	2.462.882	4.688.552
Theoretical IRES Aliquot	27,50%	27,50%
Theoretical IRES	677.293	1.289.352
Higher (lower) fiscal incidence of the foreign companies with respect to the theoretical aliquot	1.322.734	1.655.851
One time income tax charges		301.652
Tax credits	(357.640)	
Higher (lower) fiscal incidence of Italian companies with respect to the theoretical aliquot	921.630	687.226
Higher (lower) fiscal incidence due to the effects of consolidation	(239.105)	(490.975)
Actual IRES	2.324.912	3.443.105
Actual IRES aliquot	94,40%	73,44%

Dividends distributed (note 31)

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

The shareholders' meeting held on May 13th 2011 voted to distribute a dividend of 0,20 Euros for each share in circulation at the maturity date of the coupon. The dividend paid amounted to 944.244 Euros.

Profits per share (note 32)

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

Non-recurring significant events and operations (note 33)

During 2011 the only significant non-recurring operation that occurred was the acquisition of the assets in the medical sector of Hoya ConBio®. During the same period last year no significant non-recurring operations were made.

	31/12/2011	Significant non-recurring events	Net Results
Statement of financial position			
Intangible assets	23.958	-16.740	7.218
Tangible assets	27.807	-406	27.401
Other non current assets	12.014		12.014
Total non current assets	**63.779**	**-17.146**	**46.633**
Inventories	69.344	-2.118	67.226
Accounts receivables	50.530	-1.164	49.366
Other receivables	13.046	-116	12.930
Cash and cash equivalents and Financial instruments	72.697	19.877	92.574
Total current assets	**205.617**	**16.479**	**222.095**
TOTAL ASSETS	**269.396**	**-667**	**268.729**
Group stockholders' equity	94.705	220	94.926
Minority interests in consolidated subsidiaries	80.405	722	81.127
Total equity	**175.110**	**942**	**176.052**
Financial liabilities	6.684		6.684
Other non current liabilities	10.617		10.617
Non current liabilities	**17.301**		**17.301**
Financial liabilities	12.997		12.997
Accounts payables	34.576	-1.143	33.433
Other payables	29.411	-466	28.945
Current liabilities	**76.984**	**-1.609**	**75.375**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**269.396**	**-667**	**268.729**
Net financial position	53.035	19.877	72.912

Statement of income	**31/12/11**	**Inc.%**	**Significant non-recurring events**	**Net Results**	**Inc.%**
Revenues	211.137	100,0%	0	211.137	100,0%
Gross margin	109.059	51,7%	0	109.059	51,7%
Other operating services and charges	44.742	21,2%	(942)	43.800	20,7%
EBITDA	13.953	6,6%	942	14.895	7,1%
EBIT	2.980	1,4%	942	3.921	1,9%
Income for the financial period	(289)	-0,1%	942	653	0,3%
Minority interest	(18)	0,0%	722	703	0,3%
Net income	(270)	-0,1%	220	(50)	-0,8%

The effects of this operation on the statement of income, as has already been described in a special section of this document, are related to the accessory expenses sustained by Cynosure as part of the acquisition of the assets of Hoya ConBio® for an amount of about 1,3 million dollars.

Information about related parties (note 34)

In accordance with the IAS 24 the following subjects are considered related parties:
- the subsidiary and associated companies;
- the members of the Board of Directors and Board of Statutory Auditors of the Parent company and the other executive directors with strategic responsibilities;
- the individuals holding shares in the Parent company El. En. S.p.A;
- the legal bodies of which a significant number of shares is owned by one of the main shareholders of the Parent company, by a member of the Board of Directors of the Parent company, by a member of the Board of Statutory Auditors, by any other of the executives with strategic responsibilities.

One of the Managing Directors, the majority shareholder of the Parent company, has an outright ownership of a 25% quota of Immobiliare del Ciliegio Srl, also a shareholder of the Parent Company.

All the transactions with related parties took place at normal market conditions.

In particular, the paragraphs below give important information about the related parties.

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

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

Name	Position	Term duration	Fees in:	Fees	Bonus and other incentives	Non monetary benefits	Other rewards	Total	Indemnity for termination of mandate or employment
Gabriele Clementi	President of the Board of Directors	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	90.000	15.700			105.700	6.500
			Subsidiaries/associates	13.519				13.519	
Barbara Bazzocchi	Managing Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	90.000	4.568			94.568	6.500
			Subsidiaries/associates	12.000				12.000	
Andrea Cangioli	Managing Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	90.000	7.851			97.851	6.500
			Subsidiaries/associates	13.519				13.519	
Michele Legnaioli	Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	12.000				12.000	
Paolo Blasi	Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	12.000				12.000	
Angelo Ercole Ferrario	Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	12.000				12.000	
			Subsidiaries/associates	130.000				130.000	
Alberto Pecci	Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	12.000				12.000	
Stefano Modi	Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	99.250	5.709	10.646	18.843	134.448	
Vincenzo Pilla	President of the Board of Statutory Auditors	Until the date for the approval of the financials for 31.12.2012	El.En. SpA	31.200				31.200	
			Subsidiaries/associates	34.510				34.510	
Gino Manfriani	Statutory Auditor	Until the date for the approval of the financials for 31.12.2012	El.En. SpA	20.800				20.800	
			Subsidiaries/associates	17.613				17.613	
Paolo Caselli	Statutory Auditor	Until the date for the approval of the financials for 31.12.2012	El.En. SpA	20.800				20.800	-
			Subsidiaries/associates	30.653				30.653	
Manfredi Bufalini	Statutory Auditor	Until the date for the approval of the financials for 31.12.2012	Subsidiaries/associates	6.240				6.240	

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

Fixed salaries:

- The amounts paid to the directors of the Parent Company for their roles in other companies included in the area of consolidation are as follows: Barbara Bazzocchi, as sole administrator of Cutlite Penta Srl received a salary of 12.000 Euros; Gabriele Clementi as member of the Board of Directors of With Us received a salary of 1.500 thousand yen from that company; Andrea Cangioli as member of the Board of Directors of With Us received a salary of 1.500 thousand yen from that company; Angelo E. Ferrario, as president of the Board of Directors of Quanta System SpA received a salary of 120.000 Euros from that company and as Board Member of Arex Srl received a salary of 10.000 Euros from that company.

- The salaries of members of the Board of Statutory Auditors for carrying out their functions in other companies included within the area of consolidation are as follows: Vincenzo Pilla as President of the Board of Statutory Auditors of Deka Mela Srl and Lasit SpA and acting Auditor of Cutlite Penta Srl received from these companies a total salary of 34.510 Euros; Gino Manfriani, as acting Auditor of Deka Mela Srl and Cutlite Penta Srl received a total salary of 17.613 Euros for the period in which he worked for these companies; Paolo Caselli as President of the Board of Statutory Auditors of Cutlite Penta Srl and acting Auditor of Deka Mela Srl and Lasit SpA received from these companies a total salary of 30.653 Euros; Manfredi Bufalini in his role as acting auditor of Quanta System SpA received from the company the amount of 6.240 Euros.

- With reference to the board member Stefano Modi the heading of “fixed salaries” also includes a salary of 87.250,00 Euros as payment for his work as an employee; the heading of “non-monetary benefits” is related to the fringe benefits received as an employee like the other managers and the heading of “other salaries” is related to transfers and one-time payments.

Bonuses and other incentives:
In this column the chart shows the amounts received by some of the members of the Board of Directors as an incentive bonus for achieving certain goals which were set by the Board in accordance with the vote of the Shareholders’ meeting held on May 15th 2011, which, when determining the amount of remuneration of the Board of Directors, had established at the maximum amount 1 million the variable part of the overall bonuses to be assigned and to assign to the managing directors, including the president with powers of attorney, and the board members with special positions as described in art. 21 of the by-laws and art.. 2389,sub-section 3 Civil Code. These bonuses will be paid in 2012.

Indemnity for termination of mandate or employment:
-An annual indemnity of 6.500 Euros each, in compliance with art. 17 of T:U:I:R, is paid to the president of the Board of Directors Gabriele Clementi and to the board members Barbara Bazzocchi and Andrea Cangioli.

Prof. Leonardo Masotti, President of the Scientific Committee, received a fixed remuneration of 6.000 Euros, besides an incentive bonus of 5.709 Euros. Moreover, as President of the Board of Directors of Deka M.E.L.A. Srl he received a salary of 15.000 Euros.

The company does not have a general director.

Physical persons possessing an equity in El.En. SpA
Besides the members of the Board of Directors, the Board of Statutory Auditors and the President of the Technical-Scientific Committee, partner Carlo Raffini whom the Parent Company El.En. for a specific professional task for the entire year, received a salary of 32.000 Euros; moreover, for a similar task carried out for the subsidiaries Deka M.E.L.A. Srl and Cutlite Penta Srl he received 20.000 Euros.

Associated companies
All of the transactions involving payables and receivables, costs and revenue, and all financing and guarantees granted to the associated companies during 2011 are clearly shown in detail.
The prices for the transfer of goods are determined in accordance with what normally occurs on the market. The above mentioned inter-Group transactions therefore reflect the trends in market prices although they may differ slightly from them depending on the commercial policy of the Group.

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

	Financial receivables		**Commercial receivables**	
Associated companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
SBI SA			45.000	
Actis Srl			2.904	
Immobiliare Del.Co. Srl	13.565			
Elesta Srl			823.063	
Grupo Laser Idoseme SL			332.384	
Quanta System Asia Pacific Co.LTD	50.000		175.516	
Total	63.565	-	1.378.867	-

Associated companies:	Financial payables < 1 year	Financial payables > 1 year	Commercial payables < 1 year	Commercial payables > 1 year
Elesta Srl			640	
Immobiliare Del.Co. Srl			72.271	
Actis Srl			45.980	
Quanta Syatem Asia Pacific Co.,Ltd.			5.248	
Total	-	-	124.139	-

Associated companies:	Sales	Service	Total
SBI S.A.	197.585		197.585
Elesta Srl	414.412	2.016	416.428
Grupo Laser Idoseme SL	545.492	57.490	602.982
Quanta System Asia Pacific Co.LTD	358.772		358.772
Total	1.516.261	59.506	1.575.767

Associated companies:	Other revenues
Elesta Srl	1.200
Actis Srl	2.400
Grupo Laser Idoseme SL	7.181
Total	10.781

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl	270	63.000		63.270
SBI S.A.	23.700			23.700
Elesta Srl	9.125			9.125
Immobiliare Delco Srl		143.391		143.391
JV Laser International Ltd	25.118			25.118
Grupo Laser Idoseme SL	45.940	2.500		48.440
Quanta Syatem Asia Pacific Co.,Ltd.		28.910		28.910
Total	104.153	237.801	-	341.954

The amounts shown in the tables above refer to operations which are inherent to the characteristic operations of the company.

The table below shows the incidence which transactions with related parties have had on the economic and financial situation of the Group.

Impact of related party transactions	**Total**	**related parties**	**%**
a) Impact of related party transactions on the statement of financial position			
Equity investments	442.129	306.283	69,27%
Accounts receivables	50.530.006	1.378.867	2,73%
Other receivables	7.056.225	63.565	0,90%
Non current financial liabilities	6.684.237		0,00%
Current financial liabilities	12.997.172		0,00%
Accounts payables	34.576.491	124.139	0,36%
Other payables	28.648.910		0,00%
b) Impact of related party transactions on the statement of income			
Revenues	211.136.841	1.575.767	0,75%
Other revenues and income	2.446.048	10.781	0,44%
Purchases of raw materials	94.364.107	104.153	0,11%
Other direct services	20.552.857	31.410	0,15%
Other operating services and charges	44.741.669	206.391	0,46%
Financial charges	2.027.964		0,00%
Financial income	2.181.855		0,00%

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

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

The main financial instruments of the Group include checking accounts and short-term deposits, short and long-term financial liabilities, leasing and financial instruments.
Besides these, the Group also has payables and receivables derived from its activity.
The main financial risks to which the Group is exposed are those related to currency exchange, credit, cash and interest rates.

Currency risks
Again in 2011, most of the consolidated sales (about 63%) were made in markets outside of the European Union; most of the transactions were conducted in US dollars. It should be pointed out that the presence of stable structures in the United States, in particular Cynosure, make it possible to have a partial coverage of these risks since both the costs and the revenue are in the same kind of currency.

Credit risks
As far as the commercial transactions are concerned, the Group operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance. There are no significant concentrations of credit risks within the Group. The devaluation provision which is accrued at the end of the year represents about 13% of the total trade receivables from third parties. For an analysis of receivables overdue from third parties, see the description in the related note of the Consolidated Financial Statement.

In relation to guarantees granted to third parties, it should be recalled that the Parent Company El.En. in 2009 underwrote along with a minority partner, a bank guarantee for a maximum of one million Euros as a guarantee for the loan of the subsidiary Quanta System owed to the Banca Popolare di Milano for facilitated financing for a total amount of 900 thousand Euros, for which the reimbursement installments expire up to 84 months from the date of issuance, which occurred in the second half of 2009.

During last year the parent company El.En. SpA also underwrote the following guarantees:
- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 763 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the "TROPHOS" research project which has been included in the grant issued by the *Bando Unico* R&S in the year 2008 and approved by the Region of Tuscany with Directive Decree 6744 on December 31st 2008 which expires in April 2012.
- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 1.203 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the "TRAP" research project which has been included in the grant issued by the *Bando Unico* R&S in the year 2008 and approved by the Region of Tuscany with Directive Decree 6744 on December 31st 2008 which expires in April 2012.
-a bank guarantee, jointly with the companies which participate in the ATS constituted for this purpose for a maximum of 1.434 thousand Euros as a guarantee for the payback of the amount granted as down payment on the "TEMART" research project which has been included in the grant issued by the *Bando Regionale* 2008 and approved by the Region of Tuscany with Directive Decree 5673 on November 21st 2008 which expires in July 2012.
- a bank guarantee for a maximum of 751 thousand Euros as a guarantee for the payment of the sum required as a reimbursement for the VAT related to the tax period 2008 which expires in November 2013;

And during this year:
- a bank guarantee jointly with the companies which are participating in the ATS constituted for this purpose, for a maximum of 3.074 thousand Euros as a guarantee for the pay back of the amount guarantee as down payment on the research project "MILORD", which has been included in the grant issued by *Bando Regionale* 2010 approved by the Region of Tuscany with Directive Decree n. 670 of February 25th 2011, which expires in September 2014.

Moreover, the subsidiary Quanta System issued bank guarantees in favor of some credit institutions of the associated company Grupo Laser Idoseme for a residual total of 350 thousand Euros which came due on February 27th 2012 and was renewed for an amount of 200 thousand Euros up until February 27th 2013; for the remaining part a bank guarantee was issued which will be renewed every quarter for decreasing amounts until it is completely repaid by January 31st 2013.

Cash and interest rate risks

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

Management of the capital

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

Financial Instruments (note 36)

Fair value

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

	Book value 31/12/2011	Book value 31/12/2010	Fair value 31/12/2011	Fair value 31/12/2010
Financial assets				
Financial receivables within 12 months	83.565	87.241	83.565	87.241
Mid and long term Financial instruments	5.096.801	7.476.074	5.096.801	7.476.074
Short term Financial instruments	24.332.276	44.676.217	24.332.276	44.676.217
Cash and cash equivalents	48.364.542	41.514.927	48.364.542	41.514.927
Financial liabilities				
Financial mid and long term debts	6.684.237	4.881.763	6.684.237	4.881.763
Financial liabilities due within 12 months	12.997.172	6.459.617	12.997.172	6.459.617

Fair value hierarchy

The Group uses the following hierarchy in order to determine and to document the fair value of the financial instruments based on evaluation techniques:

Level 1: quoted prices (not rectified) in a market which is active for identical assets and liabilities.
Level 2: other techniques for which all the input which have a significant effect on the registered fair value can be observed, either directly or indirectly.
Level 3: techniques which use input which have a significant effect on the registered fair value which are not based on observable market data.

As of December 31st 2011 the Group possesses the following securities evaluated at fair value.

	Level 1	Level 2	Level 3	Total
Money Market funds (1)	5.626.810	-	-	5.626.810
State & Municipal bonds (2)	-	31.947.687	-	31.947.687
Equity securities	4.623	-	-	4.623
Total	**5.631.433**	**31.947.687**	**-**	**37.579.120**

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

Other information (note 37)

Information supplied in compliance with art. 149-duodecies of the *Regolamento Emittenti Consob*

In compliance with article 149-*duodecies* of the *Regolamento Emittenti Consob,* the chart below shows the amounts for the year 2011 related to auditing services and for those other than the ones conducted by Ernst & Young for the Parent Company and for some of the Italian and foreign subsidiaries.

