El.En. Group
Business report for the financial year ending 31/12/2004

To our Shareholders,

The financial year ending 31/12/2004 closed with an overall net profit of the Group of 3,625 thousand euro net of taxes for the financial year amounting to 3,002 thousand euro.

2004 witnessed a positive trend in the world economy, with interesting growth rates at a global level which privileged certain areas while others, Europe in particular, continued to manifest very low growth rates below those forecast. This picture, with its corollary of the further fall of the American dollar and the considerable increase in the prices of various raw materials, including crude oil and steel, has contributed to keeping most of the manufacturing activities based in Europe in a state of severe difficulty and uncertainty.

In this rather gloomy picture your group has enjoyed a year of rapid growth in terms of turnover and a return to a considerable level of profitability. The now global extension of the group's activities and the large variety of markets and niches of applications covered has, in fact, enabled it to limit the effects of such a stagnant macroeconomic picture so that they have been felt only in part and in specific circumstances.

Specialised in producing laser systems for medical and cosmetic applications and for industrial cutting, marking and welding processes, your group has, in the years following its being floated on the New Market of the Italian Stock Exchange, enjoyed a very rapid expansion, partly achieved through the acquisition of companies in the sector. This growth has enabled the group to acquire a global dimension and establish a solid position on the markets, although this did entail significant reorganisation of the businesses acquired, and thus penalised the results, in terms of income, of the previous financial years.

In the course of 2004, even the companies bought after 2001 contributed positively to the result as well as to the turnover of the group, determining a net improvement in profitability. The return of Cynosure, the most important company in the group after El.En, to operating viability was particularly satisfying after its series of negative accounting periods and can be accounted for partly by the intelligent reorganisation of the management and by the favourable trend of the American domestic market which enabled it to launch into a virtuous cycle of growth and improvement of profitability. It was also a good year for the other companies in the group occupied in the medical sector which were able to take advantage of the positive economic trend, especially in the cosmetics market, which showed a marked increase in demand.

The medical and cosmetic sectors do not, in fact, appear to be suffering from the general economic depression and fall in consumption which may be observed in many countries, since they are associated with a category of consumer with a greater awareness of the quality and innovation of the offer than of economic trends. In this sense the American market is particularly positive, as are some European markets, including Italy. That's how the high level of innovation expressed by the research teams of the companies belonging to the group have been able to exploit the opportunities for growth which this segment is offering.

The situation in the industrial sector has been differently and more directly affected by the economic trend. European manufacturing companies, the main catchment area for users of the El.En group's products, are going through a very difficult period and have to tackle both severe foreign competition and a fall in consumption: as a result the demand for investment goods in the sector has also fallen. Despite this the group has managed to identify niches with considerable added value thanks to the innovative nature of its laser systems which enable the reorganisation of manufacturing processes for entire sectors. Despite it being a year of limited growth, activities were focused therefore on the redefinition of some types of product, specifically in the marking segment, and on distribution activities so as to cover some market segments more efficiently.

The results of the financial year are shown in comparison with those of the previous year. All amounts are expressed in thousands of euros unless otherwise indicated.

Description of the group

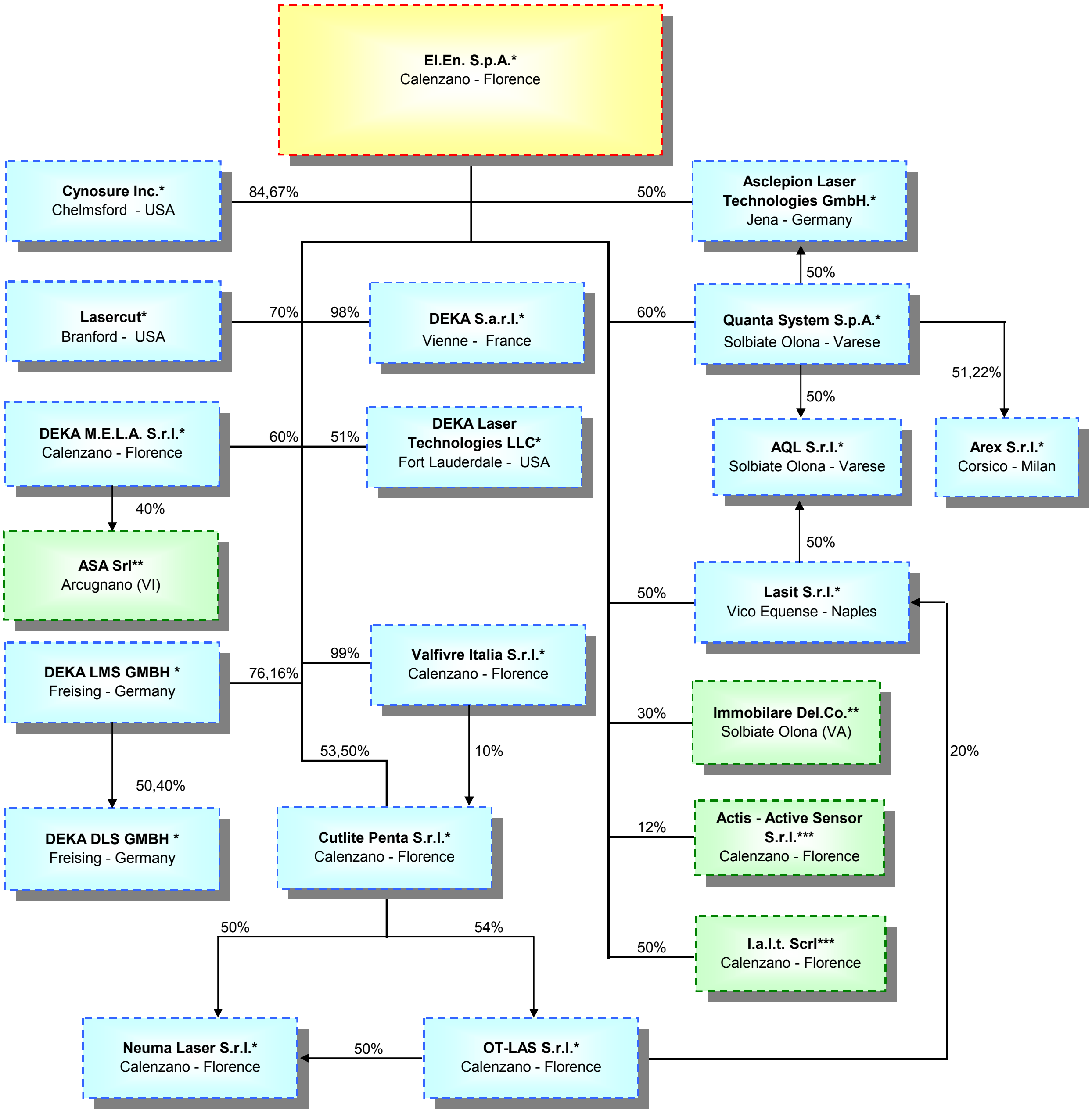
El.En. S.p.A controls a group of companies operating in the laser sector, each of which has its own area of applications and a specific market function. The structure of the group divides into companies engaged in the design, production and distribution of laser systems and sources destined for a variety of applications. Each of these companies has its own specific operative role according to the commodity offered and the geographical area operated in: Cynosure Inc. and Asclepion Laser Technologies GmbH develop, manufacture and distribute medical laser systems, Deka M.E.L.A. Srl, Deka Sarl, Deka Lms GmbH, Deka Dls GmbH and Deka Laser Technologies LLC distribute medical laser equipment, Cutlite Penta Srl and Lasercut Inc. are system engineers of laser systems for flat cutting, Ot-las Srl operates in the field of laser markers for large surfaces, Lasit Srl in laser markers for small surfaces, Neuma Laser Srl conducts commercial sales and services abroad, Valfivre Italia Srl develops and designs special lasers for industrial applications involving cutting, marking and welding. Quanta System S.p.A develops, produces and distributes laser systems for medicine, industry and scientific research.

As of 31 December 2004 El.En. S.p.A holds equities in several companies directly or indirectly such as Immobiliare Del.Co. Srl and ASA Srl (through Deka MELA Srl) without however controlling them; the results of these companies have therefore not been wholly consolidated in the group's financial statement although they have been consolidated using the shareholders' equity method.

The equity in Actis Srl and IALT Scrl has been booked at cost since their inclusion in the area of consolidation would be irrelevant as regards the representation of the economic and financial position of the group.