	Audit of separate, consolidated annual report and occasional audits	**Audit of half-yearly report**	**Underwriting of tax forms**	**Other services**
	Amount paid in 2011 (€)	**Amount paid in 2011 (€)**	**Amount paid in 2011 (€)**	**Amount paid in 2011 (€)**
El.En. SpA	49.464	28.453	4.000	
Italian Subsidiaries (*)	61.021	0	10.000	
Foreign Subsidiaries (**)	328.644	79.994		382.286
Total	**439.130**	**108.447**	**14.000**	**382.286**

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

The honorariums shown in the chart related to Italian companies, include the annual adaptation on the basis of the ISTAT index; they are, moreover, net of reimbursements for the expenses sustained and the contributions for supervision of the Consob.

Average number of employees divided by category

	Average 2011	**31/12/2011**	**Average 2010**	**31/12/2010**	**Variation**	**Var. %**
Total	1.054,0	1.139	921,5	969	170	17,54%

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

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

1. We the undersigned, Andrea Cangioli as managing director, and Enrico Romagnoli as manager in charge of preparing the financial statements of El.En. S.p.A., in conformity with art. 154-bis, comma 3 and 4, of Legislative Decree no. 58 of February 24th 1998, declare:

- the conformity in relation to the characteristics of the company and
- the actual application of the administrative and accounting procedures used in drawing up the consolidated financial statement, during 2011.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the consolidated statement dated December 31st 2011:

a) is drawn up in conformity with the applicable international accounting standards recognized by the European Union in conformity with Regulation (CE) n. 1606/2002 of the European Parliament and the Commission, in July 19th 2002;

b) corresponds to the figures in the ledgers and accounting books;

c) is suitable to supply a true and correct representation of the capital, economic and financial situation of the issuer and of the other companies included in the area of consolidation.

3.2 The director's report on operations contains a reliable analysis of the trends and results of the activities as well as the situation of the quoted company and the group of companies included in the area of consolidation, together with a description of the principal risks and uncertainties which they are exposed.

Calenzano, March 15th 2012

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

EL. EN. S.p.A.

Headquarters in Via Baldanzese 17 – Calenzano (Florence)

Report of the Board of Statutory Auditors to the Stockholders' Meeting on the consolidated financial statement as of December 31st 2011

To the shareholders of the Parent Company El.En. S.p.A.

In compliance with Legislative Decree 58/1998 and D.Lgs. n. 39/2010, the legal auditing of the consolidated financial statement has been assigned to the auditing company charged with the legal auditing of the financial statement of the Parent Company El.En. S.p.A.

The Board of Statutory Auditors in any case conducted its supervising activity on the financial statement as of December 31st 2011 and on the director's report on operations for 2011 (related also to the consolidated financials)in compliance with the standards issued by the *Consiglio Nazionale dei Dottori Commercialisti* (National Commission of Certified accountants) and by the *Consiglio Nazionale dei Ragionieri* (now called the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*).

The consolidated statement was submitted for auditing to Reconta Ernst & Young S.p.A., which expressed an opinion without criticism and declared that it was in conformity with the regulations which govern the criteria for drawing up financial statements, that it was clearly expressed and represented in a true and correct manner the financial and economic situation, the earnings and the cash flow of the El.En. Group.

We examined the financial reports of the companies included in the area of consolidation that had been examined by the respective controlling bodies and by the Independent auditor when the control procedures were implemented during the auditing phase of the consolidated statement.

The Board of Statutory Auditors verified the correspondence of the criteria utilized for determining the area of consolidation and the principles of consolidation now used; these principles are described in the report which supplies full and complete information concerning their application.

The Board of Statutory Auditors considers that the internal procedure adopted by the Parent Company in order to comply with the provisions of art. 36 of the Stock Market Regulations, is adequate.

The consolidated financial statement of the Group was drawn up in conformity with the IFRS international accounting principles. After European regulation n. 1606 of July 2002 came into effect, starting on January 1st 2005 the El.En. Group, in fact, adopted the International Accounting Principles (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Commission.

The director's report on operations is consistent with the data and results of the consolidated statement and supplies ample information on the economic and financial position of the Group.

The Board of Statutory Auditors, within the limits of its area of competency and, on the basis of the results of the verifications conducted by the Independent auditor, believes that the consolidated statement of the Company is drawn up in conformity with the regulations that govern it.

Florence, March 30th 2012.

The Board of Statutory Auditors

Dr. Vincenzo Pilla, president of the Board of Statutory Auditors.

Dr. Paolo Caselli, statutory auditor.

Dr. Gino Manfriani, statutory auditor

ERNST & YOUNG

El.En. S.p.A.

Consolidated financial statements as of and for the year ended December 31, 2011

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

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

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

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

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

1. We have audited the consolidated financial statements of El.En. S.p.A. and its subsidiaries, (the "El.En. Group") as of and for the year ended December 31, 2011, comprising the statement of financial position, the statement of income, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of El.En. S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 30, 2011.

3. In our opinion, the consolidated financial statements of El.En. Group as of, and for the year ended, December 31, 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the El.En. Group for the year then ended.

4. The management of El.En. S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and the Company's Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by

the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) presented in the Report on Corporate Governance and the Company's Ownership Structure , are consistent with the consolidated financial statements of the El.En. Group as of, and for the year ended, December 31,2011.

Florence, March 30, 2012

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

EL.EN. SpA SEPARATE FINANCIAL STATEMENT AS OF DECEMBER 31st 2011

ACCOUNTING CHARTS AND EXPLANATORY NOTES

Statement of financial position

	Notes		31/12/2011		31/12/2010
Statement of financial position					
Intangible assets	1		22.651		13.884
Tangible assets	2		13.380.473		13.858.105
Equity investments:	3				
- in subsidiaries		18.040.507		17.438.047	
- in associates		581.991		345.297	
- other investments		91.130		109.080	
Total equity investments			18.713.628		17.892.424
Deferred tax assets	4		1.716.002		1.476.317
Other non current assets	4		3.108		157.585
Total non current assets			**33.835.862**		**33.398.315**
Inventories	5		19.230.447		18.232.453
Accounts receivables:	6				
- from third parties		3.103.209		3.196.752	
- from subsidiaries		27.714.897		26.338.967	
- from associates		776.656		778.926	
Total accounts receivables:			31.594.762		30.314.645
Tax receivables	7		1.725.035		2.300.390
Other receivables:	7				
- from third parties		665.653		743.937	
- from subsidiaries		3.658.057		3.263.688	
- from associates		13.565		13.565	
Total other receivables			4.337.275		4.021.190
Financial instruments	8				
Cash and cash equivalents	9		6.123.263		4.918.560
Total current assets			**63.010.782**		**59.787.238**
TOTAL ASSETS			**96.846.644**		**93.185.553**
Common stock	10		2.508.671		2.508.671
Additional paid in capital	11		38.593.618		38.593.618
Other reserves	12		36.430.618		36.134.781
Treasury stock	13		-2.575.611		-2.575.611
Retained earnings / (deficit)	14		-920.544		-920.544
Net income / (loss)			1.264.103		1.061.672
Total equity			**75.300.855**		**74.802.587**
Severance indemnity	15		926.251		934.529
Deferred tax liabilities	16		610.831		440.551
Other accruals	17		2.240.056		2.195.788
Financial liabilities:	18				
- to third parties		2.380.000		66.392	
Total financial liabilities			2.380.000		66.392
Non current liabilities			**6.157.138**		**3.637.260**
Financial liabilities:	19				
- to third parties		4.251.763		96.327	
Total financial liabilities			4.251.763		96.327
Accounts payables:	20				
- to third parties		6.360.294		9.427.847	
- to subsidiaries		1.415.192		1.257.266	
- to associates		45.980		69.444	
Total accounts payables			7.821.466		10.754.557
Income Tax payables	21				565.127
Other payables:	21				
- to third parties		2.932.899		3.328.314	
- to subsidiaries		382.523		1.381	
Total other payables			3.315.422		3.329.695
Current liabilities			**15.388.651**		**14.745.706**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY			**96.846.644**		**93.185.553**

Statement of income

Statement of income	Note		31/12/2011		31/12/2010
Revenues:	22				
- from third parties		8.605.045		9.792.144	
- from subsidiaries		35.883.283		35.602.488	
- from associates		284.301		152.528	
Total revenues			44.772.629		45.547.160
Other revenues and income:	23				
- from third parties		633.942		785.026	
- from subsidiaries		380.938		381.721	
- from associates		3.600		3.600	
Total other revenues and income			1.018.480		1.170.347
Total revenues and income			**45.791.109**		**46.717.507**
Purchase of raw materials:	24				
- to third parties		19.365.771		20.211.471	
- to subsidiaries		3.356.750		4.181.143	
- to associates		17.700		26.700	
Total purchase of raw materials			22.740.221		24.419.314
Change in inventory of finished goods and WIP			(1.598.204)		(693.692)
Change in inventory of raw material			319.687		(845.346)
Other direct services:	25				
- to third parties		3.574.729		3.590.150	
- to subsidiaries		355.899		209.744	
Total other direct services			3.930.628		3.799.894
Other operating services and charges:	25				
- to third parties		5.036.510		5.562.886	
- to subsidiaries		143.387		65.656	
- to associates		63.000		44.500	
Total other operating services and charges			5.242.897		5.673.042
For staff costs	26		9.789.998		9.409.553
Depreciation, amortization and other accruals	27		2.190.852		1.076.174
EBIT			**3.175.030**		**3.878.568**
Financial charges:	28				
- to third parties		(450.040)		(257.595)	
Total financial charges			(450.040)		(257.595)
Financial income	28				
- from third parties		980.359		706.192	
- from subsidiaries		82.098		77.228	
- from associates				170	
Total financial income			1.062.457		783.590
Other net expenses	29		(1.386.834)		(1.401.865)
Other net income	29				

Income (loss) before taxes		**2.400.613**	**3.002.698**
Income taxes	30	1.136.510	1.941.026
Income (loss) for the financial period		**1.264.103**	**1.061.672**

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

Consolidated statement of comprehensive income

	31/12/2011	31/12/2010
Reported net (loss) income	1.264.103	1.061.672
Gain (loss) from financial assets available for sale		
Total comprehensive (loss) income	1.264.103	1.061.672

Statement of Cash flows

Statement of cash flows	Note	31/12/2011	related parties	31/12/2010	related parties
Cash flow generated by operating activity:					
Profit (loss) for the financial period		1.264.103		1.061.672	
Amortizations and depreciations	27	1.038.134		912.717	
Devaluations of equity investments	29	1.185.172	1.167.222	1.026.271	1.026.271
Share of profit of associated companies					
Stock Options	12-26	178.409		184.934	
Change of employee severance indemnity	15	-8.278		-33.352	
Change of provisions for risks and charges	17	44.268	62.115	52.119	95.072
Change of provisions for deferred income tax assets	4	-239.685		-159.302	
Change of provisions for deferred income tax liabilities	16	170.280		173.477	
Stocks	5	-997.994		-1.353.757	
Receivables	6	-1.280.117	-1.373.660	-7.786.230	-8.752.007
Tax receivables	7	575.355		-131.131	
Other receivables	7	159.284	81.000	-167.085	-96.000
Payables	20	-2.933.091	134.462	2.878.178	-630.320
Income Tax payables	21	-565.127		565.127	
Other payables	21	-14.273	381.142	841.431	-463
		-2.687.663		-2.996.603	
Cash flow generated by operating activity		-1.423.560		-1.934.931	
Cash flow generated by investment activity:					
(Increase) decrease in tangible assets	2	-545.586		-517.438	
(Increase) decrease in intangible assets	1	-23.683		-15.996	
(Increase) decrease in equity investments and non current assets	3-4	-1.851.899	-1.851.899	-197.096	-197.096
Increase (decrease) in financial receivables	7	-475.369	-475.369	27.430	27.430
Cash flow generated by investment activity		-2.896.537		-703.100	
Cash flow from financing activity:					
Increase (decrease) in non current financial liabilities	18	2.313.608		-69.708	
Increase (decrease) in current financial liabilities	19	4.155.436		7.825	
Dividends distributed	31	-944.244			
Cash flow from financing activity		5.524.800		-61.883	
Increase (decrease) in cash and cash equivalents		1.204.703		-2.699.914	
Cash and cash equivalents at the beginning of the financial period		4.918.560		7.618.474	
Cash and cash equivalents at the end of the financial period		6.123.263		4.918.560	

All of the cash and cash equivalents consist of cash on hand and balance in the checking accounts of the banks.

Interest earned during this financial period amounts to 185 thousand Euros, of which 82 thousand Euros from subsidiary companies.

Current income taxes for this financial year were 1.492 thousand Euros.

Statement of changes in the Stockholders' equity

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

STOCKHOLDERS' EQUITY:	**Balance 31/12/2010**	**Net income allocation**	**Dividends distributed**	**Other operations**	**Comprehensive (loss) income**	**Balance 31/12/2011**
Common stock	2.508.671					2.508.671
Additional paid-in capital	38.593.618					38.593.618
Legal reserve	537.302					537.302
Own shares	-2.575.611					-2.575.611
Others reserves:						
Extraordinary reserves	33.663.109	117.428				33.780.537
Reserve for contribution on capital account	426.657					426.657
Other reserves	1.507.713			178.409		1.686.122
Retained earnings	-920.544	944.244	-944.244			-920.544
Profits (loss) of the year	1.061.672	-1.061.672			1.264.103	1.264.103
Total Stockholders' equity	74.802.587	0	-944.244	178.409	1.264.103	75.300.855

EXPLANATORY NOTES

INFORMATION ON THE COMPANY

El.En. SpA is a corporation which was founded and is registered in Italy. Headquarters of the company are in Calenzano (Florence), Via Baldanzese 17.
Ordinary stock of the company is quoted on the MTA which is managed by Borsa Italiana SpA.
The El.En. Financial Statement was examined and approved by the Board of Directors on March 15th 2012.

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

PRINCIPLES USED FOR DRAWING UP THE STATEMENT AND ACCOUNTING STANDARDS

PRINCIPLES USED FOR DRAWING UP THE FINANCIAL STATEMENT

The statement for the financial year 2011 which represents the separate statement of El.En. S.p.A. is drawn up on the basis of the principle of historical cost with the exception of a few categories of financial instruments for which the evaluation has been made on the basis of the principle of *fair value*.

This separate Financial Statement consists of:

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

The economic information given refers to the financial years 2011 and 2010. The financial information on the other hand refer to the situations on December 31st 2011 and December 31st 2010.

For information concerning the type of activities in which the company is involved and the significant events which occurred after the closing of the financial year, please refer to the director's report on operations.

CONFORMITY TO THE IFRS

The statement as of December 31st 2011 has been formulated using the International Accounting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union, including all of the international standards which are subject to interpretation (International Accounting Standards - IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the former Standing Interpretations Committee (SIC) besides the revised standards which came into effect this year.

ACCOUNTING STANDARDS AND EVALUATION CRITERIA

The accounting principles used for drawing up this financial report are in compliance with the accounting standards used for drawing up the financial report on December 31st 2010 with the exception of the new principles and those revised by the International Accounting Standards Board and the interpretations of the International Financial Reporting Interpretations Committee as described in the consolidated financial statement for the El.En. Group in the specific chapter titled "Accounting standards and evaluation criteria" which should be consulted for further details.

USE OF ESTIMATES

In applying the IFRS, the drawing up of the Separate Financial Statement requires estimates and assumptions to be made which affect the assets and liability figures of the financial statement and relative information and potential assets and liabilities at the date of reference. The definitive results could differ from such estimates. The estimates are used to enter the provisions for risks on receivables, for obsolescence of stocks, amortization and depreciation, devaluation of assets, stock options, employee benefits, taxes and other provisions and funds. The estimates and assumptions are periodically reviewed and the effects of any variation are reflected in the Statement of income.

EVALUATION CRITERIA

A) INTANGIBLE FIXED ASSETS WITH A FINITE AND INDEFINITE LIFE

Intangible assets are those assets lacking an identifiable physical consistency able to produce future economic benefits. They are entered at the historical purchase cost, shown net of the amortization applied in the course of the financial years and directly ascribed to the single headings. The company has chosen to maintain historical cost, rather than fair value, as the measurement criteria for intangible fixed assets. In the case in which, independently of the amortization already entered, there should be a loss of value, the fixed asset is correspondingly devalued; if, in subsequent financial years the reasons for the devaluation should cease to exist, the value is restored to a maximum limit of its original value, adjusted only by the amortization.
The costs incurred internally for the development of new products and services constitute, depending on the individual case, tangible or intangible assets generated internally and are entered in the assets only where all the following conditions are satisfied: 1) where the technical possibility or intention to complete the asset so as to make it available for use or sale exists; 2) where there is a capacity for the company to use or sell the asset; 3) the existence of a market for the products and services deriving from the asset, or of utility for internal purposes; 4) the ability of the asset to generate future economic benefits; 5) the availability of sufficient technical and financial resources to complete the development and sale or internal use of the products and services deriving from it; 6) reliable assessment of the costs attributable to the asset during its development. The capitalization of development costs includes only the expenses incurred which may be directly attributed to the development process. Research costs are entered in the Statement of income in the financial year in which they are incurred. The Other Intangible Fixed Assets with a finite useful life are assessed at purchase or production cost and amortized at a constant rate during their estimated useful life.
Goodwill and other activities which have an indefinite life are not subject to systematic amortization but to an annual impairment test.

B) TANGIBLE FIXED ASSETS

The assets have been entered at the purchase cost or production cost, inclusive of accessory charges, net of depreciation. Ordinary maintenance expenses have been entirely entered in the Statement of income. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and depreciated according to the residual possibility of use of the said item**.**
The company uses the method of original cost as opposed to fair value as the assessment criteria for tangible fixed assets. Specifically, in accordance with such standards, the value of land and of the buildings constructed on it is separated and only the building is depreciated.

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

Description	*Depreciation percentage*
Buildings	
- buildings	3.00%
Plants and machinery	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
- other plants and machinery	15.50%
Industrial and commercial equipment	
- miscellaneous and minute equipment	25.00%
- kitchen equipment	25.00%
Other goods	
- motor vehicles	25.00%
- forklift	20.00%
- lightweight constructions	10.00%
- electronic office equipment	20.00%
- furniture	12.00%

C) FINANCIAL CHARGES

Financial charges are registered in the Statement of income at the time in which they are sustained.

D) LOSSES IN VALUE OF ASSETS

At each date referred to in the financial year shown, the tangible and intangible assets with a finite life have been assessed for the purposes of identifying any indicators of loss in value. The recoverable value of the goodwill and

intangible assets with an indefinite life, where present, have been estimated at each date of reference. If there is any indication of a reduction in value the presumed cashing-in value is estimated.
The presumed cashing-in value is the higher of the two variables, net sales price and utility value. In determining the utility value, expected future flows of funds are discounted using a pre-tax discount rate which reflects the current market value of the money rate referred to the investment period and specific risks of the business. For a business not generating highly independent flows of funds, the cashing-in value is determined in relation to the cash-generating unit which the said business belongs to. A loss of value is entered in the Statement of income wherever the value entered for the asset or the relative cash generating unit which it is allocated to, is higher than the presumed cashing-in value. With the exception of goodwill, value losses are readjusted wherever the causes which have generated them cease to exist.

E) FINANCIAL ASSETS: EQUITIES
According to IAS 27, the equities in subsidiary companies, in entities jointly controlled and in associated companies not classified as for sale (IFRS 5) must be entered into accounts at cost or in conformity with IAS 39. In the separate annual report of El.En. SpA the cost criteria has been used.
Since the necessary conditions exist, a consolidated statement has been drawn up.

F) FINANCIAL INSTRUMENTS

Equities in other companies
The equities in other companies which are not subsidiaries or associated (usually with an ownership of less than 20%) are classified at the time of purchase, among the financial assets “available for sale” or among the assets “evaluated at fair value through the Statement of income” with the current or non-current assets. Changes in the value of equities that are classified as available for sale are entered into a reserve of the stockholders’ equity which will be entered into the Statement of income at the time of sale. Changes in the value of the equities classified as assets evaluated at fair value through the Statement of income are entered directly into the Statement of income. These equities are evaluated at cost according to IAS 39.

Commercial receivables
The receivables are entered at cost (identified using the nominal value) net of any value losses, corresponding to their presumed cashing-in value.

Other financial assets
Financial assets are added and removed from the financial statement according to the date of negotiation and are initially evaluated at cost, inclusive of the charges directly connected with the acquisition. At the subsequent dates of the financial statement, the financial assets to be held until expiry date are shown at cost amortized according to the effective interest rate method, net of any devaluation applied to reflect value losses.
Financial assets other than those held until expiration are classified as held for negotiation or available for sale and are estimated at fair value each financial year with attribution respectively in the Statement of income under the heading “Financial Revenue (Charges)” or in a special reserve of the Stockholders’ equity, in the latter case until such time as they are cashed-in or until they have suffered a loss in value.

Cash and cash equivalents
This heading includes cash reserves and bank accounts and other short-term financial investments with a high level of availability which can be easily converted into cash at a negligible risk of varying in value.

Treasury stock
Treasury stock is entered against stockholders’ equity. No profit/loss is shown in the Statement of income for the purchase, sale, issue or cancellation of treasury stock.

Commercial payables
Commercial payables, the due date of which falls within the normal commercial terms, are not discounted and are entered at cost (identified as their nominal value).

Financial liabilities
Financial liabilities are initially entered at fair value net of the transaction costs directly attributable to them. Subsequently, financial liabilities are estimated with the criteria of amortized cost, using the effective original interest rate method.

G) INVENTORY
Stocks of raw materials and finished products are evaluated at the cost or market value; the cost is determined using the method of average weighted cost. The evaluation of inventories is based on the basis of the direct costs of the raw materials and the labor and the indirect costs of production (variable and fixed). Devaluation provisions are also set

aside for materials, finished products, spare parts and other supplies considered obsolete or with a slow turnover bearing in mind the possibilities of reuse and sale.
Inventory stocks of works in progress are evaluated on the basis of production costs, with reference to the average weighted cost.

H) EMPLOYEE BENEFITS

SEVERANCE INDEMNITY

Up until December 31st 2006 the severance indemnity fund was considered a defined benefit plan. The regulating of this fund was changed by law no. 296 of December 27th 2006 ("Legge Finanziaria 2007) and later decrees and regulations issued during the first months of 2007. On the basis of these modifications, and with particular reference to companies with at least 50 employees, this institution is now considered a defined benefit plan exclusively for the amounts which matured before January 1st 2007 (and not yet liquidated in the financial statement) whereas for the quotas which mature after that date, it is considered a defined contribution plan.

For defined benefit plans, the amount already matured is projected to estimate the amount to be paid at the moment of termination of the employment contract and subsequently recalculated, using the "Projected unit credit method". This kind of accounting methodology is based on theories of a demographic and financial nature so as to make a reasonable estimate of the amount of benefits which each employee has already matured on the basis of the work done.

By means of the actuarial estimate, the current service cost which defines the amount of rights matured during the financial year by employees is entered under the "labour costs" heading of the Statement of income and the interest cost, which constitutes the figurative charge which the company would have to pay if it took out a loan equal to the severance indemnity on the market, is entered among the "Financial Revenue (Charges)".

The actuarial profits and losses accumulated up until last year which reflect the effects of changes in the actuarial hypotheses used, are entered pro-quota in the Statement of income for the rest of the average working life of the employees when their net value not entered at the end of the preceding year exceeds the value of the liability by 10% (so-called corridor method).
For defined contribution plans the Company pays its contribution to a public or private pension fund on an obligatory, contractual or voluntary basis. Once the contributions have been paid the Company has no further obligations. The contributions they have paid are entered into the statement of income under the heading of "Cost of labor" when owed.

REMUNERATION PLANS IN THE FORM OF PARTICIPATION IN THE CAPITAL (STOCK OPTION PLANS)

The costs of staff labor remunerated by means of a *stock option plan* are determined on the basis of the fair value of the options granted to the employees at the date of assignment.
The calculation method for the determination of *fair value* bears in mind all the characteristics of the options (duration of the option, price and conditions for exercising the options etc), as well as the value of the stock at the date of assignment, of the volatility of the stock and of the interest rate curve again at the date of assignment consistently with the duration of the plan. The Black & Scholes pricing model is used.
The cost is shown in the Statement of income during the period in which the rights granted mature, considering the best possible estimate of the number of options becoming exercisable.
In conformity with the IFRS 1, the said standard has been applied to all the assignments subsequent to November 7th 2002 which had still not matured by January 1st 2005.

I) PROVISIONS FOR LIABILITIES AND CONTINGENCIES

The Company has shown the provisions for future contingencies wherever, in the face of a legal or implicit obligation to third parties, it is probable that the Company will have to use its resources to honour such an obligation and when a reliable estimate of the amount of the obligation itself can be made. Variations in such estimates are reflected in the Statement of income for the financial year in which the variation takes place.

L) REVENUE RECOGNITION

The revenue from the sale of goods is recorded when the significant risks and benefits of the ownership of the goods are transferred to the purchaser, which is normally the time when they are delivered or shipped.
Financial revenue and charges are entered on the basis of interest matured on the net value of the relative financial asset or liability using the actual interest rate.

M) ENTRIES IN FOREIGN CURRENCY

Assets and liabilities in foreign currency, with the exception of real estate, are entered at the exchange rate in effect on the day that the financial period was closed and the relative profits and losses are entered into the Statement of income.

N) GRANTS IN CAPITAL ACCOUNT AND IN OPERATING ACCOUNT

Contributions, from both public and third party private bodies are entered when there is reasonable certainty of receiving them and of satisfying the conditions for obtaining them. Contributions received for specific expenses are shown among the other liabilities and credited to the Statement of income at the moment in which the conditions for entering them are satisfied. Contributions received for specific assets, the value of which is entered among the tangible or intangible assets, are shown either as direct reduction of the assets themselves or among the other liabilities and are credited to the Statement of income in relation to the period of depreciation of the assets they refer to.
Grants in operating account are shown entirely in the Statement of income at the moment in which the conditions for entering them are satisfied.

O) TAXES

Current income taxes for the financial year have been entered according to the aliquots and regulations currently in force on the basis of a realistic estimate of taxable income for the period. The fiscal debts for these taxes are entered among the tax debts net of any down payments.
Deferred income tax assets and liabilities have been calculated on the basis of differences of a temporary nature between assets and liabilities recognized for tax purposes and the corresponding figures on the financial statements applying the current tax rate in force or essentially in force at the date of reference. Deferred tax assets have been entered as assets when it is probable that they will be recovered, in other words, when it appears likely that the entity of the taxable amount in the future will be sufficient to recover the assets. The possibility of recuperating assets for deferred tax assets is re-examined at the closing of each financial year. No fiscal effect has been felt by El.En in relation to the stock option plans since the shares assigned to the employees derive from an increase in the capital.

STOCK OPTION PLANS

The chart below shows information related to the stock option plan which was implemented in 2008, with the aim of providing the company with an instrument for encouraging employee incentive and loyalty.

	Max. expiration date	Outstanding options 01.01.11	Options issued 01.01.11-31.12.11	Options cancelled 01.01.11-31.12.11	Options exercised 01.01.11-31.12.11	Expired option not exercised 01.01.11-31.12.11	Outstanding options 31.12.11	Exercisable options 31.12.11	Exercise price
Plan 2008/2013	May, 15 2013	160.000	0	8.000	0	0	152.000	76.000	€ 24,75

For the stock option plan, the fair value was determined following the “Black & Scholes” pricing model using the following hypotheses:

Market interest rate for risk free investments: 4,8%
Historical volatility: 26,11%
Time interval used for calculating volatility: 3 years prior to the date of issue

The overall fair value of the stock options is 770 thousand Euros.

During the financial year 2011 the average price registered for El.En. SpA, shares was about 11,98 Euros.

With regard to the characteristics of the individual stock option plans as well as the increases of capital decided on to implement it, please refer to the description contained in note (10) of this report.

Comments on the main assets

Non-current assets

Intangible fixed assets (note 1)

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

Categories	Balance 31/12/10	Variation	(Devaluation)	Other Operations	(Amortizations)	Balance 31/12/11
Concessions, licences, trade marks and similar rights	10.483	17.683			-11.016	17.150
Other	3.401	6.000			-3.900	5.501
Total	**13.884**	**23.683**			**-14.916**	**22.651**

Among the intangible fixed assets for the year we have entered the costs sustained for the purchase of a brand and for the acquisition of software licenses.

Tangible fixed assets (note 2)

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

Cost	Balance 31/12/10	Increments	Devaluations	Other operations	(Disposals)	Balance 31/12/11
Lands	1.881.777					1.881.777
Buildings	10.605.084	2.086				10.607.170
Plants and machinery	2.054.385	13.212				2.067.597
Industrial and commercial equipment	3.687.243	356.529			-73.851	3.969.921
Other assets	1.650.986	188.152			-107.138	1.732.000
Tangible assets under construction	1.456			-1.456		
Total	**19.880.931**	**559.979**		**-1.456**	**-180.989**	**20.258.465**

Depreciation provisions	Balance 31/12/10	Depreciation	Devaluations	Other operations	(Disposals)	Balance 31/12/11
Lands						
Buildings	1.199.601	318.184		2		1.517.787
Plants and machinery	666.140	188.019				854.159
Industrial and commercial equipment	3.053.564	344.389			-60.916	3.337.037
Other assets	1.103.521	172.626			-107.138	1.169.009
Tangible assets under construction						
Total	**6.022.826**	**1.023.218**		**2**	**-168.054**	**6.877.992**

Net value	Balance 31/12/10	Increments	Other operations	(Depreciations and devaluations)	(Disposals)	Balance 31/12/11
Lands	1.881.777					1.881.777
Buildings	9.405.483	2.086	-2	-318.184		9.089.383
Plants and machinery	1.388.245	13.212		-188.019		1.213.438
Industrial and commercial equipment	633.679	356.529		-344.389	-12.935	632.884
Other assets	547.465	188.152		-172.626		562.991
Tangible assets under construction	1.456		-1.456			
Total	**13.858.105**	**559.979**	**-1.458**	**-1.023.218**	**-12.935**	**13.380.473**

In accordance with the current accounting standards, the value of the land has been separated from the value of the buildings located upon it and the lands have not been amortized since they constitute an element having an unlimited useful life. The value of the lands on December 31st 2011 was 1.882 thousand Euros.

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

The increase under the heading of "industrial and commercial equipment" is due mainly to the capitalization of lasers made by the company while the increases under the heading of "Other assets" is related in particular to the purchase of new motor vehicles.

The sales shown in the column "disposals" of the category of "industrial and commercial equipment" and "Other assets" refers to sales of assets or disposal of goods that were considered obsolete.

Equity investments (note 3)

Equities in subsidiary companies

Company name:	Headquarters	% owned	Value of charge	Equity 31/12/2011	Result 31/12/2011	Share of equity	Difference
Cynosure	Westford - USA	23,38%	9.928.028	92.453.757	-1.833.046	21.615.688	11.687.660
Deka M.E.L.A. Srl	Calenzano (FI) - Italy	75,00%	880.676	8.554.016	1.216.713	6.415.512	5.534.836
Cutlite Penta Srl	Calenzano (FI) - Italy	90,67%	1.031.053	1.020.029	-273.158	924.860	-106.193
Esthelogue Srl	Calenzano (FI) - Italy	50,00%	186.980	373.949	-1.338.796	186.975	-6
Quanta System Spa	Solbiate Olona (VA) - Italy	60,00%	2.867.801	2.428.311	15.229	1.456.987	-1.410.814
Ot-Las Srl	Calenzano (FI) - Italy	90,00%	1.483.890	1.270.073	-166.179	1.143.066	-340.824
Lasit SpA	Vico Equense (NA) - Italy	52,67%	593.614	1.513.354	215.988	797.084	203.470
Deka Technologies Laser Sarl	Lyons - France	100,00%		-22.509	-469.978	-22.509	-22.509
Deka Lasertechnologie GmbH	Berlin - Germany	100,00%		-1.642.236	-2.112	-1.642.236	-1.642.236
Asclepion Laser Technologies GmbH	Jena - Germany	50,00%	1.025.879	5.030.723	-569.901	2.515.362	1.489.483
BRCT Inc	New York - USA	100,00%		1.234.257	2.706	1.234.257	1.234.257
Deka Laser Technologies Inc	Carlsband - USA	11,78%		-1.263.709	-193.365	-148.865	-148.865
Cutlite do Brasil Ltda	Blumenau - Brazil	78,00%		64.448	-408.363	50.269	50.269
Deka Japan Co. Ltd	Tokyo - Japan	55,00%	42.586	610.992	75.691	336.046	293.460
Total			18.040.507	111.625.455	-3.728.571	34.862.495	16.821.988

On the 20th of July 2011 El.En. SpA increased the amount of its equity in Deka MELA Srl by acquiring an additional 5% from a minority shareholder at a price of 250 thousand Euros, thus bringing the amount of its equity to 75%.

On September 8th 2011 the shareholders' meeting of Asclepion Laser voted to increase the capital by 1 million Euros; consequently the equity of El.En. Spa, which is 50%, increased from 525 to 1025 thousand Euros.