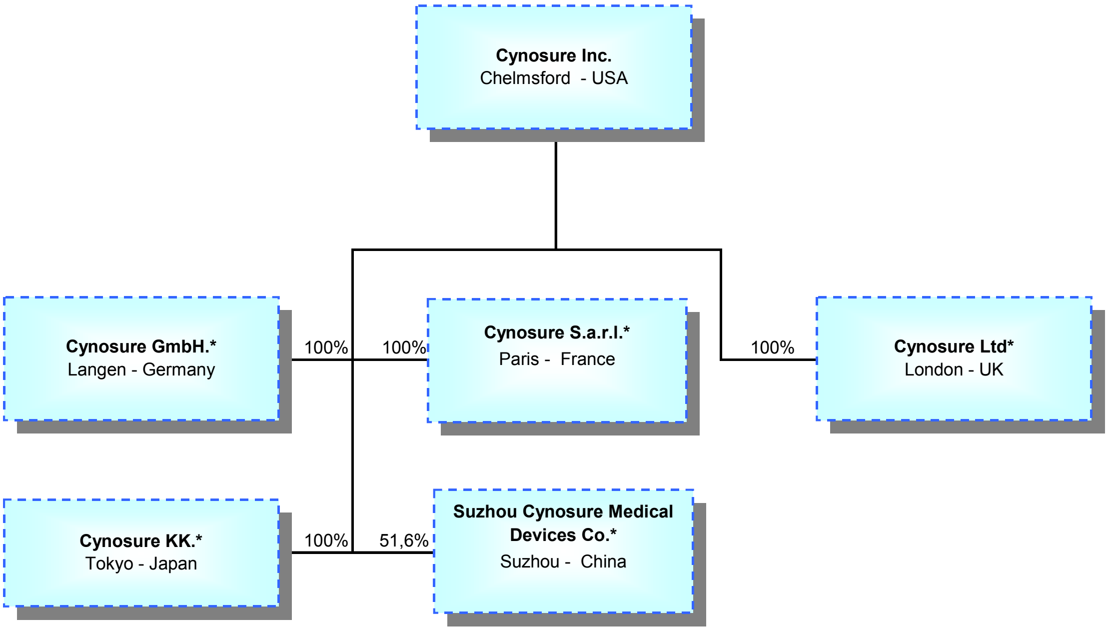
In the period referred to no variations occurred in the activities of the companies belonging to the El.En group.

As of the 31/12/2004 the organisation of the group was as follows:



* *Entirely consolidated*
** *Consolidated in relation to net worth*
*** *Kept at cost*

Cynosure Inc. in turn controls a group of companies. As of 31 December 2004 the organisation of the Cynosure group was as follows:



* *Entirely consolidated*

1) Main economic and financial data

During the financial year 2004 the group operated in the design, production and distribution of laser sources and systems. Laser technology is used today for a wide variety of applications schematically divided into two main macro areas, the medical and the industrial sectors; there are then various areas of application covered by products of the group within these two sectors, as we shall see in more detail below. The after-sales technical assistance provided to its clientele is particularly important, while revenue and proceeds have also been booked in the sphere of R&D activities.

The variety of the commodity sectors and geographical areas which the group operates in does not permit the identification of a reference market in which to assess the activities of the group as a whole.

The revenue registered in the financial year 2004 showed an increase of 39% compared to the previous financial year. The result exceeds the forecast which estimated an increase in turnover of the group of 30% in 2004, and maintains the rate of growth at extremely high levels. Another consequence of the excellent trend in sales was the marked increase in profitability, also well above the forecasts at an operative level and even more in the pre-tax figures.

The following table shows the division of turnover between the various business areas of the group in the financial year 2004, compared to a similar division for the same period of the last financial year:

	31/12/2004	Inc%	31/12/2003	Inc%	Var%
Industrial systems and lasers	16,302	17.25%	15,031	22.04%	8.45%
Medical and cosmetic lasers	63,133	66.79%	41,606	61.01%	51.74%
Research and Development	536	0.57%	152	0.22%	252.89%
Service	14,549	15.39%	11,407	16.73%	27.55%
Total	94,519	100.00%	68,195	100.00%	38.60%

The financial year 2004 showed, as it did in the previous year, accelerated growth of the medical sector (+52%) against contained growth of the industrial sector (+9%) where the recovery of the manufacturing sector was not sufficient to determine an increase in turnover at the level hoped for at the beginning of the year.

The sales volume for technical assistance and connected services showed an increase of 28%, thanks, among other things, to the contribution of the companies recently acquired. In this regard the positive trend of the "revenue sharing" operated in the USA by Cynosure through the company Sona International, an associated company until 25 May 2004, should be remembered.

The income deriving from research projects and the relative repayments resulting from the contracts entered into with managing institutions financed by MIUR, while markedly increasing during the financial year, continues to be insignificant; it continues to be shown however since such revenue must be added to what is entered in the accounts under the heading "other revenue and income". In the course of the period in question "other income" amounted to 860 thousand euro (854 thousand euro as of 31 December 2003) income relative, among other things, to the following projects CHOCLAB, EUV02, NETMED, TRL01, SIDART, DIONE and LASUS.

The geographical distribution of turnover and the results for the financial year are shown in the following table:

	31/12/2004	Inc%	31/12/2003	Inc%	Var%
Italy	21,705	22.96%	16,153	23.69%	34.37%
Europe	27,622	29.22%	20,564	30.15%	34.32%
Rest of the world	45,192	47.81%	31,478	46.16%	43.57%
Total	94,519	100.00%	68,195	100.00%	38.60%

Growth appears consistent in all the areas. In the Rest Of the World the American market has assumed increased importance thanks to the good work done by Cynosure on its distribution in North America: one might say that it is this particularly significant specific result which has made the difference in terms of growth of the markets outside Europe compared to the European market. In Europe, the contribution of Asclepion and its distribution network in Germany and of the European companies controlled by Cynosure has been decisive. Progress in Italy too has been good, thanks also to the entrance of Quanta System S.p.A in the area of consolidation.

Within the medical/cosmetic sector, which represents approximately 67% of the group's sales, we can identify the following areas of business for which we have shown the consistency of turnover:

	31/12/2004	Inc%	31/12/2003	Inc%	Var%
Surgical CO2	2,538	4.02%	1,760	4.23%	44.21%
Physiotherapy	609	0.96%	591	1.42%	3.04%
Cosmetic	45,414	71.93%	27,007	64.91%	68.16%
Dental	5,977	9.47%	4,166	10.01%	43.46%
Other medical lasers	7,787	12.34%	7,745	18.62%	0.54%
Accessories	808	1.28%	336	0.81%	140.30%
Total	63,133	100.00%	41,606	100.00%	51.74%

Although at a different rate, turnover has increased in all the segments. A significant presence in many segments of the medical cosmetic market has always been the distinguishing characteristic and competitive force of the group, which continues to successfully pursue this strategy. The prevalence of the cosmetic segment is further accentuated through the year but this has not prevented the group from increasing its shares in other markets too. It is with this purpose in mind that the group, without equal on the world market, offers its extensive range of products through a ramified distribution network availing of prestigious brands.

DEKA, the historic distribution brand of El.En. in the medical sector, operates directly in the dermatology, cosmetic and surgical sectors; it has, though, set up profitable distribution relationships for the dental sector in Italy (with Anthos Impianti) and in physiotherapy (with Asa which it is an important shareholder of). Cynosure, thanks to the in-depth reorganisation which has focused particularly on its sales activities, is working successfully in dermatology and cosmetics and is reacquiring the leadership which characterised its operations at the end of the ’90s. Asclepion is once again able to offer innovative products in dermatology, cosmetics and dentistry characterised by the high quality standards of the German company. Quanta System is, as always, dynamic and flexible with the proposals which its enormous expertise in the field of lasers can offer the markets, from dental to surgical and cosmetic.

As already hinted at, the excellent performance in the cosmetics sector continued, a sector where consumption continued to rise despite the negative situation of the economy in general: some applications which see laser technology as elective, such as depilation and photo-rejuvenation have acquired greater importance in the sector, taking their place alongside cosmetic products and constituting an effective and less invasive alternative to cosmetic surgery.