The subsidiary Esthelogue Srl, (which is owned 100% by El.En SpA), on December 21st 2011 voted to pay off the losses shown in the statement of financial position dated September 30th 2011 by reducing the capital stock to zero and reconstituting it for an amount of 100 thousand Euros. The reconstitution of the capital was made by issuing new equities and also included the provision that if the sole partner had decided not to exercise his right to underwrite, then the newly issued quotas could be assigned to third parties. In the month of December El.En. SpA partially exercised their right to underwrite the nominal amount of 50 thousand Euros which was equal to one half of the capital stock, per for an overall amount, including the share premium, of 825 thousand Euros. Asclepion Laser Technologies GmbH, (which is also controller directly and indirectly by El.En. SpA), proceeded with the underwriting of the remaining 50% of the capital stock. On December 31st 2011 the equity in Esthelogue was subjected to an impairment test which resulted in the partial devaluation of the amount entered into accounts.

For Quanta System Spa, Otlas Srl, Cutlite Penta Srl the difference between the amount entered into accounts and the corresponding fraction of the shareholders' equity is mostly due to the goodwill paid upon acquisition. The substantial amount of this goodwill is among other things justified by an analysis of the revenue expected from the companies which as conducted using the Discounted Cash Flow method and, for Quanta, also the capital gains implicit in the equity held by the subsidiary Asclepion . For further information, please refer to the notes of the consolidated financial statement.

On December 31st 2011, after registering indicators of impairment, the equities held by Deka Sarl, Deka Lasertechnologie GmbH, BRCT, Deka Laser Technologies Inc were subjected to an impairment test with consequent adjustment of the value entered in the statement.

The equity in the subsidiary Deka Sarl, which is held 100% by El.En, as a consequence of the losses registered during 2011, was subjected to direct devaluation to reduce to zero the value of the equity for an amount of 78 thousand Euros and indirectly with an accrual in the “Reserve for losses by group companies” for an amount of about 22 thousand Euros.

The equity of the subsidiary Deka Lasertechnologie GmbH, the value of which was reduced to zero during the preceding financial year, was subjected to further accruals in the “Reserve for losses by group companies” for 6 thousand Euros in consideration of the losses registered in 2011. On December 31st 2011 the fund related to this company amounted to 1,6 million Euros.

The equity in the subsidiary BRCT was subjected to direct devaluation, and was reduced to zero , for an amount of 205 thousand Euros as a consequence of the loss in value registered by the company related to the losses shown by its subsidiaries.

The equity in the subsidiary Deka Laser Technologies Inc, of which El.En. SpA holds directly 11,78% was subjected to a devaluation with the accrual in the “Reserve for losses by group companies” for an amount of 28 thousand Euros. On December 31st 2011 the fund related to this company amounted to 148 thousand Euros.

Equities in associated companies

Company Name:	**Headquarters**	**% owned**	**Value of charge**	**Equity 31/12/2010**	**Result 31/12/2010**	**Share of equity**	**Difference**
Actis Srl (*)	Calenzano (I)	12,00%	1.240	105.463	178	12.677	11.437
Elesta Srl (ex IALT Scrl)	Calenzano (I)	50,00%		- 289.210	- 527.682	- 144.605	- 144.605
Immobiliare Del.Co. Srl	Solbiate Olona (I)	30,00%	274.200	69.543	27.520	20.863	- 253.337
S.B.I. SA	Herzele (B)	50,00%	306.551	613.102	- 126.610	306.551	-
Total			581.991	498.898	- 626.594	195.486	- 386.505

(*) Dati al 31 dicembre 2010

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

The increase in the amount of the equity in the associated company SBI SA, in the first place, reflects the increase in capital from 600 thousand Euros to 1.200 thousand Euros approved on October 25th 2011; this increase was entirely underwritten and paid out by the partners on the basis of the amount of the equity they held (50% each); on December 31st 2011 the amount of the equity was subjected to direct devaluation in order to adapt the value of the equity to the corresponding fraction of the shareholders’ equity.

Moreover, in relation to the equity held in Elesta Srl, it should be recalled that on May 11th 2011 the shareholders’ meeting voted to pay off the losses registered in the statement of December 31st 2010 and in the statement of financial position on March 31st 2011 drawn up in compliance art. 2482-bis c.c. for an amount of 517 thousand Euros by reducing to zero the capital stock and a payment deposited by the partners for the remaining amount. They also voted to reconstitute the capital to the original amount of 110 thousand Euros, and this amount was entirely underwritten by the partners. On December 31st 2011 the amount of the equity, as determined after the operations described above, was subjected to direct devaluation to reduce the value to zero and indirect devaluation with the accrual in the “Reserve for losses by associated companies” for an amount of 145 thousand Euros circa.

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

	Total assets	Total liabilities	Net income (loss)	Revenues and other income	Charges and expenses
Actis Active Sensors Srl (*)	227.919	122.276	178	95.821	95.643
Elesta Srl (ex IALT Scrl)	1.540.578	1.829.788	-527.682	929.481	1.457.163
Immobiliare Del.Co. Srl	1.177.891	1.108.348	27.520	151.790	124.271
S.B.I. SA	784.882	171.779	-126.610	115.527	242.137

(*) Data as of December 31st 2010

Equities in other companies

The equity held in Alfa Laser Srl (equal to 19% of the capital stock) was subjected to direct devaluation for an amount of 17.950 euro, in order to adapt the value to the price of the operation for the sale which was concluded on January 31st 2012.

Composition of equity investments

	31/12/2010						31/12/2011		
Company name:	**Cost**	**Reval. (Deval.)**	**Balance 31/12/10**	**Changes**	**Revaluations (devaluations)**	**Other movements**	**Balance 31/12/11**	**Reval. (Deval.)**	**Cost**
Subsidiary companies:									
Deka M.E.L.A. Srl	629.520	0	629.520	250.000	0	1.156	880.676	0	880.676
Cutlite Penta Srl	1.031.053	0	1.031.053	0	0	0	1.031.053	0	1.031.053
Esthelogue Srl	749.583	-686.950	62.633	825.000	-700.653	0	186.980	-1.387.603	1.574.583
Deka Technologies Laser Sarl	1.341.681	-1.236.136	78.545	0	-78.545	0	0	-1.341.681	1.341.681
Deka Lasertechnologie GmbH	1.038.456	-1.038.456	0	0	0	0	0	-1.038.456	1.038.456
Ot-las Srl	1.481.000	0	1.481.000	0	0	2.890	1.483.890	0	1.483.890
Lasit SpA	593.614	0	593.614	0	0	0	593.614	0	593.614
Quanta System SpA	2.859.710	0	2.859.710	0	0	8.091	2.867.801	0	2.867.801
Cynosure	9.928.028	0	9.928.028	0	0	0	9.928.028	0	9.928.028
Deka Laser technologies INC	27.485	-27.485	0	0	0	0	0	-27.485	27.485
BRCT	652.591	-447.112	205.479	0	-205.479	0	0	-652.591	652.591
Asclepion Laser T. GmbH	525.879	0	525.879	500.000	0	0	1.025.879	0	1.025.879
Deka Japan Ltd	42.586	0	42.586	0	0	0	42.586	0	42.586
Total	20.901.186	-3.436.139	17.438.047	1.575.000	-984.677	12.137	18.040.507	-4.447.816	22.488.323
Associated companies:									
Actis Srl	1.240	0	1.240	0	0	0	1.240	0	1.240
Elesta Srl (ex IALT scrl)	225.361	-225.361	0	258.786	-119.239	-139.547	0	-484.147	484.147
Immobiliare Del.Co.	274.200	0	274.200	0	0	0	274.200	0	274.200
Sbi International	300.000	-230.143	69.857	300.000	-63.306	0	306.551	-293.449	600.000
Total	800.801	-455.504	345.297	558.786	-182.545	-139.547	581.991	-777.596	1.359.587
Other companies:									
Concept Laser Solutions GmbH	19.000	0	19.000	0	0	0	19.000	0	19.000
Alfa Laser Srl	19.950	0	19.950	0	-17.950	0	2.000	-17.950	19.950
CALEF	3.402	0	3.402	0	0	0	3.402	0	3.402
R&S	516	0	516	0	0	0	516	0	516
RTM	364.686	-298.474	66.212	0	0	0	66.212	-298.474	364.686
Total	407.554	-298.474	109.080	0	-17.950	0	91.130	-316.424	407.554
Total	22.109.541	-4.190.117	17.892.424	2.133.786	-1.185.172	-127.410	18.713.628	-5.541.836	24.255.464

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

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

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

Other non current assets	**31/12/2011**	**31/12/2010**	**Variation**	**Var. %**
Financial receivables vs subsidiaries		154.477	-154.477	-100,00%
Deferred tax assets	1.716.002	1.476.317	239.685	16,24%
Other non current assets	3.108	3.108	0	0,00%
Total	1.719.110	1.633.902	85.208	5,22%

The amount which on December 31st 2010 was entered among the "financial receivables from subsidiary companies" was related to the non-current quota of the financing issued to the subsidiary Deka Laser Technologies which, on December 31st 2011 was reclassified among the current assets.

For an analysis of the entry "Deferred tax assets", refer to the chapter on "deferred tax assets and liabilities" .

Current Assets

Inventory (note 5)

The chart below shows a breakdown of the inventory:

Inventories:	**31/12/11**	**31/12/10**	**Variation**	**Var. %**
Raw materials and consumables	9.728.844	10.048.531	-319.687	-3,18%
Work in progress and semi finished products	6.044.952	5.286.603	758.349	14,34%
Finished products and goods for sale	3.456.651	2.897.319	559.332	19,31%
Total	19.230.447	18.232.453	997.994	5,47%

The comparison between the final inventories shows the increase in their amount of 5,47%, which is slightly greater than the increase in the sales volume for this year.

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

Inventory:	**31/12/2011**	**31/12/2010**	**Variation**	**Var. %**
Gross amount	23.027.850	21.885.393	1.142.457	5,22%
minus: devaluation provision	-3.797.403	-3.652.940	-144.463	3,95%
Total	19.230.447	18.232.453	997.994	5,47%

The incidence of the reserve for obsolescence on the gross value of the inventory as of December 31st 2011 was 16,5%, which was essentially unchanged with respect to December 31st 2010.

Commercial receivables (note 6)

Receivables are composed as follows:

Debtors:	**31/12/11**	**31/12/10**	**Variation**	**Var. %**
Trade debtors	3.103.209	3.196.752	-93.543	-2,93%
Subsidiary debtors	27.714.897	26.338.967	1.375.930	5,22%
Associated debtors	776.656	778.926	-2.270	-0,29%
Total	31.594.762	30.314.645	1.280.117	4,22%

Trade debtors:	**31/12/2011**	**31/12/2010**	**Variation**	**Var. %**
Italy	2.615.585	2.484.205	131.380	5,29%
European Community	1.448.150	1.540.593	-92.443	-6,00%
Outside of European Community	788.218	548.665	239.553	43,66%
minus: devaluation provision for debtors	-1.748.744	-1.376.711	-372.033	27,02%
Total	3.103.209	3.196.752	-93.543	-2,93%

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

The chart below shows the changes in the provisions for bad debts which occurred during this year.

Provision for bad debts	**2011**	**2010**
At the beginning of the period	**1.376.711**	**1.231.040**
Amounts accrued	372.717	158.457
Amounts utilized	-684	-12.786
At the end of the period	**1.748.744**	**1.376.711**

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

Account receivables in:	**31/12/2011**	**31/12/2010**
Euro	2.711.062	2.907.584
USD	392.147	289.168
Total	3.103.209	3.196.752

The amount in Euros shown in the chart of the receivables originally expressed in US dollars or other currencies represents the amount in currency converted at the exchange rate in force on December 31st 2011 and December 31st 2010.

The chart below shows the analysis of the trade receivables from third parties and from subsidiary companies for 2010 and 2011:

Account receivables vs. third parties:	**31/12/2011**	**31/12/2010**
To expire	1.306.551	1.169.204
Expired:		
30 days	316.636	536.826
60 days	283.493	250.034
90 days	167.575	311.760
180 days	324.265	379.687
over 180 days	704.689	549.241
Total	3.103.209	3.196.752

Account receivables from subsidiaries:	**31/12/2011**	**31/12/2010**
To expire	6.995.624	8.544.891
Expired:		
30 days	1.231.593	1.757.821
60 days	865.124	1.059.287
90 days	867.776	838.420
180 days	2.208.632	3.965.147
over 180 days	15.546.148	10.173.401
Total	27.714.897	26.338.967

For a detailed analysis of the trade receivables from subsidiary and associate companies, refer to the chapter in the information sheet on related parties.

Tax receivables/Other receivables (note 7)

The chart below shows a breakdown of tax receivables and other receivables:

	31/12/2011	31/12/2010	Variation	Variation %
Tax debtors				
VAT credits	1.129.458	2.294.237	-1.164.779	-50,77%
Income tax credits	595.577	6.153	589.424	9579,46%
Total tax debtors	1.725.035	2.300.390	-575.355	-25,01%

Financial receivables				
Financial receivables from third parts	20.000	20.000	-	0,00%
Financial receivables from subsidiary companies	3.643.057	3.167.688	475.369	15,01%
Financial receivables from associated companies	13.565	13.565	-	0,00%
Total	3.676.622	3.201.253	475.369	14,85%
Other receivables				
Security deposits	34.718	25.993	8.725	33,57%
Down payments	153.425	296.513	-143.088	-48,26%
Other credits	457.510	401.431	56.079	13,97%
Other credits from subsidiary companies	15.000	96.000	-81.000	-84,38%
Total	660.653	819.937	-159.284	-19,43%
Total financial and other receivables	4.337.275	4.021.190	316.085	7,86%

The amount entered among the “tax credits” related to Value Added Tax (VAT) is the natural effect of the large amount of exports which characterize the sales volume of the company. The decrease this year with respect to 2010 for the amount of 650 thousand Euros, is related to the reimbursement that the company obtained in relation to the tax amounts for 2006.

The financial receivables are related to short-term financing issued to subsidiary and associated companies in order to provide for normal operational activities. The main financial receivables issued to subsidiary companies are the following:

Companies in the Group	amount(/1000)	currency	Annual rate
Asclepion Laser Technologies GmbH	985	Euro	BCE + 1%
Cutlite Penta Srl	500	Euro	BCE + 1%
Esthelogue Srl	445	Euro	BCE + 1%
Deka Laser Technologies INC	494	USD	2,50%
BRCT Inc.	260	USD	2,50%
Lasit SpA	119	Euro	BCE + 1%
Quanta System SpA	230	Euro	BCE + 1%
Deka Medical Inc	200	USD	2,50%
Pharmonia Srl	500	Euro	BCE + 1%

For further details on the financial receivables from subsidiaries and associated companies, please see the next chapter, regarding “related parties”.

Securities (note 8)

The company does not hold any securities.

Net financial position as of December 31st 2010

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

Cash at Bank and on Hand (note 9)

Cash at bank and on hand is composed as follows:

Cash at Bank and in hand:	**31/12/2011**	**31/12/2010**	**Variation**	**Var. %**
bank and postal current accounts	6.117.597	4.913.193	1.204.404	24,51%
cash in hand	5.666	5.367	299	5,57%
Total	6.123.263	4.918.560	1.204.703	24,49%

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

Net financial position as of December 31st 2011

The net financial position as of December 31st 2011 is composed as follows (in thousands of Euros).

Net financial position		
	31/12/2011	**31/12/2010**
Cash and bank	6.123	4.919
Cash and cash equivalents	**6.123**	**4.919**
Short term financial receivables	**20**	**20**
Bank short term loan	(4.185)	0
Part of financial long term liabilities due within 12 months	(66)	(96)
Financial short term liabilities	**(4.252)**	**(96)**
Net current financial position	**1.892**	**4.842**
Bank long term loan	(2.380)	0
Other long term financial liabilities	0	(66)
Financial long term liabilities	**(2.380)**	**(66)**
Net financial position	**(489)**	**4.776**

The net financial position showed a negative result for an amount of about 0,5 million Euros, a decrease of about 5,3 million respect to last year.

In order to satisfy the need for cash, in particular those related to the long-range research project called “MILoRDS” last month the company contracted a loan with Mediocredito Italiano S.p.A. for 3,4 million Euros; the loan must be paid back in set amounts every six months starting on December 15th 2011 and terminating on June 15th 2016. For 1,7 million Euros the interest rate for the first installment was 2,40%, and for the remaining 1,7 million the interest rate applied was 5,70%; for all of the following years the interest will be the same as the Euribor six-month rate, registered the second target working day before the preceding interest period increased by a spread of 3,90% on the first 1,7 million Euros and reduced to 0,60% on the remaining 1,7 million Euros. The mid- and long-term quotas are shown in the Bank long term loan and the short-term quotas are shown in the Bank short term loan; this latter entry also includes a short-term financing granted by the Cassa di Risparmio di Firenze for an amount of 3,5 million Euros maturing on January 4th 2012. On that date the financing was renewed until April 4th 2012 for an amount of 2,5 million Euros.

The use of cash was due mainly to the increase in net working capital, also on account of the financial support that El.En. gives to the other companies in the Group through credit on sales.

Financial receivables from subsidiary and associated companies for an amount of 3.657 thousand Euros have been excluded from the net financial position because they are related to financial support policies of the companies of the Group (for details, see the information on related parties). In continuation of past policy, we considered it opportune to not include this type of financing in the net financial position shown above.

Comments on the main liability entries

Capital and Reserves

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

Capital stock (note 10)

As of December 31st 2011, the capital stock of El.En. was as follows

Authorized	Euros	2.591.871
Underwritten and deposited	Euros	2.508.671

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

Categories	**31/12/2010**	**Increase.**	**(Decrease.)**	**31/12/2011**
No. of Ordinary Shares	4.824.368			4.824.368
Total	**4.824.368**			**4.824.368**

Shares are nominal and indivisible and each of them gives the holder the right to one vote in all the ordinary and extraordinary assemblies as well as the other financial and administrative rights granted in accordance with the law and the Statute. At least 5% of the net operating profits of the financial year must be set aside for the legal reserve in accordance with art. 2430 of the civil code. The remainder is distributed to the shareholders, unless the assembly votes otherwise. The Statute does not allow advance payments on the dividends. Dividends not cashed within five years from the date of emission are returned to the Company. No special statutory clauses exist with regard to the participation of shareholders in the remaining assets in the event of liquidation. No statutory clauses exist granting special privileges.

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

The Board of Directors of El.En. SpA, with the vote taken on July 15th 2008, implemented the authority of the shareholders meeting of May 15th 2008, to increase the capital stock by 83.200,00 for use in the stock option plan for 2008-2013 and approved the relative regulations. The option rights were assigned, by a vote taken on the same day, exclusively to employees of El.En. S.p.A. and the other companies of the Group which, at the time of assignment, were working in a subordinate position. The stock option plan is divided into two equal portions which can be implemented in conformity with the following terms:
a) up to a maximum amount of 41.600,00 Euros starting on July 15th 2011 until the date of approval of the proposed annual report for 2011 by the Board of Directors.
Subsequently, the rights on the options can be exercised as follows:

- if the shareholders' meeting, during the approval of the report for 2011, votes to distribute the profits, from the day that the relative dividends for 2011 become payable up until the date of approval of the company report for 2012 by the Board of Directors;
- otherwise, if the profits are not distributed for the year 2011, from the 15th of May 2012 up until the date of the approval of the proposed annual report for 2012 by the Board of Directors;
- if, during the approval of the report for 2012, the shareholders' meeting votes in favor of the distribution of the profits, from the date, if earlier than the 15th of May 2013, of the maturity of the payments of the dividends for 2012 up until May 15th 2013.
- otherwise, if it is decided to not distribute the profits for the year 2012, the period in which the rights can be exercised will terminate on the date, if earlier than May 15th 2013, of the approval of the proposed annual report for the year 2012 by the Board of Directors, and otherwise on the 15th of May 2013.

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

b) concerning the residual amount of the increase, equal to the nominal amount of 41.600,00 Euros, starting on July 15th 2012 up until the date of approval of the proposed annual report for the year 2012 by the Board of Directors.

Subsequently, the rights to the options may be exercised as follows:
- if the shareholders' meeting, during the approval of the report for 2012, approves the distribution of profits for the year 2012, from the date in which payment of dividends matures for the dividends for the year 2012 up until the 15th of May 2013;
- otherwise, if it is decided not to distribute the profits for the year 2012, the period for exercising the rights will terminate on the date, if before May 15th 2013, of the approval of proposed annual report for 2012, and otherwise, on May 15th 2013.

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

At the time of the compilation of this document no rights had been exercised for picking up the options.

Additional paid in capital (note 11)

On December 31st 2011 the share premium reserve amounted to 38.594 thousand Euros, unchanged with respect to December 31st 2010.

Other reserves (note 12)

Other reserves	31/12/2011	31/12/2010	Variation	Var. %
Legal reserve	537.302	537.302		0,00%
Extraordinary reserve	33.780.537	33.663.109	117.428	0,35%
Stock options reserve fund	1.672.730	1.494.320	178.410	11,94%
Reserve for contributions on capital account	426.657	426.657		0,00%
Other reserves	13.392	13.393	-1	-0,01%
Total	36.430.618	36.134.781	295.837	0,82%

On December 31st 2011, the "extraordinary reserve" amounted to 33.780 thousand Euros; the change which occurred during the financial year is due to the addition to the reserve of part of the profit of 2010, as per the decision of the shareholders' meeting on May 13th 2011.

The reserve "for stock options" includes the equivalent of the costs determined in accordance with IFRS 2 of the Stock Option Plans assigned by El.En. SpA, for the quota which matured on December 31st 2011. The change of 178 thousand Euros, which took place during the year, is entered in the chart of the stockholders' equity in the "Other operations" column.

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

Treasury stock (note 13)

On March 3rd 2008, the shareholders' meeting of the Parent Company El.En. SpA, voted to authorize the Board of Directors to acquire, in compliance and within the limits established by articles 2357and following of the Civil Code, within 18 months of that date, treasury stock representing not more than 10% of the capital stock in accordance with the law, at a price which was not less than 20% more nor more than 10% more than the official price for negotiations registered on the day preceding the purchase. With the same vote they authorized the method for disposing of the shares which can be put back into circulation within 3 years of the purchase at a price which is not less than 95% of the average of the official prices for negotiations registered during the five days preceding the sale , all of which must take place respecting the laws in force in this regard.

Consequently, between March and April 2008 the Board of Directors of El. En. SpA proceeded with the purchase of 103.148 shares of the company at an average price of 24,97 Euros for a total of 2.575.611 Euros and these shares are still held in the portfolio of the company.
Upon request of the Board of Directors, the Shareholders' Meeting of the Parent Company which met on October 28th 2010 renewed the authorization of the Board to purchase in one or more tranches, on the regular stock market, and therefore according to the conditions described in art. 144 *bis*, sub-section 1, letter b) of the *Regolamento Emittenti Consob*, and following the operative procedures established by the organization and management regulations of the market issued by the Borsa Italiana S.p.A., within 18 months of that date, treasury stock representing a number of ordinary shares which, in any case, considering the number of shares already held in the portfolio, does not exceed one-fifth of the capital stock, respecting the laws and regulations, at a price that is not more than 20% less or over 10% more than the official price for negotiations registered on the day preceding the purchase. The vote of the shareholders' also authorized the Board of Directors to put the shares back into circulation within ten years of the date of purchase, including those already held in the portfolio on December 28th 2010, at a price that is not less than 95% of the average official price for negotiations registered during the five days preceding the sale, all of which must take place respecting the regulations in force.

Profits/losses brought forward (note 14)

The entry includes the rectifications of the stockholders' equity made necessary by the adoption of the International Accounting Standards; it also includes the entry of capital gains earned by the sale of treasury stock in February 2005.

Availability and possibility of utilization of the reserves

NET CAPITAL AND RESERVES:	**Balance 31/12/2011**	**Possibility of utilization**	**Portion available**	**Utilized in the previous two periods for covering losses**	**Utilized in the previous two periods for other purposes**
Subscribed capital	2.508.671				
Additional paid in capital	38.593.618	ABC	38.593.618		
Legal reserve	537.302	B			
Other reserves:					
Extraordinary reserves	33.780.537	ABC	31.204.926		
Reserve for contribution on capital account	426.657	ABC	426.657		
Profits (loss) brought forward	-920.544	ABC	-920.544		
Other reserves	1.686.122	AB	13.392		
			69.318.049	**0**	**0**
Portion not distributable					
Portion distributable			**69.304.657**		

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

It should be noted that the amount of the extraordinary reserve that is available is net of the treasury stock acquired by the company for an amount of 2.576 thousand Euros.

Non-current liabilities

Severance indemnity fund (note 15)

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

Balance 31/12/2010	**Accrual**	**Utilization**	**Payment to complementary pension forms, to INPS fund and other movements**	**Balance 31/12/2011**
934.529	460.640	-73.000	-395.918	926.251

The severance indemnity represents an indemnity which is matured by the employees during their period of employment and which is paid upon termination of employment or in other cases according to the law.

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

After the modifications to the severance indemnity in conformity with the Law of December 27th 2006 (and later modifications), for IAS purposes, only the liability relative to the matured severance fund left in the company has been evaluated because the quota maturing has been paid to a separate entity (complementary pension type). Also for employees who have explicitly decided to keep the indemnity fund in the company, the indemnity has matured since January 1st 2007 has been paid into the treasury Fund managed by INPS. This fund, according to the financial law 2007, guarantees the employees working in the private sector the payment of the severance indemnity for the amount corresponding to the payments deposited to the latter.

It should be recalled that the company uses the so-called "corridor method" in which the net cumulative value of the actuarial surplus and deficit is not registered until it exceeds in absolute terms 10% of the current value of the liabilities. On December 31st 2011 the net accumulated value of the actuarial profits not registered was equal to 96 thousand Euros. The present value of the liabilities as of December 31st 2011 was 796 thousand Euros.

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

Financial hypotheses	**Year 2010**	**Year 2011**
Annual implementation rate	4,50%	4,60%
Annual inflation rate	2,00%	2,00%
Annual increase rate of salaries	Executives 4,00%	Executives 4,00%
(including inflation)	White collar workers 2,50%	White collar workers 2,50%
	Blue collar workers 2,50%	Blue collar workers 2,50%

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

Deferred tax assets and liabilities are accrued on the temporary differences between assets and liabilities recognized for fiscal purposes and those entered into accounts.
The analysis is shown on he chart below.

	Balance 31/12/2010	Accrual	(Utilization)	Other	Balance 31/12/2011
Deferred tax assets on inventory devaluations	1.028.402	38.346	-7.273		1.059.475
Deferred tax assets on warranty reserve	84.780		-6.280		78.500
Deferred tax assets on bad debt reserve	305.866	275.550			581.416
Deferred tax assets on severance indemnity provision discount	-23.119			-1	-23.120
Other deferred tax assets	80.388		-60.657		19.731
Total	1.476.317	313.896	-74.210	-1	1.716.002
Deferred tax liabilities on advanced depreciations	170.647		-678		169.969
Deferred tax liabilities for contributions on capital account	143.500	68.218			211.718
Other deferred tax liabilities	126.404	102.740			229.144
Total	440.551	170.958	-678	0	610.831
Net amount	1.035.766	142.938	-73.532	-1	1.105.171

Deferred tax assets amounted to 1.716 thousand Euros. Among the main variations which have occurred during this year, attention should be called to the increase in the deferred taxes assets calculated on the inventory devaluation and devaluation of credits. The amount entered under the column of “utilization” referring to the heading of other deferred tax assets is related to the use of amounts accrued (but not paid in 2010) as incentive bonuses to some members of the Board of Directors.
Deferred tax liabilities were 611 thousand Euros. The accruals are related to the deferring of taxes on the contributions in capital account entered into accounts in 2010 and 2011 and to the differences in the Exchange rate which were not realized.

Other accruals (note 17)

The chart below shows the operations made with other accruals.

	Balance 31/12/2010	Accrual	(Utilisation)	Other	Balance 31/12/2011
Reserve for pension costs and similar	25.693	21.654		-19.501	27.846
Others:					
Warranty reserve on the products	270.001	-20.000			250.001
Other minor reserves	1.900.094	201.662	-139.547		1.962.209
Total other reserves	2.170.095	181.662	-139.547	-	2.212.210
Total	2.195.788	203.316	-139.547	-19.501	2.240.056

In the entry “reserve for pension costs and similar” the TFM (severance indemnity fund for the directors) and the indemnity fund for clients’ agents are included.
According to IAS 37, the amount owed to the agents must be calculated using the actualization techniques to estimate as precisely as possible, the overall cost to be sustained for the payment of benefits to the agents after the termination of employment.

The technical evaluations were made on the basis of the hypotheses described below.

Financial hypotheses	**Year 2010**	**Year 2011**
Annual rate of implementation	4,50%	4,60%
Annual rate of inflation	2,00%	2,00%

The reserve for product guarantees is calculated on the basis of the costs for spare parts and servicing under warranty incurred in the previous financial year, adjusted to the volume of sales of the current financial year.

In relation to the category called "Other minor reserves", the amount shown in the "accrual" column refers to the accruals for losses by companies in which an equity is held, as described in Note 3 above. The amount shown in the "utilization" column is related to the reversal of the "Reserve for losses by group companies" made as part of the previous loss covering operations of the associated company Elesta srl and also described in note 3 above.

Amounts owed and financial liabilities (note 18)

The chart below shows the breakdown of the amounts owed:

Financial m/l term debts	**31/12/2011**	**31/12/2010**	**Variation**	**Var. %**
Amounts owed to banks	2.380.000		2.380.000	
Amounts owed for leasing	0	20.573	-20.573	-100,00%
Amounts owed to other financiers		45.819	-45.819	-100,00%
Total	2.380.000	66.392	2.313.608	3484,77%

The entries under the heading of "amounts owed for leasing" and "amounts owed to other financiers" entered on December 31st 2010 among the mid- and long-term financial debts, were reclassified on December 31st 2011 among the short-term financial debts, because only the amounts maturing during 2012 remain to be paid.

The "amounts owed to banks" amounted to about 2,4 million Euros and are related to the mid-term loan contracted with Mediocredito Italiano S.p.A. in the month of December 2011, details of which are given in the comments on the net financial position.

Current liabilities

Financial debts (note 19)

Financial short term debts	31/12/2011	31/12/2010	Variation	Var. %
Amounts owed to banks	4.185.372		4.185.372	
Amount owed for leasing	20.573	6.046	14.527	240,27%
Amounts owed to other financiers	45.818	90.281	-44.463	-49,25%
Total	4.251.763	96.327	4.155.436	4313,88%

The entry "amounts owed to banks" for 685 thousand Euros refers to the short-term loan granted by Mediocredito Italiano described in the preceding paragraph and to the remainder, for an amount of 3,5 million Euros, for a short-term loan granted by the Cassa di Risparmio di Firenze which fell due on January 4th 2012, and is also described in the paragraph dealing with the net financial position.

The entries "amounts owed for leasing" represents the effects of the entry into accounts in compliance with IAS 17 of the financial leasing contract for a motor vehicle, while the "amounts owed to other financiers" includes the amounts due by the end of the year for a facilitated MPS financing for applied research, reference TRL01, granted for a total amount of 681.103 Euros, at an annual rate of 2% with the last installment in July 2012.

The chart below represents a summary which also shows the due dates for payment of the capital amounts of the debt.

	Expiration	Rate	Balance	Amount within 1 year	Amount within 5 years	Amount beyond 5 years
MPS TRL 01 Loan	01/07/2012	2,00%	45.818	45.818		
Mediocredito loan	16/06/2016	Euribor 6 mesi +2,25%	3.065.372	685.372	2.380.000	
CRF short-term loan			3.500.000	3.500.000		
Leasing			20.573	20.573		
Total			6.631.763	4.251.763	2.380.000	0

The short term loan granted by the Cassa di Risparmio di Firenze for the amount of 3,5 million Euros which fell due on January 4th 2012 has an interest rate of 2,774%; when it became due it was renewed until April 4th 2012 for an amount of 2,5 million Euros.

Long term financial operations

During this financial year the following mid/long-term financial movements occurred. The balances include the short term capital amounts and the quota for interests which have matured but not yet been paid.

	Balance 31/12/2010	Increase	Reimbursement	Other	Balance 31/12/2011
MPS TRL 01 Loan	136.100		-90.282		45.818
Mediocredito Loan		3.400.000	-340.000	5.372	3.065.372
Leasing	26.619		-6.046		20.573
Total	162.719	3.400.000	-436.328	5.372	3.131.763

Debts guaranteed by real estate property

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

Amounts owed for supplies (note 20)

Trade debts:	31/12/2011	31/12/2010	Variation	Var. %
Amounts owed to suppliers	6.360.294	9.427.847	-3.067.553	-32,54%
Amounts owed to subsidiary companies	1.415.192	1.257.266	157.926	12,56%
Amounts owed to associated companies	45.980	69.444	-23.464	-33,79%
Total	7.821.466	10.754.557	-2.933.091	-27,27%

For a detailed analysis of the trade payables to the subsidiary and associated companies, refer to the chapter with the information sheet relative to related parties.