The dental sector and that of CO_2 surgical lasers too showed growth rates of over 40%, thanks to product innovation and an intelligent management of distribution channels.
Growth in the therapy sector was minimal although the results of the product innovations introduced and the ASA operation were visible aside from the small increase in turnover, negatively influenced by its move shifting the handling of customer sales from within the group to the handling of sales through distributors, with a consequent reduction in the sales prices (and commercial costs).
In the remaining “other” sector including products from the wide range of applications covered by technology offered by the group, from Psoriasis with ultraviolet monochromatic light systems, to the surgical systems Nd: YAG and Er: YAG, and the Dye and diode systems for dermatology; the increase in turnover was limited.
The sales of accessory systems for CO_2 lasers and for some cosmetic appliances achieved a significant increase, boosted by the success of those sectors. Moreover it’s often the accessories which complete the offer that condition the client’s choice, so that particular attention is paid to these appliances,

For the industrial appliances sector the table below shows the turnover in detail according to the market segments that the group operates in:

	31/12/2004	Inc%	31/12/2003	Inc%	Var%
Cutting	7,812	47.92%	5,378	35.78%	45.25%
Marking	5,981	36.69%	7,690	51.16%	-22.23%
Laser sources	1,903	11.67%	1,670	11.11%	13.98%
Welding	606	3.72%	293	1.95%	106.78%
Total	16,302	100.00%	15,031	100.00%	8.45%

While approaching 10%, the rate of growth registered did not reach the targets set for the year 2004, and achieved a positive figure only thanks to the effect of the new acquisitions. Despite not having achieved its targets, the industrial sector showed a certain vivacity and signs of recovery in certain segments.

The cutting sector showed an increase which re-established its leading position in the sphere of industrial market segments. The intense marketing and promotion activities and product innovation, in years characterised by a difficult economic situation, led to an appreciable result in any case. The potential for growth in the American market through the Company Lasercut, which is still encountering a difficult period on account of the persistent weakness of the American dollar penalising exports from Italy to the United States, remains to be fully exploited.

The turnover of industrial laser sources too showed a significant increase, thanks to the range of CO_2 powered sources, from 100W to 6 Kilowatts, and some special sources produced by Quanta System.

The marking segment, which has witnessed a radical transformation of supply with a massive investment in R&D aimed at renewing the range, as well as a renewed sales organisation in the marking of reduced size surfaces is going through a phase of transition. The appreciable results achieved did not make up for the reduction in the sales of systems for marking extensive surfaces caused by the serious economic crisis in the relevant sectors.

The increase in turnover for restoration and welding systems was appreciable and represented the fruits of many years of work in the field of research and training of the main users of the restoration sector in the application of these innovative technologies.

To enable a simpler analysis and interpretation of the financial statement data, the reclassified consolidated Profit and Loss account for the financial year ending 31 December 2004, compared to that of the financial year 2003 is shown below.

Profit and loss account	31/12/2004	Inc.%	31/12/2003	Inc.%	Var.%
Revenues	94,519	95.0%	68,195	93.5%	38.6%
Change in inventory of finished goods and WIP	3,459	3.5%	3,673	5.0%	-5.8%
Other revenues and income	1,511	1.5%	1,058	1.5%	42.8%
Value of production	**99,489**	**100.0%**	**72,927**	**100.0%**	**36.4%**
Purchase of raw materials	39,438	39.6%	30,705	42.1%	28.4%
Change in inventory of raw material	(1,321)	-1.3%	(2,315)	-3.2%	-42.9%
Other direct services	9,006	9.1%	6,857	9.4%	31.3%
Gross margin	**52,366**	**52.6%**	**37,680**	**51.7%**	**39.0%**
Other operating services and charges	19,619	19.7%	14,189	19.5%	38.3%
Added value	**32,747**	**32.9%**	**23,491**	**32.2%**	**39.4%**
For staff costs	22,219	22.3%	17,965	24.6%	23.7%
EBITDA	**10,529**	**10.6%**	**5,526**	**7.6%**	**90.5%**
Depreciation, amortisation and other accruals	5,624	5.7%	4,128	5.7%	36.2%
EBIT	**4,904**	**4.9%**	**1,397**	**1.9%**	**251.0%**
Financial income (charges)	65	0.1%	189	0.3%	-65.6%
Income from continuing operations	**4,969**	**5.0%**	**1,586**	**2.2%**	**213.3%**
Value adjustments (Devaluations)	78	0.1%	519	0.7%	-85.0%
Extraordinary income (Charges)	3,396	3.4%	108	0.1%	3039.3%
Income before taxes	**8,443**	**8.5%**	**2,213**	**3.0%**	**281.4%**
Income taxes	3,002	3.0%	1,614	2.2%	85.9%
Income for the financial period	**5,442**	**5.5%**	**599**	**0.8%**	**808.3%**
Minority interest	1,816	1.8%	45	0.1%	3923.1%
Net income	**3,625**	**3.6%**	**554**	**0.8%**	**554.4%**

The margin of contribution is stable at approx. 52,366 thousand euro, up by 39% compared to the previous financial year and with an incidence on the value of production which rose from 52% to 53%. The increase in percentage terms was determined in the first place by the sales of Cynosure which, traditionally having higher margins than those of the group, grew both in terms of volume and of margin; the good results achieved in the medical sector, especially those of the subsidiary companies Quanta System and Asclepion also contributed, as did those of some market niches in the industrial sector.

The costs of services and operating charges were 19,619 thousand euro, up by about 38% and with an incidence slightly higher than the previous financial year. Such increase may be attributed mainly to the new acquisitions made and in particular to Cynosure given that the increase in revenue of the latter was achieved partly thanks to the strengthening of the commercial network and the outlays on marketing and promotion, both in the United States and on international markets.

Personnel costs too rose significantly (+24%), but their incidence on the Value of production fell to 22%, compared to approximately 25% for the same period in 2003. The cost increase in absolute terms derives mainly from the new acquisitions: in the financial year the number of staff increased mainly due to the entry of Quanta System, entirely consolidated since January 2004, and rose from 399 units as of 31 December 2003 to 464 units as of 31 December 2004, of which 42 units relative to Quanta System S.p.A. The staff of Quanta System are mainly occupied in R&D activities, design and production as well as administrative and commercial back up services.

A considerable portion of the expenses for personnel is directed to R&D costs for which the group also receives contributions and reimbursements by virtue of specific contracts stipulated with the relevant institutions. These contributions make it possible to give a wider scope to the research activities, given that they limit their economic impact. As mentioned above, in the period in question the contributions received amounted to approximately 860 thousand euro.

As a consequence of the variation in the margins of contribution and the personnel and operating costs, the Gross Operating Margin was stable at 10,529 thousand euro, almost double compared to the 5,526 thousand euro for the same period of the previous financial year, with an incidence of 11% on the value of production compared to approximately 8% for the same period in the last financial year.

The increase in costs for amortisations and accruals (+36% approx.) was consistent. Of the total 5,624 thousand euro, about 1,008 thousand euro were for the amortisation of the goodwill paid for the purchase of Cynosure, Deka LMS, Asclepion, and Quanta System S.p.A, approximately 374 thousand euro for accruals of the product warranty fund, relative mainly to the business of Cynosure and approximately 260 thousand euro relative to the fund for credit risks calculated for specific credit positions deemed irrecoverable. This entry includes, in addition, the goodwill reserve paid at the time of the acquisition of the subsidiary company Lasercut, made on account of the continuing crisis of the company which seems unable, in the short term, to achieve its targets; this reserve amounts to 655 thousand euro.

The operating result was 4,904 thousand euro, with an incidence of 5% of the value of production, a significant increase on the 1,397 thousand euro for the same period of the previous financial year. It should be emphasised moreover that this result was conditioned by the payment of the reserve mentioned above on the subsidiary company Lasercut of 655 thousand euro, which, while booked in the accounts among the ordinary reserves, is actually an exceptional devaluation of the investment made in the financial year 2003.

The result of financial management was positive at 65 thousand euro, thanks mainly to the positive differences arising on currency exchange following the variations in the value of the USA dollar during the period in question.

Exceptional management accounted for approximately 3,396 thousand euro of the financial year result. In this entry the plus-value realised following the sale by Cynosure Inc. of its equity investments in Sona International was the most influential factor; 450 thousand euro were however attributable to the plus-values realised following the sale by the parent company, El.En. S.p.A, of 10% of Deka M.E.L.A. Srl and of 2.5% of Cynosure Inc., sales which were made as part of the operation to gain control of Quanta System S.p.A. Moreover, in the course of the financial year, the subsidiary company Cynosure Inc. adapted to the accounting principle which does not foresee registration among the assets of the costs incurred for obtaining patents, and therefore registering as an extraordinary cost a devaluation of approximately 340 thousand USA dollars.