The decrease in the amount owed for supplies reflects, among other things, the reduction in the amounts purchase with respect to last year.

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

Account payables in:	31/12/2011	31/12/2010
Euro	6.110.828	9.200.316
USD	194.217	173.576
Other currencies	55.249	53.955
Total	6.360.294	9.427.847

On the chart, the value in Euros of the debts originally expressed in US dollars or other currencies represents the amount of currency converted at the exchange rate in force on December 31st 2010 and on December 31st 2011.

Income tax debts /Other short term debts (note 21)

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

	31/12/2011	31/12/2010	Variation	Variation %
Social security debts				
Debts owed to INPS	651.161	661.463	-10.302	-1,56%
Debts owed to INAIL	63.743	59.642	4.101	6,88%
Debts owed to other Social Security Institutions	85.234	86.942	-1.708	-1,96%
Total	800.138	808.047	-7.909	-0,98%
Other debts				
Debts owed to tax administration for VAT	3.173	2.519	654	25,96%
Debts owed to tax administration for deductions	473.413	457.797	15.616	3,41%
Owed to staff for wages and salaries	1.076.718	1.000.082	76.636	7,66%
Down payments	160.099	524.574	-364.475	-69,48%
Other amounts owed to subsidiary companies	382.523	1.381	381.142	27598,99%
Other debts	419.358	535.295	-115.937	-21,66%
Total	2.515.284	2.521.648	-6.364	-0,25%
Total Social security debts and other debts	3.315.422	3.329.695	-14.273	-0,43%

The "Debts owed to staff for wages and salaries" includes, among other things, the debts for deferred salaries matured by employees as of December 31st 2011.
The entry of "Down payments" refers to down payments received from clients and from ARTEA on behalf of the Region of Tuscany for co-financed research projects. For further details on these projects, see the note below (23).

The entry “other amounts owed to subsidiaries” is related to the charges derived from the recognition in favor of the subsidiary companies adhering with El.En to the national fiscal consolidated (procedure in compliance with art. 117 and following of the TU 917786 and D.M. in force since June 9th 2004), of the compensation sum calculated according to the tax aliquots of the companies (IRES) in force at the time to which the use refers, in accordance with the agreements stipulated by the parties. The option is valid from 2011 through 2013 and was made with the subsidiaries Ot-Las Srl and Esthelogue Srl.

Analysis of debts according to due date

	31/12/2011			31/12/2010		
	Within 1 year	**From 1 to 5 years**	**More than 5 years**	**Within 1 year**	**From 1 to 5 years**	**More than 5 years**
Amounts owed to banks	4.185.372	2.380.000				
Amounts owed to leasing company	20.573			6.046	20.573	
Amounts owed to other financiers	45.818			90.281	45.819	
Amounts owed to suppliers	6.360.294			9.427.847		
Amounts owed to subsidiary companies	1.797.715			1.258.647		
Amounts owed to associated companies	45.980			69.444		
Income taxes debts				565.127		
Amounts owed to social security institutions	800.138			808.047		
Other liabilities	2.132.761			2.520.267		
Total	15.388.651	2.380.000	0	14.745.706	66.392	0

Comments on the main entries in the statement of income

Revenue (note 22)

	31/12/2011	31/12/2010	Variation	Var. %
Sales of industrial laser systems	8.135.966	8.432.122	-296.156	-3,51%
Sales of medical laser systems	29.253.343	30.622.678	-1.369.335	-4,47%
Service and sales of spare parts	7.383.320	6.492.360	890.960	13,72%
Total	44.772.629	45.547.160	-774.531	-1,70%

The sales volume remained essentially stable and registered a slight drop of 1,7% which is the average between the reduction of about 4% in the sale of systems, both for industrial and medical applications, and the increase in the sales volume for customer assistance and spare parts which was about 13,7%.

Subdivision of revenue by geographical area

	31/12/11	31/12/10	Variation	Var. %
Sales in Italy	26.000.720	26.730.386	-729.666	-2,73%
Sales other EC countries	6.515.060	7.523.511	-1.008.451	-13,40%
Sales outside EC	12.256.849	11.293.263	963.586	8,53%
Total	44.772.629	45.547.160	-774.531	-1,70%

The Italian market showed a slight decrease with respect to 2010; it is composed mainly of the Italian companies belonging to the Group and remains the prevalent market although it should be mentioned that a large portion of the sales volume of the Group is intended for export. The growth in the number of exports to countries outside of the European Union can be attributed to the positive trend in sales in the industrial sector especially in China and to a recovery in the sales on the American market.

Other revenue and income (note 23)

Analysis of the other income is as follows:

	31/12/2011	31/12/2010	Variation	Var. %
Recovery for accidents and insurance reimbursements	8.047	3.610	4.437	122,91%
Expense recovery	64.340	86.220	-21.880	-25,38%
Capital gains on disposal of fixed assets	83.906	41.806	42.100	100,70%
Other income	862.187	1.038.711	-176.524	-16,99%
Total	1.018.480	1.170.347	-151.867	-12,98%

In the category of “Other income” we have entered income for an amount of about 473 thousand Euros for a grant received for financing, in particular, on the following research projects:
-TROPHOS project – Tissue Regeneration Outcomes by Proteomics after High-Tech Optronic System Stimulation – Proteomic evaluation of tissue re generation stimulated by highly innovative optronic systems – admitted by the Region of Tuscany for financing as a grant with Decree 5084 of October 2nd 2009, on the basis of the “Bando Unico Ricerca e Sviluppo 2008” for the support of company research and development – Activity sectors A-B-C as per Directive Decree *Decreto Dirigenziale* n. 6744 of December 31st 2008 approved by the region of Tuscany – General Office for Economic Development.
-TRAP project – Innovative technologies and methods for Ablative Percutaneous Treatments by means of laser guided by ecographic imaging - admitted by the Region of Tuscany for financing as a grant with Decree 5084 of October 2nd 2009, on the basis of the “Bando Unico Ricerca e Sviluppo 2008” for the support of company research and development – Activity sectors A-B-C as per Directive Decree *Decreto Dirigenziale* n. 6744 of December 31st 2008 approved by the region of Tuscany – General Office for Economic Development.
-TEMART project – Advanced techniques for material studies and the conservation of historic works of art – admitted by the Region of Tuscany for financing as a grant with Decree 4181 of August 27th 2009, on the basis of the contest

related to the “Bando Regionale 2008” supporting research projects conducted jointly by groups of companies and research institutions related to social, economic and human sciences” as per decree n. 5673 of November 21st 2008 approved by the Region of Tuscany – Office of formative policies, and cultural patrimony and activities.

- OPTONET 2 project – Feasibility study for the creation of a Tuscan Optical-electronics innovation center for industrial, biomedical and environmental applications, admitted by the Region of Tuscany to financing with a grant by Decree 6439 of December 24th 2008, in implementation of the Regional Economic Development Plan 2007-2010 (PRSE) – Intervention line 1.2 “Support of technological transfer through the qualification of competent centers” approved by vote of the Regional Council of Tuscany.

Costs for the purchase of goods (note 24)

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

	31/12/2011	31/12/2010	Variation	Var. %
Purchase of raw materials and finished products	22.003.666	23.730.732	-1.727.066	-7,28%
Purchase of packaging	296.153	236.431	59.722	25,26%
Shipment charges on purchases	252.415	260.829	-8.414	-3,23%
Other purchase expenses	150.995	138.654	12.341	8,90%
Other purchases	36.992	52.668	-15.676	-29,76%
Total	22.740.221	24.419.314	-1.679.093	-6,88%

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

Breakdown of this category is shown on the chart below:

	31/12/2011	31/12/2010	Variation	Var. %
Direct services				
Assemblies outsourcing to third parties	3.015.270	2.798.355	216.915	7,75%
Technical services	343.256	188.293	154.963	82,30%
Shipment charges on sales	213.916	366.584	-152.668	-41,65%
Commissions	132.130	152.586	-20.456	-13,41%
Travel expenses	141.503	184.027	-42.524	-23,11%
Other direct services	84.553	110.049	-25.496	-23,17%
Total	*3.930.628*	*3.799.894*	*130.734*	*3,44%*
Operating services and charges				
Maintenance and technical assistance on equipments	142.728	299.366	-156.638	-52,32%
Services and commercial consulting	224.727	169.240	55.487	32,79%
Legal and administrative services	301.524	478.682	-177.158	-37,01%
Auditing fees and charges	95.232	97.391	-2.159	-2,22%
Insurances	159.239	148.659	10.580	7,12%
Travel and overnight expenses	367.417	337.410	30.007	8,89%
Promotional and advertising expenses	435.019	554.740	-119.721	-21,58%
Building charges	581.920	594.285	-12.365	-2,08%
Other taxes	40.549	34.513	6.036	17,49%
Expenses for vehicles	225.847	185.875	39.972	21,50%
Office supplies	43.537	42.223	1.314	3,11%
Hardware and Software assistance	124.217	103.523	20.694	19,99%
Bank charges	26.663	19.029	7.634	40,12%
Rent	109.728	83.051	26.677	32,12%
Other operating services and charges	2.364.550	2.525.055	-160.505	-6,36%
Total	*5.242.897*	*5.673.042*	*-430.145*	*-7,58%*

The most significant changes in the category of “other direct services” which showed an increase of 131 thousand Euros over last year, is related to the “expenses for work by third parties” which increased because of the fact that some phases of the production cycle was outsourced.

The single most important entries in the category of “other operating services and charges” are represented by the salaries paid to members of Board of Directors and the statutory board of auditors for an amount of about 437 thousand Euros; costs of technical and scientific consulting and studies and research amounted to about 631 thousand Euros and costs for trade show for an amount of 334 thousand Euros For the costs and activities of research and development, please refer to the description given in the director’s report on consolidated operations.

Future commitments for use of goods belonging to others

The chart below shows a summary of the obligations that the Group will have for the use of goods belonging to others.

Operating lease commitments:	**31/12/2011**	**31/12/2010**
Within one year	163.885	171.558
After 1 year but not more than 5 years	148.079	180.087
More than five years		
Total	**311.964**	**351.645**

These costs are mostly related to leasing contracts for company vehicles.

Personnel costs (note 26)

The chart below shows the costs for staff:

For staff costs	**31/12/2011**	**31/12/2010**	**Variation**	**Var. %**
Wages and salaries	6.975.473	6.731.139	244.334	3,63%
Social security costs	2.191.987	2.067.301	124.686	6,03%
Accruals for severance indemnity	422.768	408.019	14.749	3,61%
Stock options	166.273	174.531	-8.258	-4,73%
Other costs	33.497	28.563	4.934	17,27%
Total	9.789.998	9.409.553	380.445	4,04%

Depreciation, amortization and other accruals (note 27)

The table below shows the breakdown for this category:

Depreciations, amortizations, and other accruals	**31/12/2011**	**31/12/2010**	**Variation**	**Var. %**
Amortization of intangible assets	14.916	16.066	-1.150	-7,16%
Depreciation of tangible assets	1.023.218	896.651	126.567	14,12%
Accrual for risk on receivables	1.172.718	158.457	1.014.261	640,09%
Other accruals for risks and charges	-20.000	5.000	-25.000	-500,00%
Total	2.190.852	1.076.174	1.114.678	103,58%

The main increases in this category refer to the accrual for credit risks which is related, among other things, to overdue receivables from subsidiary companies.

Financial incomes and charges (note 28)

The breakdown of the category is as follows:

	31/12/2011	31/12/2010	Variation	Var.%
Financial incomes:				
Interests from banks	56.157	18.737	37.420	199,71%
Dividends	245.000	35.000	210.000	600,00%
Interests from subsidiary company	82.098	77.228	4.870	6,31%
Interests from associated company		170	-170	-100,00%
Foreign exchange gain	632.859	652.055	-19.196	-2,94%
Other financial incomes	46.343	400	45.943	11485,75%
Total	1.062.457	783.590	278.867	35,59%
Financial charges:				
Interest on bank debts for account overdraft	-137.715		-137.715	
Interest on bank debts for medium and long - term loans	-24.858	-4.052	-20.806	513,47%
Foreign exchange loss	-249.115	-184.520	-64.595	35,01%
other financial charges	-38.352	-69.023	30.671	-44,44%
Total	-450.040	-257.595	-192.445	74,71%

During this year dividends from subsidiaries were entered into accounts for an amount of 245 thousand Euros distributed by the subsidiary company Deka M.E.L.A. Srl.

The entry “other financial charges” includes the entering into accounts of interest charges derived from the application of accounting principal IAS 19 to the severance indemnity.

Other net income and charges (note 29)

	31/12/2011	31/12/2010	Variation	Var. %
Other charges				
Accrual for losses in group companies	-201.662	-375.594	173.932	-46,31%
Devaluation of equity investments	-1.185.172	-1.026.271	-158.901	15,48%
Total	**-1.386.834**	**-1.401.865**	**15.031**	**-1,07%**

The entry of “Accruals for losses in Group companies” includes the relative cost of a further (indirect) devaluation with accrual in the” Reserve for losses by Group companies” related, for the amount of 6 thousand Euros to Deka Lasertechnologie GmbH, for 23 thousand Euros to Deka Sarl, for 28 thousand Euros to Deka Laser Technologies Inc. and for 145 thousand Euros to the associated company Elesta Srl.

The entry under “Devaluations of equity investments” is related to the devaluation made on the value of the equities held in Esthelogue Srl for 701 thousand Euros, in BRCT for 205 thousand Euros, in Deka Sarl for 79 thousand Euros, in Elesta Srl for 119 thousand Euros and in SBI SA for 63 thousand Euros, due to the losses incurred during the year, and in Alfa Laser Srl for 18 thousand Euros in view of the selling operation which then took place on January 31st 2012.

Income taxes (note 30)

Description:	31/12/2011	31/12/2010	Variation	Var. %
IRES	705.718	1.224.189	-518.471	-42,35%
IRAP	400.756	401.010	-254	-0,06%
IRES Deferred (Advanced)	-78.877	12.379	-91.256	-737,18%
IRAP Deferred (Advanced)	9.471	1.796	7.675	427,34%
Receivable for income tax	-280.130		-280.130	
Cost/(Revenue)for IRES consolidated taxation	381.142			
Taxes related to the previous years	-1.570	301.652	-303.222	-100,52%
Total income taxes	1.136.510	1.941.026	-1.185.658	-61,08%

The entry for "Cost/revenue for IRES consolidated taxation" is related to the charges derived from the recognition in favor of the subsidiary companies together to El.En.Spa to the National fiscal consolidated (procedure as per art. 117 and following of the TU 917/86 and the Ministerial Decree implemented on June 9th 2004), of the sum for compensation on the basis of the tax aliquot on companies (IRES) in force during the period to which the use refers, in compliance with the agreements stipulated by the parties. The option is valid for the years 2011-2013 and was made by the subsidiaries Ot-las Srl and Esthelogue Srl.

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

	2011	2010
Profit/loss before taxes	2.400.613	3.002.698
IRES Aliquot	27,50%	27,50%
Theoretical IRES	660.169	825.742
One time income tax charges		301.652
Tax credits	(280.130)	
Higher (lower) fiscal incidence with respect to the theoretical aliquot	626.374	414.984
Actual IRES	1.006.413	1.542.378
Actual IRES aliquot	41,92%	51,37%

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

Dividends distributed (note 31)

The shareholders' meeting of El.En. Spa which met on May 15th 2011 voted to distribute a dividend of 0,20 Euros per share in circulation on the maturity date. The dividend paid amounted to 944.244 Euros.

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

During 2010 and 2011 no significant non-recurring atypical and/or unusual operations were made.

Information about related parties (note 33)

In accordance with the IAS 24 the following subjects are considered related parties of El.En. SpA:
- the subsidiary and associated companies as shown in this document;
- the members of the Board of Directors and Board of Statutory Auditors and the other key management personnel;
- the individuals holding shares in El. En. S.p.A;
- the legal bodies of which a significant number of shares is owned by one of the main shareholders of El.En SpA, by one of the El.En. shareholders belonging to the voting syndicate, by a member of the Board of Directors, by a member of the Board of Statutory Auditors, by any other of the key management personnel.

One of the Executive Board Members, majority shareholder of the Parent Company, holds a quota of 25% of the property without usufruct of Immobiliare del Ciliegio Srl, which is also a partner of the Parent Company.
All the transactions with related parties took place at ordinary market conditions.