The pre-tax result was 8,443 thousand euro; despite being influenced by entries of an exceptional nature resulting within the sphere of Sona and Quanta System operations, this was a highly satisfactory result for the management given that it exceeded the targets set.

The fiscal load of the financial year increased, in absolute terms, compared to the previous period as a result of the increase in profitability. The 2004 tax rate was equal to 35.60% (72.90% in 2003) and was positively influenced by the resumed profitability of Cynosure Inc and the limited tax burden which the said profits were subjected to given the losses accumulated previously which the American company had not discounted any anticipated tax payments against.

The reclassified balance sheet shown below permits a comparison with that of the previous financial year.

	31/12/2004	31/12/2003
Balance sheet		
Intangible assets	10,652	7,947
Tangible assets	8,584	7,299
Equity investments	1,688	1,845
Other investments	1,782	1,231
Total fixed assets (A)	**22,705**	**18,322**
Stocks	25,340	19,995
Trade debtors	21,965	16,041
Other debtors	4,291	3,576
Other equity investments		115
Own shares	347	354
Cash in banks and on hand	15,327	16,818
Total current assets (B)	**67,269**	**56,899**
Trade creditors	15,915	11,712
Other debtors	10,208	5,794
Financial liabilities due within 12 months	4,025	2,110
Total current liabilities (C)	**30,148**	**19,617**
Net working capital (D)= B-C	**37,122**	**37,282**
Employee severance indemnity	1,673	1,119
Other provisions	3,337	2,693
Net medium and long term financial debts	2,555	1,844
Mid and long term creditors (E)	**7,565**	**5,655**
Net invested capital (A + D - E)	**52,262**	**49,950**
Shareholders’ equity	46,722	44,246
Minority interest on equity	5,540	5,703
Shareholders' equity	**52,262**	**49,950**
Memorandum accounts		
Real guarantees	224	288
Stocks held by third parties		
Tangible assets held by third parties		
Obligations to third parties	392	1,026
Leased equipment		
Total memorandum accounts	**616**	**1,314**

The net financial position of the group as of 31 December 2004 was as follows:

Net financial position		
	31/12/2004	**31/12/2003**
Financial mid and long term debts	(2,555)	(1,844)
Financial mid and long term debts	*(2,555)*	*(1,844)*
Financial liabilities due within 12 months	(4,025)	(2,110)
Cash in banks and on hand	15,327	16,818
Net financial short term position	*11,302*	*14,708*
Total financial net position	**8,747**	**12,864**

The net financial position remained positive at 8.7 million euro despite some disbursements of an extraordinary nature incurred during the financial year commented on in the paragraphs below.

The increase in the equity held in Cynosure Inc. through the purchase of shares from several minority shareholders entailed an investment of approximately 5 million dollars, half of which paid up at closing with the balance to be paid in March 2005: the amount payable as the balance due has therefore been entered as a short term financial debt.
In the month of January the acquisition of 30% of Quanta System entailed an investment of 1.5 million as well as entry to area of consolidation of the medium term financial debt which Quanta System incurred in relation to research projects financed by MIUR.

Moreover the acquisition of 20% of ASA Srl for an amount equal to 362 thousand euro, the gross investments, details of which are given in the paragraph below, and the dividends, which were distributed by the parent company, El.En.

S.p.A, for an amount of 1,149 thousand euro and by Deka MELA Srl to the amount of 120 thousand euro as quotas destined to third parties and to the amount of 174 thousand dollars from Cynosure Suzhou also absorbed liquidity.

The sale during the month of May of the equity held in Sona International, as well as of a part of the equipment granted in rental at the time, brought into the Cynosure coffers a total of 4.6 million dollars; as surety of the completion of a number of services contractually foreseen by the supply contract between Cynosure and Sona, Cynosure pledged at closing the sum of a million dollars, which as of 31 December had been reduced to 500 thousand dollars in accordance with the agreed repayment plan of the above-said surety deposit.

As already said in the introduction of this report, part of the Cynosure shares bought during the month of September will be sold as part of an operation which is only formally separate from the acquisition already described. The sale will entail an overall incoming payment of approximately 2 million dollars with a consequent improvement to the net financial position.

We refer you to the Notes to the Accounts and the financial statement for a detailed account of the manner in which the movements in the flows of funds consolidated during the financial year took place.

2) Financial results of the subsidiary companies

El.En. S.p.A. controls a group of companies operating in the same general filed of lasers, each of which has its own niche of applications and a specific market function.

The following table summarises the results of the companies in the group included in the area of consolidation. Brief explanatory notes on the business of the single companies and a comment on the results of the financial year 2004 follow.

	Net Turnover 31/12/2004	Net Turnover 31/12/2003	Var. %	Net income 31/12/2004	Net income 31/12/2003
Cynosure (*)	33,358	23,832	39.97%	4,118	-406
Deka Mela Srl	18,028	15,128	19.17%	1,164	620
Cutlite Penta Srl	7,334	4,956	48.00%	-10	-144
Valfivre Italia Srl	439	432	1.49%	-1	17
Deka Sarl	931	1,596	-41.63%	-203	1
Deka Lms GmbH	1,201	1,350	-11.04%	56	-41
Deka Dls GmbH	527	356	48.06%	11	-69
Deka Laser Technologies LLC	1,650	722	128.56%	12	51
Quanta System SpA (**)	8,277	0		188	0
Asclepion Laser Technologies GmbH	8,781	5,281	66.28%	378	89
Arex Srl	523	0		2	0
AQL Srl	529	0		-8	0
Ot-las Srl	2,467	4,244	-41.87%	-72	239
Lasit Srl	3,768	3,459	8.92%	-109	-46
Lasercut Inc.	1,673	1,329	25.90%	-591	-474
Neuma Laser Srl	208	90	130.52%	4	-58

(*) consolidated data
(**) subsidiary company since January 2004

Cynosure Inc.
The company operates in the design, production and sale of laser systems for medical and cosmetic applications and has its main headquarters and plant in Chelmsford, Massachusetts (USA) and international branches in Europe and Asia. Cynosure is one of the most important companies in the sector for medical lasers and achieved its present stature thanks to the superior performance and the high quality of its products, especially thanks to the DYE lasers for vascular applications and the Alexandrite laser for hair removal.
The company handles the sales and marketing of its products on the USA market directly and on international markets through its subsidiary companies and a network of distributors. Production takes place almost entirely in Chelmsford as does R&D, a key factor of success in this sector.
Cynosure Inc. is in turn the head of a group of companies operating at a worldwide level in the field of lasers: the companies Cynosure Sarl in France, Cynosure Ltd in Great Britain, Cynosure GmbH in Germany and Cynosure KK in Japan are 100% controlled and act as local distributors also providing after-sales technical assistance; the company

Suzhou Cynosure in the People's Republic of China is 52% owned and also produces special equipment for use in dermatology.
After being acquired in 2002 in a moment of operative difficulty shown by the negative profitability results, Cynosure underwent a period of reorganisation, entailing the addition of some of El.En group's products to the range of products offered by it and involving the replacement of some members of the management staff. Specifically, at the end of 2003 the CEO was replaced and with him some of the chiefs of key company areas, thus determining a turning point in the management of the company.
The results of this reorganisation were reaped during the financial year 2004 which, despite the need for further corrective measures entailing a series of costs presumably not to be repeated in the coming financial years, saw Cynosure's return to positive profitability, on the operative front too.
During the month of May 2004 Cynosure sold its equity holding, equal to 40% of the subscribed capital, in Sona International Inc., a company which manages centres for laser depilation in the USA directly and under licence; at the moment of sale, the supply contract between the two companies was also renegotiated: Cynosure has now sold half of the equipment used by Sona for its cosmetic laser treatment business in return for a reduction of the "revenue sharing" fee paid by Sona in proportion to the turnover achieved in its centres. This resulted therefore in an increase in the turnover of laser systems in the cosmetics sphere offset by a reduction of the turnover for services, which the revenue sharing business is part of.
The plus value achieved by the sale of the equity held in Sona determined the brilliant pre-tax result and also made it possible to rebalance the financial situation of the company which the parent company, El.En. had extended credit to.
Cynosure closed the financial year 2004 with consolidated profits of approximately 5,122 thousand dollars compared to a loss of 459 thousand dollars in the previous financial year.

Deka M.E.L.A. Srl
The company deals in the distribution of the medical laser appliances produced by El.En. S.p.A. in Italy and abroad. Specifically, it operates directly in the dermatological, cosmetic and surgical sectors and has set up advantageous partnerships for the dental sector in Italy (Anthos Impianti). Deka has also acquired an important share (40%) in ASA Srl, the company appointed by the group to deal with distribution in the physiotherapy sector.
During the financial year 2004 the turnover, which grew in absolute terms by 19% compared to the previous financial year, highlighted the brilliant performance in the cosmetics sector, as in the dental sector and in that of CO_2 surgical lasers which showed a good rate of growth thanks to product innovation and skilful management of the distribution channels.
The increase in turnover achieved without an increase of the same level in structural costs, enabled the company to achieve a considerable increase in profitability, with the net result rising from 620 thousand euro in 2003 to 1,165 thousand euro in 2004.

During the month of January 2004, as part of the transactions which led to the acquisition by El.En. of the controlling interest in Quanta System S.p.A. El.En. sold 10% of the investments in Deka M.E.L.A. to Laserfin Srl, so that today the equity held by the company is 60%.

Cutlite Penta Srl
This company produces industrial laser systems for cutting applications, installing the CNC controlled movement on laser power sources produced by El.En. S.p.A. The intense marketing and promotion activity conducted in years characterised by a difficult economic situation and the recovery of the manufacturing sector, although slight, produced a considerable result in terms of turnover which grew by almost 50% compared to the previous financial year. The return to a level of business in keeping with the size of the organisation, after a year in which the economic crisis had resulted in the company registering a significant loss, made it possible to end the financial year close to breaking even and to look forward with greater optimism to the prospects of the company, despite the markets traditionally catered to being in a phase of persistent economic difficulty.

Valfivre Italia Srl
As in the previous financial year, the Company produced and provided technical assistance for special laser systems for industrial applications as well as services for the companies belonging to the group. The financial year closed with a result close to breaking even with a constant turnover compared to the previous financial year.

Ot-las Srl
This company designs and produces special systems of CO_2 laser marking for the decoration of large surfaces and for which it offers absolutely state-of-the–art technological solutions thanks to its close technological collaboration with the parent company El.En. in perfecting the strategic components.
After years of good and, in some cases, brilliant results, in 2004 Ot-las went through a difficult period due primarily to the severe crisis affecting its main client markets, in other words small Italian firms in the manufacturing sector of leather, footwear and textiles. The financial year result showed a loss of 72 thousand euro.

Intense efforts have been made both at a commercial level and through the development of new products, to reposition the company in those market niches which will enable it to expand its turnover again. The efforts made to open up new international markets, jointly with the subsidiary company Neuma Laser, which has always supported the business of the group in eastern Asia and South America, is particularly important.

Lasit Srl
The company designs and produces laser marking systems complete with dedicated software and controls, which can be used both for marking metals and raw materials such as wood, glass, leather and textiles.
During the course of the financial year 2004 too Lasit was heavily engaged in R&D activities, co-ordinated and supported by the parent company too which provided suitable funding.
2004 was therefore a year of transition which saw the reconfiguration of some of the historic Lasit products made more compact and flexible, and some important steps towards the development of a distribution network and commercial presence in Italy and in the world; these latter efforts were undertaken jointly with other companies in the group with an eye to strengthening the marking sector.
The negative result, with a loss of 109 thousand euro, shows how the results of the efforts made and the outlays incurred during 2004 still have to mature.

Neuma Laser Srl
The Company, which closed the financial year close to parity, conducted after-sales technical assistance, as well as acting as a technical support for the commercial activities in the Far East and South America for the industrial laser systems and equipment sold by the other companies in the Group and specifically the systems produced by its controlling companies Cutlite Penta Srl and Ot-las Srl.

Deka Sarl
This company distributes medical-cosmetic laser appliances and the relative accessories produced by El.En. in France as well as after-sales services for medical and cosmetic lasers. Now a point of reference for the sector in France, with a highly esteemed equipped base and an excellent brand position, in 2004 Deka Sarl suffered the effects of a rather stagnant market resulting in a consistent reduction in sales. The loss shown was a result of such.

Deka Lms GmbH
The company Deka Lms GmbH which distributes medical cosmetic laser appliances produced by El.En. S.p.A. in Germany registered a turnover of approximately 1,200 thousand euro in 2004, with a net result of 56 thousand euro. Thanks to the skilful management of its resources and a favourable equilibrium of fixed and variable costs, Deka LMS succeeded in returning to viability. The turnover however remains very much lower than expected and is well behind the plans for expansion formulated at the time, also due to the highly negative economic situation of the German market which all the companies in this sector are suffering from. The German market remains, however, a key point for the development of our business in Europe and in the future Deka Lms could be the vehicle for more consistent expansion in this market.

Deka Dls GmbH
The company Deka Dls GmbH, a subsidiary of Deka Lms, distributes laser systems for the dental sector in Germany. Thanks to the distribution efforts made on the German market, the financial year registered an increase in the volume of sales, breaking-even with income.

Deka Laser Technologies LLC
The company, founded in February 2003, distributes the laser systems produced by El.En. S.p.A for the dental market in the United States. Thanks to the intense work done to establish the foundations for future expansion from a distribution point of view, the company has seen its profuse efforts rewarded in terms of turnover. Despite being active in a specialised market niche, the company succeeded in breaking even, thanks also to the continual support from the parent company which should enable the definitive repayment of the financial investments supporting the start-up activities. Turnover increased by 25% to reach 1,650 thousand euro, the income result more or less in parity is suffering from the significant start-up costs of the distribution network on the American market.

Lasercut Inc.
This American company with its headquarters in Branford (CT) acquired in April 2003 designs, produces and sells laser systems for flat cutting; in the financial period it showed a turnover of 2,100 thousand dollars, with an operating loss of 624 thousand dollars, not managing therefore to improve the result of the previous financial year.
In the manufacturing production sector which Lasercut caters for, the American market is unfortunately still going through a difficult period partly due to the persistent weakness of the American dollar which has affected the competitiveness of Cutlite Penta and Ot-las products, distributed on the American market through Lasercut. In the last quarter of 2004, thanks partly to the further efforts made to reorganise the company, the results in terms of profits improved with a limitation of the losses.

Asclepion Laser Technologies GmbH
The company through which the group took over the business in the cosmetic sector of Carl Zeiss Meditec, founded in February and acquired by El.En. S.p.A (50% with Quanta System S.p.A) in May 2003, had a turnover of approximately 8.7 million euro thanks to the excellent results achieved in the cosmetics segment and dental segment, the latter significantly influenced by the "additional" turnover achieved through the distributor KaVo.
Thanks to its research centre in Jena, a greenhouse of electro-optics and one of the most important centres world wide for this type of technology as well as the quality of its products and the fame of the brand on international markets too, Asclepion achieved a brilliant income result during the course of 2004.

Quanta System S.p.A
In the month of January 2004 El.En. acquired a further 30% of the equity of Quanta System S.p.A thus raising its equity holding to 60%. Quanta System S.p.A is one of the most important Italian companies in the field of laser development and production both in the medical and industrial sector, a historic presence which is experiencing a rapid phase of growth.
In the financial year 2004 the turnover, which grew in absolute terms by approximately 20% compared to the previous financial year, showed its brilliant performance in the cosmetics segment with depilatory and vascular oriented products, and in the dental segment with low voltage diode systems. In the industrial sector the turnover expressed in the laser sources segment was significant thanks to the production of solid state laser sources for scientific and industrial applications. The welding and restoration sector was important too with its turnover reflecting the many years of research and training of the main users of the restoration sector in the use of this innovative technology.
It should be remembered that Quanta System is one of the most dynamic concerns as regards innovation and technological research in the laser sector and how its highly qualified research team participates in important development projects, also jointly with other companies in the group and the most important Italian and European research centres.

Arex Srl
The company, which became part of the group in April 2004, manages a health centre in Milan.

AQL Srl
The company AQL Srl, founded in Milan in June 2004 designs, produces and sells laser systems for the "Industrial Business" segment as well as being active in the R&D of industrial processes and products, manufacturing processes and in the realisation of pioneering new technology in the photonics sector.

3) Relations with associated companies entered under the financial assets not included in the area of consolidation or evaluated using the shareholder's equity method

The following table shows the relationships existing between the associated companies both as regards commercial exchange and as regards the amounts payable and receivable at the end of this financial period.