In particular the following should be noted:

Subsidiary and associated companies
El. En. SpA controls a Group of companies which operate in the same macro-sector of lasers, to each of which is reserved a special field of application and a particular function on the market.
The integration of different products and services offered by the Group generates frequent commercial transactions between the various companies belonging to the Group. Most of the inter-Group commercial transactions involve the production by El. En. SpA of mid- and high-powered CO_2 laser sources which constitute a fundamental component in the products manufactured by Cutlite Penta Srl, Ot-Las Srl and Lasit SpA. Medical laser equipment manufactured by El. En. SpA is also involved in inter-Group commercial transactions which are, in part, sold to Cynosure, to Deka M.E.L.A. Srl, to Esthelogue Srl, to Deka Tecnologies Laser Sarl, to Deka Lasertechnologie GmbH, to ASA Srl and to Asclepion Laser Technologies GmbH, which organize their distribution.

The prices for the transfer of goods are established on the basis of what normally occurs on the market. The intercompany transactions therefore reflect market trends, from which they may different slightly in accordance with the commercial policies of the company.
It should be mentioned that in October of 2002 El. En. SpA acquired, free of charge, from Deka Mela Srl a license for the use of the same brand name for marketing the laser equipment produced by El. En. for the dental-medical and aesthetic sector in some European and non-European countries.

The tables below show an analysis of the transactions which have taken place with the subsidiary and associated companies both for sales and commercial and financial payables and receivables.

	Financial Receivables		**Other receivables**		**Commercial receivables**	
Subsidiary companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cynosure					1.089.984	
Asclepion Laser Technologies GmbH	984.966				1.025.588	
Deka MELA Srl					3.568.584	
Cutlite Penta Srl	500.000				6.544.634	
Esthelogue Srl	520.000				1.791.444	
Deka Technologies Laser Sarl					1.689.082	
Deka Lasertechnologie GmbH					2.247.219	
Deka Laser Technologies INC	381.592				1.277.209	
BRCT Inc.	200.943				15.752	
Lasit Spa	119.040				44.275	
Ot-Las Srl					1.630.904	
Quanta System SpA	230.000				41.128	
AQL Srl					1.920	
ASA Srl					196.111	
Lasercut Technologies Inc.	51.944				284.088	
Cutlite do Brasil Ltda					1.445.631	
Wuhan Penta-Chutian Ltd					3.226.263	
Deka Medical Inc	154.572				2.383.090	
Pharmonia Srl	500.000				26.991	

- Bad debt reserve					-800.000	
Total	**3.643.057**	**0**	**0**	**0**	**27.729.897**	**0**

Associated companies:	Financial receivables < 1 year	Financial receivables > 1 year	Commercial receivables < 1 year	Commercial receivables > 1 year
Actis Srl			2.904	
Immobiliare Del.Co. Srl	13.565			
Elesta Srl			773.752	
Total	13.565	-	776.656	-

Subsidiary companies:	Financial Payables < 1 year	Financial Payables > 1 year	Other payables < 1 year	Other payables > 1 year	Commercial payables < 1 year	Commercial payables > 1 year
Cynosure			1.381		12.326	
Asclepion Laser Technologies GmbH					57.847	
Deka MELA Srl					25.754	
Cutlite Penta Srl					96.060	
Esthelogue Srl			318.620			
Deka Technologies Laser Sarl					163.740	
Deka Lasertechnologie GmbH					54.515	
Lasit Spa					26.496	
Ot-Las Srl			62.522		131.751	
Pharmonia Srl					1.409	
Quanta System SpA					738.749	
ASA Srl					30.250	
Cutlite do Brasil Ltda					9.808	
Deka Medical Inc					66.487	
Total	-	-	382.523	-	1.415.192	-

Associated companies:	Financial payables < 1 year	Financial payables > 1 year	Commercial payables < 1 year	Commercial payables > 1 year
Actis Srl			45.980	
Total	-	-	45.980	-

Subsidiary companies:	Purchase raw materials	Services	Other	Total
Cynosure	400			400
Deka MELA Srl	25.154	22.830		47.984
Cutlite Penta Srl	73.120	3.686		76.806
Esthelogue Srl		11.033		11.033
Deka Technolgies Laser Sarl	130.410	29.817		160.227
Deka Lasertechnologie GmbH	50.170			50.170
Lasit Spa	374.122			374.122
Ot-Las Srl	22.338	213.937		236.275
Quanta System SpA	2.222.370	91.748		2.314.118
Asclepion Laser Technolohies GmbH	444.871	10.523		455.394
ASA Srl	2.613	25.000		27.613
Deka Medical Inc.		90.712		90.712
Cutlite do Brasil Ltda	5.500			5.500
Lasercut Technologies Inc.	5.682			5.682
Total	3.356.750	499.286	-	3.856.036

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl		63.000		63.000
SBI S.A.	17.700			17.700
Total	17.700	63.000	-	80.700

Subsidiary companies:	Sales	Services	Total
Cynosure	4.433.995	582	4.434.577
Deka MELA Srl	17.186.916	491.488	17.678.404
Cutlite Penta Srl	1.576.102	454.367	2.030.469
Esthelogue Srl	267.393	253.628	521.021
Deka Technologies Laser Sarl	1.283.129	58.585	1.341.714
Deka Lasertechnologie GmbH	140.569	23.136	163.705
Lasit Spa	113.183		113.183
Ot-Las Srl	1.115.630	52.538	1.168.168
Deka Laser Technologies INC	703.944		703.944
Asclepion Laser Technologies GmbH	1.190.788	209.330	1.400.118
Quanta System SpA	50.817	1.533	52.350
ASA Srl	796.867	2.079	798.946
Wuhan Penta-Chutian Ltd	3.488.924	20.175	3.509.099
Cutlite do Brasil Ltda	606.332		606.332
With Us Co Ltd	24.000		24.000
Deka Medical Inc.	1.282.774	171	1.282.945
Raylife Srl		12.000	12.000
Lasercut Technologies Inc.	24.370	17.938	42.308
Total	34.285.733	1.597.550	35.883.283

Associated companies:	Sales	Service	Total
Elesta Srl	282.285	2.016	284.301
Total	282.285	2.016	284.301

Subsidiary companies:	Other revenues
Cynosure	7.006
Deka MELA Srl	95.712
Cutlite Penta Srl	116.631
Esthelogue Srl	2.085
Deka Technologies Laser Sarl	4.083
Deka Lasertechnologie GmbH	68
Lasit Spa	105.135
Ot-Las Srl	1.125
Deka Laser Technologies Inc	4.969
Quanta System SpA	260
Asclepion Laser Technologies GmbH	26.926
ASA Srl	2.740
With Us Co Ltd	1.574
Raylife srl	1.066
Deka Medical Inc.	10.911
Lasercut Technologies Inc.	647
Total	380.938

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

The amounts shown on the charts above refer to operations which are inherent to the characteristic activity of the company.

The other revenue refers, among other things to the rents charged to Deka M.E.L.A. Srl and to Cutlite Penta Srl for the portions of the buildings in Calenzano which they occupy and to Lasit Spa for the factory at Torre Annunziata.

Moreover, we have entered into accounts approx. 82 thousand Euros in interest earned on the financing granted to subsidiary companies.

Among the "Income taxes" we have entered charges from fiscal consolidation for an amount of 319 thousand Euros for Esthelogue Srl and about 63 thousand Euros for Ot-las Srl.

<u>Members of the Board of Directors, the Board of Statutory Auditors s and other key management executives</u>
Members of the Board of Directors and the Board of Statutory Auditors receive the salaries indicated in the chart below.

Name	Position	Term duration	Fees in:	Fees	Bonus and other incentives	Non monetary benefits	Other rewards	Total	Indemnity for termination of mandate or employment
Gabriele Clementi	President of the Board of Directors	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	90.000	15.700			105.700	6.500
			Subsidiaries/associates	13.519				13.519	
Barbara Bazzocchi	Managing Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	90.000	4.568			94.568	6.500
			Subsidiaries/associates	12.000				12.000	
Andrea Cangioli	Managing Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	90.000	7.851			97.851	6.500
			Subsidiaries/associates	13.519				13.519	
Michele Legnaioli	Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	12.000				12.000	
Paolo Blasi	Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	12.000				12.000	
Angelo Ercole Ferrario	Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	12.000				12.000	
			Subsidiaries/associates	130.000				130.000	
Alberto Pecci	Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	12.000				12.000	
Stefano Modi	Director	Until the date for the approval of the financials for 31.12.2011	El.En. SpA	99.250	5.709	10.646	18.843	134.448	
Vincenzo Pilla	President of the Board of Statutory Auditors	Until the date for the approval of the financials for 31.12.2012	El.En. SpA	31.200				31.200	
			Subsidiaries/associates	34.510				34.510	
Gino Manfriani	Statutory Auditor	Until the date for the approval of the financials for 31.12.2012	El.En. SpA	20.800				20.800	
			Subsidiaries/associates	17.613				17.613	
Paolo Caselli	Statutory Auditor	Until the date for the approval of the financials for 31.12.2012	El.En. SpA	20.800				20.800	-
			Subsidiaries/associates	30.653				30.653	
Manfredi Bufalini	Statutory Auditor	Until the date for the approval of the financials for 31.12.2012	Subsidiaries/associates	6.240				6.240	

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

Fixed salaries:
- The amounts paid to the directors of the Parent Company for their roles in other companies included in the area of consolidation are as follows: Barbara Bazzocchi, as sole administrator of Cutlite Penta Srl received a salary of 12.000 Euros; Gabriele Clementi as member of the Board of Directors of With Us received a salary of 1.500 thousand yen from that company; Andrea Cangioli as member of the Board of Directors of With Us received a salary of 1.500 thousand yen from that company; Angelo E. Ferrario, as president of the Board of Directors of Quanta System SpA received a salary of 120.000 Euros from that company and as Board Member of Arex Srl received a salary of 10.000 Euros from that company.

- The salaries of members of the Board of Statutory Auditors for carrying out their functions in other companies included within the area of consolidation are as follows: Vincenzo Pilla as President of the Board of Statutory Auditors of Deka Mela Srl and Lasit SpA and acting Auditor of Cutlite Penta Srl received from these companies a total salary of

34.510 Euros; Gino Manfriani, as acting Auditor of Deka Mela Srl and Cutlite Penta Srl received a total salary of 17.613 Euros for the period in which he worked for these companies; Paolo Caselli as President of the Board of Statutory Auditors of Cutlite Penta Srl and acting Auditor of Deka Mela Srl and Lasit SpA received from these companies a total salary of 30.653 Euros; Manfredi Bufalini in his role as acting auditor of Quanta System SpA received from the company the amount of 6.240 Euros
- With reference to the board member Stefano Modi the heading of "fixed salaries" also includes a salary of 87.250,00 as payment for his work as an employee; the heading of "non-monetary benefits" is related to the fringe benefits received as an employee like the other managers and the heading of "other salaries" is related to transfers and one-time payments.

Bonuses and other incentives:
In this column the chart shows the amounts received by some of the members of the Board of Directors as an incentive bonus for achieving certain goals which were set by the Board in accordance with the vote of the Shareholders' meeting held on May 15th 2011, which, when determining the amount of remuneration of the Board of Directors, had established at the maximum amount 1 million Euros the variable part of the overall bonuses to be assigned and to assign to the managing directors, including the president with powers of attorney, and the board members with special positions as described in art. 21 of the by-laws and art.. 2389, sub-section 3 Civil Code. These bonuses will be paid in 2012.

Indemnity for termination of mandate or employment:
- An annual indemnity of 6.500 Euros each, in compliance with art. 17 of T.U.I.R., is paid to the president of the Board of Directors Gabriele Clementi and to the board members Barbara Bazzocchi and Andrea Cangioli.
Prof. Leonardo Masotti, President of the Scientific Committee, received a fixed remuneration of 6.000 Euros, besides an incentive bonus of 5.709 Euros. Moreover, as President of the Board of Directors of Deka M.E.L.A. Srl he received a salary of 15.000 Euros.

The company does not have a general director.

Physical persons possessing an equity in El.En. SpA
Besides the members of the Board of Directors, the Board of Statutory Auditors and the President of the Technical-Scientific Committee, partner Carlo Raffini whom the Parent Company El.En. assign to a specific professional task for the entire year, received a salary of 32.000 Euros; moreover, for a similar task carried out for the subsidiaries Deka M.E.L.A. Srl and Cutlite Penta Srl he received 20.000 Euros.

The tables below show the incidence which the operations with related parties had on the financial and economic situation of the company.

Impact of related party transactions	**Total**	**related parties**	**%**
a) Impact of related party transactions on the statement of financial position			
Equity investments	18.713.628	18.622.498	99,51%
Other non current assets			
Accounts receivables	31.594.762	28.491.553	90,18%
Other receivables	4.337.275	3.671.622	84,65%
Non current financial liabilities	2.380.000		0,00%
Current financial liabilities	4.251.763		0,00%
Accounts payables	7.821.466	1.461.172	18,68%
Other payables	3.315.422	382.523	11,54%
b) Impact of related party transactions on the statement of income			
Revenues	44.772.629	36.167.584	80,78%
Other revenues and income	1.018.480	384.538	37,76%
Purchases of raw materials	22.740.221	3.374.450	14,84%
Other direct services	3.930.628	355.899	9,05%
Other operating services and charges	5.242.897	206.387	3,94%
Financial charges	450.040		0,00%
Financial income	1.062.457	82.098	7,73%
Income taxes	1.136.510	381.142	33,54%

Risk factors and Procedures for the management of financial risks (note 34)

Operating risks
Since the company is fully aware of the potential risks derived from the particular type of product made by the Company, already in the earliest phases of planning and research, they operate so as to guarantee the safety and quality, which is also certified, of the product put on the market. There are marginal residual risks for leaks caused by improper use of the product by the end-user or by negative events which are not covered by the types of insurance policies held by the Company.
The main financial instruments of the Company include checking accounts and short-term deposits, short and long-term financial liabilities. Besides these, the company also has payables and receivables derived from its activity.
The main financial risks to which the Company is exposed are those related to currency exchange, credit, cash and interest rates.

Currency risks
The company is exposed to the risks of oscillations in the exchange rate of the currencies in which some of the commercial and financial transactions are expressed. These risks are monitored by the management which takes all the necessary measures to reduce this type of risks.

Credit risks
As far as the commercial transactions are concerned, the company operates with clients on which credit checks are conducted in advance. Moreover, the amount of receivables is monitored during the year so that the amount of exposure to losses is not significant. Credit losses which have been registered in the past are therefore limited in relation to the sales volume and consequently do not require special coverage and/or insurance.
The devaluation provision which is accrued at the end of the year represents about 36% of the total trade receivables from third parties. For an analysis of receivables overdue from third parties, see the description in note (6) of the Financial Statement.
As far as financial receivables are concerned, they refer mostly to financing granted to subsidiaries and associated companies. For these financings no devaluation has been necessary.
In relation to guarantees granted to third parties, it should be recalled that the Company El.En. in 2009 underwrote along with a minority partner, a bank guarantee for a maximum of one million Euros as a guarantee for the loan of the subsidiary Quanta System owed to the Banca Popolare di Milano for facilitated financing for a total amount of 900 thousand Euros, for which the reimbursement installments expire up to 84 months from the date of issuance, which occurred in the second half of 2009.

During the last financial year the company also underwrote::
- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 763 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the "TROPHOS" research project which has been included in the grant issued by the *Bando Unico* R&S in the year 2008 and approved by the Region of Tuscany with Directive Decree 6744 on December 31st 2008 which expires in April 2012.
- a bank guarantee together with the other companies that participate in the ATI constituted for this purpose, for a maximum of 1.203 thousand Euros as a guarantee for the pay back of the amount granted as a down payment on the "TRAP" research project which has been included in the grant issued by the *Bando Unico* R&S in the year 2008 and approved by the Region of Tuscany with Directive Decree 6744 on December 31st 2008 which expires in April 2012.
-a bank guarantee, jointly with the companies which participate in the ATS constituted for this purpose for a maximum of 1.434 thousand Euros as a guarantee for the payback of the amount granted as down payment on the "TEMART" research project which has been included in the grant issued by the *Bando Regionale* 2008 and approved by the Region of Tuscany with Directive Decree 5673 on November 21st 2008 which expires in July 2012.
- a bank guarantee for a maximum of 751 thousand Euros as a guarantee for the payment of the sum required as a reimbursement for the VAT related to the tax period 2008 which expires in November 2013;
And during this year:
- a bank guarantee jointly with the companies which are participating in the ATS constituted for this purpose, for a maximum of 3.074 thousand Euros as a guarantee for the pay back of the amount guarantee as down payment on the research project "MILORD", which has been included in the grant issued by *Bando Regionale* 2010 approved by the Region of Tuscany with Directive Decree n. 670 of February 25th 2011, which expires in September 2014.
e nell'esercizio in corso:

Cash and interest rate risks
The cash risk represents the risk that the financial resources available might be inadequate to cover the debts coming due. At this time the company believes that through the generation of cash flows and the availability of credit lines, that they have access to financial sources that are sufficient to cover all the scheduled needs.