	Financial credits		Commercial credits	
Associated companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
ASA Srl			63	
Actis Srl	40		11	
Immobiliare Del.Co. Srl	14			
M&E			13	
Total	**54**		**87**	

	Financial payables		Commercial payables	
Associated companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
ASA Srl			14	
Immobiliare Del.Co. Srl			48	
Actis Srl			135	
Total			**196**	

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl	226			226
Total	**226**			**226**

Associated companies:	Sales	Service	Total
Actis Srl	1	1	2
Asa Srl	442	1	443
Total	443	2	445

The figures in the tables above refer to operations regarding the standard management of the company.

4) R&D activities

In the course of 2004 intense R&D activities continued in the Group with the aim of opening up new laser applications both in the medical and industrial fields and of launching innovative products on the market.

The global market, especially for highly technological products, requires that the competition be faced with an almost continual introduction onto the market of new products and versions of products that are innovative in their performance using increasingly cutting-edge technology and components. Wide-ranging and intensive R&D organised along scheduled short and medium term lines is therefore needed.
Research aimed at achieving results in the medium term tends to be directed towards more speculative topics inspired by ideas coming from inside the company and by prospects suggested by the scientific work of pioneering laboratories and research centres worldwide.
Research aimed at achieving results in the short term concentrates on topics for which pre-feasibility has already been verified. In addition, for such topics the selection and drafting of the characteristics and specifications has already been done on the basis of information obtained through the work of in-house specialists and also as a result of the activities of the public and private institutions involved, which have acted as consultants during the preliminary study phase.

The research conducted is mostly applied and, to a lesser degree, basic, for some specific topics. Both the applied research and the development of the pre-prototypes and prototypes is sustained by financial resources in part the company's own and in part in the form of grants deriving from research contracts stipulated with the managing institutions acting on behalf of the Ministry of University Education and Research and with the European Union both directly and through Research Institutions.

Below are some details of the research conducted.

Laser systems and applications in medicine

The development of laser appliances and apparatus for mini-invasive, robot-assisted, microsurgery, also continued; this work is part of the project on New Medical Engineering as an FIRB (Basic Research Investment Fund) project, financed in part by the MIUR (Ministry of University Education and Research) following the awarding of grants after selection based on the opinions of international experts. Theoretical and experimental studies continued into the fine-tuning of the doses for processes involving the cutting and ablation of soft tissue and the cauterisation of small blood vessels. A directable micro-tweezer and multiple-way-path catheter for endoscopy, for endoluminal photodynamic therapy and for diagnostics using opto-acoustic microprobes are being developed. Research activities are under way to develop a technique and appliances for the laser-assisted anastomosis of blood vessels.
The development of instrumentation and the clinical experimentation of innovative laser equipment for use in physiotherapy and orthopaedics continued. Research is under way into new appliances and methods for the percutaneous laser ablation of the liver and thyroid, as part of the activities of the consortium company IALT (Image Aided Laser Therapy) recently founded by El.En. and Esaote.
At the same time clinical experimentation is continuing in Italy and in qualified centres in Europe and the United States to confirm and document the efficacy of innovative therapeutic laser treatment in various fields of medicine: odontostomatology, cardiosurgery, gastroenterology, oculistics, venology, eco-guided interstitial hyperthermia, dermatology and cosmetics. A new type of low fluence and isotropic emission radiator is being developed for interstitial laser hyperthermia to carry out mini-invasive microsurgery operations on the thyroid guided by images and ultrasound.
A programme of innovative ophthalmology technology which regards the attachment of the cornea using laser light is in progress.
The development of lasers for ophthalmology to carry out photocoagulation of the retina has been started.
Research into the development of a diode laser for applications in neurosurgery using mini-invasive techniques continued.
Research is being conducted to produce a new laser surgical tweezer for use in laparoscopic surgery.
A research programme is in progress into applications of mechatronics and micro-technology in the biomedical industry financed by the European Union

Laser systems and applications in industry

Research regarding an excimer laser system for use in the nano-manufacture of appliances for electronics and optical-electronics continued.
In addition, applied research continued into the development of large mirrors made in new forms and new materials for scanning the laser beam, designed to mark or treat the surfaces of different kinds of material for the aesthetic enhancement of garments and craft products with laser power of over 1kW. The development of electronics based on a Digital Signal Processor to translate the results of theoretical research carried out on the numerical control of galvanometers for scansion heads into HW continued.
Studies continued into the perfection of algorithms, calculus programmes and HW structures for artificial vision systems to use in automised surface decoration using laser markers, of leather and other materials and for the cutting and marking of objects set on the worktop in any direction.
A project for the creation of a high power solid state laser source with active material in an amorphous ceramic support is being conducted.
The development of new laser equipment for the diagnosis and documentation of cultural assets continued, as part of the PON (National Operative Programmes) for the development of strategic sectors in Southern Italy.
As part of this, a new system of sensors which memorises the environmental strain on works of art while they are being transferred from a museum to a different exhibition site is being studied.
Moreover, a new system of presenting thermic transients is being developed for the study of the degree of conservation of works of art and industrial products during the set-up phase in the manufacturing process.

The following table lists the costs attributable to R&D in the period.

thousands of euros	31/12/2004
Costs for staff and general expenses	6.186
Equipment	155
Costs for testing and prototypes	770
Consultancy fees	274
Other services	401
Intangible assets	23
Total	**7.809**

As regards the costs for "Staff and general expenses" the amount shown above shows the costs for staff devoted to R&D; for El.En. S.p.A this amount is increased by the flat-rate percentage of 60% of the staff costs incurred, in keeping with the percentage increase recognised by the funding bodies of the R&D activities which allow, within the sphere of the research projects being funded, a flat-rate repayment of the general costs thus quantified. For Cynosure, which is the second most important research centre of the group as far as costs are concerned, the general expenses too have been subject to analytic proceedings.

As for the turnover and profitability entries the contribution of Cynosure is relevant for the costs of R&D too, given the intense activity conducted in the specific sector. The total amount of costs sustained for R&D by Cynosure in the period was approximately 3,222 thousand dollars, against the 2,525 thousand dollars for the corresponding period in the last financial year.
As is well-established company policy the costs listed in the table have been entirely entered in the operating costs.
The amount of the costs incurred, while higher in absolute terms than the same period in the previous financial year, has a lower impact on the consolidated turnover of the group (8% as against 10% as of 31 December 2003), as a result of the large increase in turnover. The share accounted for by Cynosure, as said amounting to 3,222 thousand dollars constitutes approximately 8% of its turnover (9% as of 31 December 2003); the remaining part of the costs was sustained almost entirely by El.En. S.p.A and is equal to 15% of its turnover (17% as of 31 December 2003). El.En. S.p.A included in the accounts for the period revenue, in the form of grants, of approximately 655 thousand euro. It appears evident that the efforts made in these areas are significant and the resources devoted to them considerable.

5) Company management

In accordance with art. 19 of the Articles of Incorporation, the company is administrated by a Board of Directors composed of a minimum of three to a maximum of fifteen members.

The current Board of Directors, elected by the shareholders' assembly held on the 6 November 2003, is composed as follows:

NAME	POST	PLACE AND DATE OF BIRTH
Gabriele Clementi	President with conferred powers	Incisa Valdarno (FI), 8 July 1951
Barbara Bazzocchi	Deputy Board Member	Forlì, 17 June 1940
Andrea Cangioli	Deputy Board Member	Florence, 30 December 1965
Francesco Muzzi	Board Member	Florence, 9 September 1955
Marco Canale	Board Member	Naples, 12 November 1959
Paolo Blasi*	Board Member	Florence, 11 February 1940
Michele Legnaioli*	Board Member	Florence, 19 December 1964
Angelo Ercole Ferrario**	Board Member	Busto Arsizio, 20 June 1941
Alberto Pecci	Board Member	Pistoia, 18 September 1943
Paolo Ernesto Agrifoglio ***	Board Member	Genoa, 1 January 1966

* Independent administrators, in accordance with art. 3 of the Code of Self-discipline of Listed Companies
** Co-opted by the Board of Directors at the meeting of 13 February 2004 in accordance with and by effect of art. 2386 of the civil code in place of Prof. Ennio Carnevale who resigned. Subsequently confirmed by the Shareholders' assembly on 14 May 2004 he will remain in office until the expiry of office of the other members of the Board of Directors
*** Outgoing on 21 March 2005; the Shareholders' assembly of 29 April 2005 / 13 May 2005 will be asked to deliberate on the substitution of the outgoing company director or the reduction of the number of Board members, currently agreed as ten.

The previous Board of Directors having been appointed on 5 September 2000, in order to align the expiry date of the Board of Directors with the approval of the budget, without exceeding the maximum term of the mandate, established as three years by what is now art. 19 of the internal regulations, the shareholders' assembly which elected the present Board of Directors on 6 November 2003 has set as the expiry date of the term of office, the date of the assembly meeting for the approval of the budget relative to the financial year ending 31 December 2005.

The members of the Board of Directors are domiciled for the purpose at the headquarters of El.En. S.p.A in Calenzano (FI), Via Baldanzese n. 17.

On 13 November 2003 the Board of Directors attributed to the President of the Board of Directors, Eng. Gabriele Clementi and to the deputy board members Mrs. Barbara Bazzocchi and Eng. Andrea Cangioli, separately from each other and with independent signature, all the ordinary and extraordinary administrative powers for the fulfilment of all the activities inherent to the company goals, excluding only those activities for which powers may not be delegated by law, in accordance with art. 2381 of the civil code and of the company statutes.

In accordance with the provisions of the Code of self-discipline for Listed Companies:
a) as of 31 August 2000, the Board of Directors has among its members two independent administrators as in art. 3 of the Code of self-discipline mentioned. At present these are Prof. Paolo Blasi and Dott. Michele Legnaioli.

b) as of 5 September 2000 it has set up the following internal committees composed mainly of non-executive administrators:
1. " the Appointments Committee", responsible for proposing nominations, receiving them from shareholders and checking that the procedure laid down by the company statute for the selection of candidates is respected;
2. "the Fees Committee", responsible for information and transparency regarding the method and manner used to determine the fees paid to Board Members;
3. "the Auditing Committee", which must offer consultancy, proposals and support to the Board in setting up and monitoring the internal control system and activities.

c) as of 5 September 2000 it has designated a person to monitor internal control, such post is at present held by Mrs. Cristina Morvillo.

The Board of Directors meets at least every three months to ensure that the Board of Auditors is adequately informed of the business and the most important operations performed by the Company and by its subsidiary companies.

The Group is controlled internally by the Parent company in collaboration with the personnel of the subsidiary companies. From an organisational point of view, the administrators of the Parent company participate in the Board Meetings of the subsidiary companies as members of the same administrative organ or else they hold the title of Sole administrator. Wherever this is not the case the administrative body of the subsidiary company must supply sufficient information for the organisational definition of the activities of the Group.

As regards accounting information, the subsidiary companies must supply all the information needed for the parent company to draw up the consolidated economic and financial reports before the end of the month following the quarter in question.

As of 11 December 2003 the para-social pact (the "Pact") between the shareholders Immobiliare del Ciliegio Srl, Andrea Cangioli, Gabriele Clementi, Barbara Bazzocchi, Francesco Muzzi, Pio Burlamacchi, Carlo Raffini and Autilio Pini stipulated in 2000, added to in 2003 and having the purpose as specified below, was renewed for a further three years:
- a majority vote syndicate which conferred a total of no. 2,391,994 ordinary shares of El.En. S.p.A equal to 51.31% of the Share capital;
- a block syndicate in which they conferred a total of no. 2,391,994 ordinary shares of El.En. S.p.A equal to 51.31% of the Share capital.
The Pact foresees, for the member shareholders, constraints on the sale of shares and dispositions regarding the exercising of their vote at the assemblies, in any case respecting the right to equal treatment of all the shareholders as regards information.
The constraints on sale take the form of an obligation not to transfer the shares (and relative rights) of the company conferred to them by the Pact to persons outside the syndicate for a period of three years.
As regards the dispositions on the exercising of voting rights at the shareholders' assemblies the Pact stipulates that the Steering Committee of the syndicate (to which all the Pact members belong) must meet before each assembly of the Company to decide on the line of conduct to adopt during the assembly and which way they are going to vote. The decisions of the Steering Committee are made on the basis of majority vote calculated on the basis of the number of

shares possessed by each member and are binding on the partners who must vote at the company assembly in accordance with the majority decision of the syndicate.

6) Code of conduct

In accordance with and by effect of articles 2.6.3 and 2.6.4 of the "Regulations of the New Market organised and managed by Borsa Italiana SpA" the company has adopted the "Code of conduct" which, with reference to the so-called "internal dealing" operations performed by relevant persons, sets out the information obligations and code of behaviour which must be respected so as to guarantee the maximum transparency and homogeneity of information towards the market.

Such document also indicates the time limits and quantity limits so that the relevant persons must notify:

a) the operations effected in the quarter which if added together exceed the amount of 25 thousand euro within the third day of the stock exchange being open subsequent to the end of each period of survey (each calendar quarter);

b) immediately and in any case within one day of the stock exchange being open subsequent to that when the operation took place or of the amount specified below being exceeded, of the operations which singly or added together with others performed during the period of survey, but not declared, amount to or exceed the amount of 150 thousand euro.

7) Correlated parties

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

- the subsidiary and associated companies as shown in the financial report;
- the members of the Board of Directors, Board of Auditors and the other executive directors with strategic responsibilities;
- the individuals holding shares in El.En. S.p.A;
- the legal bodies of which a significant number of shares is owned by one of the main shareholders of El.En. S.p.A, by one of the El.En. S.p.A shareholders belonging to the voting syndicate, by a member of the Board of Directors, by a member of the Board of Auditors, by any other of the executives with strategic responsibilities.

The following should be noted:

<u>Subsidiary and associated companies</u>

All the relations of amounts receivable and amounts owed, expenditure and income, all the financing and guarantees granted to subsidiary or associated companies during the financial year 2004, are shown clearly and in detail in this financial statement.

Sale prices are set with reference to what normally happens in the market. The above-mentioned inter-group transactions reflect therefore the price trends of the market, with respect to which they may differ slightly depending on the marketing policy of the Group.

It should be noted that in October 2002 El.En. S.p.A. acquired, free of charge, from Deka Mela Srl the licence to use the trademark of the same name for the marketing of laser equipment produced by El.En. for the medical, dental and cosmetic sectors in various countries in Europe and outside Europe.

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

The members of the Board of Directors and of the Board of Auditors receive the salaries indicated in the notes to the accounts.

The President of the Scientific Committee receives the salary indicated in the notes to the accounts.

<u>Legal bodies shares of which are owned by members of the Board of Directors or Board of Auditors or by other strategic executives</u>

The members of the Board of Directors, of the Board of Auditors and the President the Scientific Committee own the shares shown in the continuation of this Report.

<u>Individuals holding shares in El.En. S.p.A</u>

As well as the members of the Board of Directors, the Board of Auditors and the President of the Scientific Technical Committee, the partners Carlo Raffini and Pio Burlamacchi receive emoluments, as shown in the notes to the accounts inasmuch as:

a) Carlo Raffini has been appointed as the Quality System Director by El.En. S.p.A;

b) Pio Burlamacchi is the holder, by virtue of a special contract, of industrial monopoly rights consisting in the patent application for the invention of a "Support for the optical cavity for lasers with adjustment of the beam".

8) Equity investments of directors, auditors and general manager

Some of the members of the Board of Directors also hold company positions in the subsidiary or associate companies, as shown in the table below:

Name and surname	Post
Gabriele Clementi	- Sole Administrator of Valfivre Italia S.r.l. (company in which El.En. S.p.A. holds a 99% equity.) - Board member of Cynosure Inc. (company in which El.En. S.p.A. holds a 84.67% equity.) - Board member of Quanta System S.p.A (company in which El.En. S.p.A. holds a 60.00% equity.)
Barbara Bazzocchi	- Sole Administrator of Cutlite Penta Srl (company in which El.En. S.p.A. holds a 53.50% equity.) - President of the Board of Directors of Actis – Active Sensor s.r.l. (company in which El.En. S.p.A. holds a 12.00% equity.)
Francesco Muzzi	- President of the Board of Directors of Deka M.E.L.A. Srl (company in which El.En. S.p.A. holds a 60.00% equity.)
Andrea Cangioli	- Sole Administrator of Neuma Laser Srl (company controlled indirectly through Cutlite Penta Srl and Ot-las Srl) - Board member of Quanta System S.p.A (company in which El.En. S.p.A. holds a 60.00% equity.) - Board member of Cynosure Inc. (company in which El.En. S.p.A. holds a 84.67% equity.) - Board member of Ot-las Srl (company controlled indirectly through Cutlite Penta Srl) - Board member of A.S.A. s.r.l. (company in which the subsidiary company Deka M.E.L.A. Srl holds a 40% equity) - Sole Administrator of Asclepion Laser Technologies (company in which El.En. S.p.A and Quanta System S.p.A both hold a 50% equity) - Board member of Lasercut Inc. (with an equity of 70%)
Angelo E. Ferrario	- President of the Board of Directors of Quanta System S.p.A (company in which El.En. S.p.A. holds a 60.00% equity.)