The exposure to the risk of variations in the interest rates of the market is connected to the mid- to long-term financing operations with a variable interest rate. The company concludes operations for collecting funds at a variable rate and then evaluates whether they should cover the risk of the interest rate by converting the variable rate to a fixed rate.

Management of the capital

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

Financial Instruments (note 35)

Fair value

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

	Book value	Book value	Fair value	Fair value
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Financial assets				
Financial mid and long term receivables		154.477		154.477
Financial receivables within 12 months	3.676.622	3.201.253	3.676.622	3.201.253
Cash and cash equivalents	6.123.263	4.918.560	6.123.263	4.918.560
Financial liabilities				
Financial mid and long term debts	2.380.000	66.392	2.380.000	66.392
Financial liabilities due within 12 months	4.251.763	96.327	4.251.763	96.327

Other information (note 36)

Remuneration of directors and statutory auditors

	31/12/2011	31/12/2010	Variation	Var.%
Remuneration of directors	363.828	528.539	-164.711	-31,16%
Remuneration of statutory auditors	72.800	72.800	-	0,00%
Total	436.628	601.339	-164.711	-27,39%

Information supplied in compliance with art. 149-duodecies of the *Regolamento Emittenti Consob*

In compliance with article 149-*duodecies* of the *Regolamento Emittenti Consob*, the chart below shows the amounts for the year 2011 related to auditing services and for those other than the ones conducted by Ernst & Young.

	Audit of separate, consolidated annual report and occasional audits	Audit of half-yearly report	Underwriting of tax forms	Other services
	Amount paid in 2011 (€)	**Amount paid in 2011 (€)**	**Amount paid in 2011 (€)**	**Amount paid in 2011 (€)**
El.En. SpA	49.464	28.453	4.000	0
Total	**49.464**	**28.453**	**4.000**	**0**

The honorariums shown in the chart include the annual adaptation on the basis of the ISTAT index; they are, moreover, net of reimbursements for the expenses sustained and the contributions for supervision of the Consob.

Average number of employees divided by category

	Average 2011	31/12/2011	Average 2010	31/12/2010	Variation	Var. %
Executives	11,0	11	11,0	11	0	0,00%
Management	9,5	10	9,0	9	1	11,11%
White collar	91,5	92	89,5	91	1	1,10%
Blue collar	66,5	67	65,5	66	1	1,52%
Total	178,5	180	175,0	177	3	1,69%

For the Board of Directors

The Managing Director – Ing. Andrea Cangioli

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

1. We the undersigned, Andrea Cangioli as managing director, and Enrico Romagnoli as manager in charge of preparing the financial statements of El.En. S.p.A., in conformity with art. 154-bis, sub-section 3 and 4, of Legislative Decree no. 58 of February 24th 1998, declare:

- the conformity in relation to the characteristics of the company and
- the actual application of the administrative and accounting procedures used in drawing up the separate financial statement, during 2011.

2. No significant aspect emerged concerning the above.

3. We also declare that:

3.1 the separate statement dated December 31st 2011:

a) is drawn up in conformity with the applicable international accounting standards recognized by the European Union in conformity with Regulation (CE) n. 1606/2002 of the European Parliament and the Commission, in July 19th 2002;

b) corresponds to the figures in the ledgers and accounting books;

c) is suitable to supply a true and correct representation of the capital, economic and financial situation of the company.

3.2 the director's report on operations contains a reliable analysis of the trends and results of the activity as well as the situation of the issuing company and the group of companies included in the area of consolidation, together with a description of the principal risks and uncertainties which they are exposed.

Calenzano, March 15th 2012

Managing Director	Manager in charge of preparing the Company's financial statements
Andrea Cangioli	Enrico Romagnoli

El. En. S.p.A.

Legal Headquarters: Via Baldanzese 17 Calenzano (Florence, Italy)

Report of the Board of Statutory Auditors to the Stockholders' Meeting on the financials as of December 31st 2011 in conformity with art. 2429 c.c. and art. 153 of D. Lgs. n. 58 / 1998.

To our shareholders,

the Board of Directors of El.En. S.p.A. herewith presents to the Assembly of the company the proposed company report as of December 31st 2011 which was consigned to the Board of Statutory Auditors on March 15th 2012.

During the financial year 2011 the Board of Statutory Auditors conducted its activity in compliance with the regulations of the "*Testo Unico delle disposizioni in materia di intermediazione finanziaria*" (rules for financial intermediaries) D. Lgs. February 24th 1998 n. 58, D.Lgs. January 27th 2010 n. 39 and in conformity with the operating principles of the Board of Statutory Auditors recommended by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (National Council of Business Administrators and Accountants) for the companies quoted on the stock market and with Consob Communication of April 6th 2001, modified and integrated with communication DEM/ 3021582 of April 4th 2003 and subsequently with communication DEM/6031329 of April 7th 2006.

In compliance with D.Lgs. n.58 of February 24th 1998 and D. Lgs. Of January 27th 2010 no. 39, it should be noted that the activity of auditing of the accounts and the financials is the responsibility of the Independent auditor Reconta Ernst & Young S.p.A. which was confirmed for the auditing of the financials for 2006 – 2011, by the stockholders' assembly which met on May 9th 2006, subject to the approval of the Board of Statutory Auditors.

Considering that the mandate of this auditing company will terminate with the auditing of the financials dated December 31st 2011, the Board of Statutory Auditors has presented the proposal to the shareholders' assembly for assigning the new mandate in compliance with D.Lgs n. 39/2010.

For the financials as of December 31st 2011, the Independent auditor found no faults and declared that the statement was in conformity with the rules that govern the criteria for drawing up financial statements, that it is was written clearly and that it represented in a true and correct manner the economic and financial situation, the earnings and the cash flow of El.En. S.p.A.. The Independent auditor also found that the information contained in the director's report on operations and the report on corporate governance was consistent with the statement.

The financial statement as of December 31st 2011 was drawn up in conformity with the International Accounting Principles (IFRS).

In conformity with the recommendations given by Consob, with their communication of April 6th 2001, we declare that the Board of Statutory Auditors:

- Supervised the respect of the law and the certificate of incorporation.
- Obtained from the directors, at least once every quarter, information on the activity conducted and on the operations of major economic and financial significance made by the Company (and by its subsidiaries) and can reasonably affirm that the activities voted and carried out are in conformity with the law and with the company Statute and are not

manifestly imprudent, risky or in potential conflict of interest or in contrast with the decisions made by the Assembly or of a nature to compromise the stockholders' equity.

- They have been informed about and have supervised, within the limits of their competency, the adequacy of the organizational structure of the Company, of the respect of the principles of correct administration, and the adequacy of the instructions given by the company to the subsidiaries in conformity with art. 114, sub-section 2 of D.Lgs. 58/98, through the gathering of information from the persons responsible for the organizational functions. As far as the inter-group operations are concerned, the directors, in the explanatory notes, illustrate and describe the relations between the Company and the companies of the Group, stating that the operations took place under normal market conditions. These operations are consistent with and respond to the interests of the company.

- They have initiated an exchange of information with the Independent auditors, by meeting with their staff in conformity with art. 150, sub-section 2, D.Lgs. 58/98, and from these meetings no information emerged that needed to be mentioned in this report. From this exchange of information it emerged that the Independent auditor found no irregularities or errors in reference to the regular bookkeeping and the correct reporting of facts related to the management in the entries in the accounts which required notification to the competent authorities.

- They have initiated an exchange of information with the corresponding bodies of the Italian subsidiary companies concerning the administration and control and the general trend of the activities.

- They have evaluated and supervised the adequacy of the internal controls system and the administrative and accounting system as well as its reliability in correctly representing management events by (i) obtaining information from the managers of the respective functions, (ii) inspecting the company documents and the analysis of the results of the work conducted by the Independent auditor, (iii) supervising the activity of the provosts for internal controls and (iv) participating in the activity conducted by the Internal Control Committees of the Board of Directors instituted by the Company in compliance with the *Codice di Autodisciplina* for companies quoted on the stock market. In relation to this no particular observations were reported. The Board of Statutory Auditors, moreover has taken note of the contents of the communication from the manager in charge of preparing the company's financial statements regarding the fulfilling of his duties and the declarations made by him and by the managing director in conformity with the law.

- From the Supervising Body, instituted in conformity with D.Lgs 231/2001, of which the statutory auditor Paolo Caselli is an acting member, they have received information concerning the activities conducted by this body. From this information no anomalies or reprehensible facts emerged.

- They reported that from the information received from the directors and from the conversations had with representatives of the Independent auditing company, the existence of atypical or unusual operations conducted with companies of the Group, related or third parties during 2011 or after the closure of the financial year, did not emerge.

- On the basis of the findings communicated by the Independent auditing company concerning their separate report, they did not report any critical points or errors in information.

- The Board of Statutory Auditors has not received any reports of violations of ex art. 2408 of the Civil Code nor other protests from third parties.

- They have taken note of the fact that the Company has substantially adhered to the *Codice di Autodisciplina* set up by the Commission for corporate governance of companies quoted on the stock market. The Board of Directors has appointed two independent directors and has instituted the following commissions: Nominations Committee, Remuneration Committee, and Internal Control Committee (now called Control and Risk Commission). Concerning the activities conducted and the state of implementation of the regulations contained in the above mentioned code, the Board of Directors has provided ample information in the annual report on corporate governance (*Relazione Annuale sul sistema di corporate governance)*.

- They have taken note of the approval of the Board of Directors of the ethics code for operations made on financial instruments by the El.En. Group (*Codice di "Comportamento per operazioni compiute su strumenti finanziari del Gruppo El.En. da persone rilevanti")* in effect starting on January 1st 2003, in compliance with the stock market regulations ("*Regolamento dei mercati organizzati e gestiti da Borsa Italiana S.p.A.")* approved on July 9th 2002.

- In compliance with art. 4 sub-section 6 of the Consob regulation (*Regolamento Consob*) containing provisions related to operations with related parties (adopted after vote 17221 of March 12nd 2010 and subsequently modified by vote 17389 of June 23rd 2010), they supervised the compliance of the procedures adopted by the company through the approval of the specific regulation (which was last modified during the meeting held on November 12nd 2010), to the principles indicated in the *Regolamento Consob* mentioned above as well as to the application of these same principles.

- In conformity with art.19 first sub-section letter d) of D.Lgs. 39/2010, they supervised the independence of the legal auditors, in particular in relation to the performance of non-auditing services and in compliance with art.17 sub-section 9 D.Lgs 39/2010, the legal auditing company gave written confirmation of their independence and also communicated the following non-auditing services performed for the company, also by the network to which it belongs.

- Non-auditing services (tax compliance and transfer pricing activities) rendered to the American subsidiary Cynosure Inc., by Ernst & Young LLP of Boston to which a fee of US Dollars 172.000,00 was paid

- Ernst & Young LLP of Boston also conducted during 2011 auditing services on company branches acquired by Cynosure in order to verify the allocation of the price that was paid; for this service they received an amount of 360.000 US dollars. These involved auditing activities that were required by the accounting standards used for compiling the financial reports.

- In compliance with art. 17 of D.Lgs n. 39/2010, they discussed with the Independent auditors the risks related to the independence of the company as well as the measures that had been taken to limit these risks.

- In compliance with art. 19 of D.Lgs n. 39/2010, in their role as Commission for Internal Controls and auditors, they supervised the process of financial information, on the effectiveness of the internal controls system, of internal auditing and risk management.

- In compliance with art. 19 of D.Lgs n. 39/2010, they supervised the auditing of the annual accounts and the consolidated accounts by obtaining from the legal auditors a report on the fundamental questions which emerged during the legal auditing from which no significant faults emerged regarding to the internal controls system in relation to the process of financial information.

- In a specific statement by the Directors confirmed by the Independent auditing company, there are no positions held by subjects connected to this latter in a continuous relationship.

- The Board of Statutory Auditors did not find any critical aspects in relation to the independence of the Independent auditing company.

During the supervising activity conducted and, on the basis of information obtained from the Independent auditing company, no omissions or reprehensible facts emerged of a nature that would require them to be reported to the controlling bodies or mentioned in this report.

Upon the appointment by the Board of Directors of the manager in charge of preparing the Company's financial statements, the Board of Statutory Auditors expressed their favorable opinion in conformity with art. 154-bis D. Lgs. 58/98.

The Board of Statutory Auditors issued opinions related to the salaries as per ex art. 2389 n. 3 c.c..

On March 15th 2012 the Board of Directors approved the report on remuneration in compliance with art. 123 ter TUF.

The Board of Statutory Auditors believes that the internal procedure adopted by the Company in order to comply with art. 36 of the stock market regulations (*Regolamento Mercati*) approved by Consob with vote 16191/2007 concerning information and suitability of the systems of transmission of data by the subsidiary companies governed by countries not belonging to the European Union, is adequate.

The supervising activity described above was conducted in nine meetings of the Board of Statutory Auditors, attending four meetings of the Board of Directors and one of the stockholders' meeting and participating in the activities of the Internal Control Committees.

The Board of Statutory Auditors has verified the correct application by the Board of Directors of the criteria and of the procedures adopted to evaluate the independence of the independent directors in conformity with art. 3.C.5 of the *Codice di Autodisciplina*. The Board of Statutory Auditors has also verified the compliance with the criteria for independence of its own members both in the phase of appointment and afterwards, in conformity with art. 10.C.2 of the *Codice di Autodisciplina.*

The Board of Statutory Auditors, in consideration of the results of the verifications conducted and the positive opinion of the Independent auditing company, expresses their favorable opinion for the approval of the financial report as it has been presented by the Board of Directors, and of the proposal by the same body in relation to the destination of the net income for the financial year.

Florence, March 30th 2012.

Board of Statutory Auditors

Dott. Vincenzo Pilla, president of the Board of Statutory Auditors

Dott. Paolo Caselli, Statutory auditor.

Dott. Gino Manfriani, Statutory auditor.

The list below shows the various positions held by the members of the controlling body with the companies in conformity with *libro V, Titolo V, Capi V-VI-VII of the c.c.* on the date of issue of this report.

Vincenzo Pilla: *El.En. S.p.A. President of the Board of Statutory Auditors (2012); KME Italy S.p.A. President of the Board of Statutory Auditors (2012); KME Recycle S.p.A. President of the Board of Statutory Auditors (2011); Dekamela S.r.l. President of the Board of Statutory Auditors (2012); Lasit S.p.A. President of the Board of Statutory Auditors (2012); Affitto Firenze S.p.A. President of the Board of Statutory Auditors (2011); Cutlite Penta S.r.l. Statutory auditor (2012); SAIF s.r.l. Statutory auditor (2013); Kme Group S.p.A., Statutory auditor (2011); number of positions held in listed companies 2; overall number of positions held 9.*

Paolo Caselli: *El.En. S.p.A. statutory auditor (2012); Dekamela S.r.l. statutory auditor (2012); Lasit S.p.A. statutory auditor (2012); Cutlite Penta S.r.l. President of the Board of Statutory auditors (2012); US Borgo a Buggiano s.r.l. (2013), BCC Banca della Montagna Pistoiese s.c.p.a. (2013); Betamotor S.p.A. Statutory Auditor (2010); Biagioni Gas S.r.l. Statutory Auditor (2010); IMEG S.r.l. Statutory Auditor (2012); UNISER S.cons.r.l. (2011); number of positions held in listed companies 1; overall number of positions held 10.*

Gino Manfriani: *El.En. S.p.A. statutory auditor (2012); Dekamela S.r.l. statutory auditor (2012); Cut Lite Penta s.r.l. statutory auditor (2012); Vetreria etrusca S.r.l. President of the board of Statutory Auditors (2011); Sebia Italia s.r.l. (formerly Ciampolini strumenti scientifici s.r.l.) President of the Board of Statutory Auditors (2011); Vetruria S.r.l. (2010) President of the Board of Statutory Auditors (2013); number of positions held in listed companies 1; overall number of positions held 6.*

ERNST & YOUNG

El.En. S.p.A.

Financial statements as of and for the year ended December 31, 2011

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

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

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

1. We have audited the financial statements of El.En S.p.A. as of and for the year ended December 31, 2011, comprising the statement of financial position, the statement of income, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of El.En. S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 30, 2011.

3. In our opinion, the financial statements of El.En. S.p.A. as of, and for the year ended, December 31, 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of El.En. S.p.A. for the year then ended.

4. The management of El.En. S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and the Company's Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information reported therein in compliance with art. 123-bis of

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Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) presented in the Report on Corporate Governance and the Company's Ownership Structure, are consistent with the financial statements of El.En. S.p.A. as of, and for the year ended, December 31,2011.

Florence, March 30, 2012

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