The acting members of the Board of Auditors of El.En. S.p.A are also members of the boards of auditors of subsidiary companies as shown in the following table:

Name and surname	Post
Vincenzo Pilla	- President of the Board of Auditors of Lasit Srl since 3 December 2004 (ex acting auditor) - President of the Board of Auditors of Deka M.E.L.A. Srl - Acting auditor of Cutlite Penta Srl
Paolo Caselli	- President of the Board of Auditors of Cutlite Penta Srl - Acting auditor of Deka M.E.L.A. Srl - Acting auditor of Lasit Srl dal
Giovanni Pacini	- Acting auditor of Cutlite Penta Srl - Acting auditor of Deka M.E.L.A. Srl

The table below, in accordance with art. 79 of the Consob regulations, approved with vote no. 11971 on 14 May 1999 shows the investments in the Company by the administrators and auditors and their families.

Name	*Company*	*No. of shares on 31/12/2003*	*No. of shares acquired*	*No. of shares sent*	*No. of shares on 31/12/2004*
Andrea Cangioli	El.En. S.p.A.	624,460			624,460
Barbara Bazzocchi	El.En. S.p.A.	494,824			494,824
Gabriele Clementi	El.En. S.p.A.	495,650			495,650
Francesco Muzzi	El.En. S.p.A.	486,724			486,724
Immobiliare del Ciliegio Srl (*)	El.En. S.p.A.	312,412			312,412
Lucia Roselli	El.En. S.p.A.	350			350
Paolo Caselli	El.En. S.p.A.	300			300
Vincenzo Pilla	El.En. S.p.A.	300			300
Michele Legnaioli	El.En. S.p.A.	160			160
Paolo Ernesto Agrifoglio	El.En. S.p.A.		1,980		1,980
Alberto Pecci	El.En. S.p.A.	55,637	116,550		172,187

9) Stock options offered to executives and employees

The special assembly of 16 July 2002 voted to entitle the Board of Directors, in accordance with and by effect of art. 2443 of the Civil Code, for a maximum period of five years from the date of the vote, to increase the share capital of the Company once or several times upon payment, for maximum amount of euro 124,800 by issuing a maximum of 240,000 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 acquired by payment of a price to be determined by the Board of Directors bearing in mind the dictates of art. 2441, sub-paragraph VI, civil code. – that is on the basis of the value of net worth, also bearing in mind the trend of the official prices registered for the shares on the stock exchange in the last six months – and as a unitary value inclusive of the premium, equal to the greater of the following: a) the value of each share determined on the basis of the consolidated net worth of the group El.En. as of 31 December 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, organised and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options; c) the arithmetical mean 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; d) the arithmetical mean 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 period of time prior to the assigning of the options determined by the Board of Directors in the regulation of the incentives plans.

On 6 September 2002 the Board of Directors voted to implement in part the decision of the Shareholders' assembly dated 16 July 2002 to increase the share capital to euro 31,817.76 for use in the 2003/2004 stock-options plan and approved the relative regulations. The option rights were assigned exclusively to the Group's Executives, Managers and Employees who at the time of the assignment were employed by the group. The above plan was divided into two phases, one for each year; the first phase, for a maximum of 30,600 shares, was exercisable by the assignees from 18 November to 31 December 2003, from 15 August to the 30 September 2004 and from 18 November to the 31 December 2004; the second phase, for a maximum of 30,588 shares was exercisable by the assignees from 15 August to the 30 September 2004 and from 18 November to the 31 December 2004.
With reference to this vote, as of 31 December 2004 (the deadline for the exercising of such rights) the total of 61,188 option rights had been opted, of which 21,139 opted in the previous financial year.

Moreover, on 13 November 2003, the Board of Directors voted to partially implement the decision of the shareholders' assembly dated 16 July 2002 to increase the share capital by euro 13,145.60 to be used for the 2004/2005 stock-options plan and approved the relative regulations. The option rights were assigned exclusively to the Group's executives, managers and employees who at the moment of assignment were employed by the group. The above plan was divided into two phases, one for each year; the first phase, for a maximum of 12,640 shares, exercisable by the assignees from 18 November to 31 December 2004, from 15 August to the 30 September 2005 and from 18 November to the 31 December 2005; the second phase, for a maximum of 12,640 shares will be exercisable by the assignees from 15 August to the 30 September 2005 and from 18 November to the 31 December 2005.
With reference to this vote, relative to the first phase of 12,640 shares, in the period from 18 November to 31 December 2004 1,056 option rights were exercised.

10) Debenture loan

On 7 November 1996 the special assembly of the company approved the emission of a debenture loan up to the amount of euro 619,748 through the issue of 120,000 bonds with a nominal value of euro 5.16 each. The entire debenture loan was underwritten to the amount of euro 412,133 by the following persons: Autilio Pini, Andrea Cangioli, Francesco Muzzi, Barbara Bazzocchi, Carlo Raffini and Gabriele Clementi; to the amount of euro 123,950 by Mr Gabriele Clementi and his wife; to the amount of euro 10,329 by Mr Carlo Raffini and his wife. The remaining part of the loan, for the sum of euro 73,336 was underwritten by other shareholders. The length of the loan is ten years, with repayment by 31 December 2006. The annual interest rate is 9.75% payable in yearly instalments deferred to the 1st January of each year. Upon expiry the bonds will be reimbursed at their nominal value.

11) Treasury stock

The Board of Directors, at the express mandate received from the shareholders' assembly on 24 April 2002, purchased in the same financial year and in the manner foreseen by the said shareholders' mandate, 22,714 shares with a counter

value of euro 255,937 at an average price of euro 11.2678. As of 31 December 2004 such shares were prudentially maintained at purchase cost.
It is important to remember that during the month of February 2005, in compliance with the deliberation of the same shareholders' assembly, the Company put back in circulation all the shares previously acquired, in the full respect of current law.

12) Adjustment of the company statute in accordance with the Legislative Decree 6/2003

The company, having taken note of the modifications introduced by the Legislative Decree dated 17 January 2003, no. 6 and subsequent modifications, modified its company statute by deliberation of the shareholders' assembly so as to adjust the content to the new imperative dispositions and to take the opportunity at the same time, to improve and clarify the formulation of the some of the statutory dispositions.

13) Application of the IAS/IFRS principles

During the financial year 2004, El.En. S.p.A continued its implementation of international principles through the creation of a dedicated task force which foresaw the involvement of the main companies belonging to the El.En. Group.
Specifically, analysis aimed at identifying the main differences between Italian accounting principles and the IAS/IFRS principle was conducted and, on the basis of the differences found, to analyse the most significant effects on the consolidated financial statement of the El.En. Group.
The project aimed at achieving the following objectives:

- Identification of the main differences between Italian accounting principles and the IAS/IFRS principles therein included those for the preparation of the opening budget (1/1/2004, date of transition) and quantification of the relative impact;
- Implementation of the administrative processes and company information systems to enable the drafting of financial statements and quarterly reports according to IAS/IFRS principles.

The analysis conducted so far has revealed some differences between Italian accounting principles and the IAS/IFRS when properly applied, the most important of which are described below:

- *start-up and difference from consolidation*: these entries will no longer be automatically amortised in the profit and loss account but will be subject to evaluation performed on an annual basis, so as to identify any loss in value (impairment test);
- *treasury stock,* this stock, according to the IAS/IFRS, may no longer be entered among the assets and must be cancelled along with the corresponding reserve fund; moreover, the total amount of treasury stock must be shown as a reduction of the net assets;
- *consolidation principles*: the exclusion of firms of an insignificant size, firms being wound up and those with business of a different nature from the consolidation area is no longer permitted; the shares of consolidated subsidiary companies with circulating assets must be included in the area of consolidation;
- *stock options*: the IFRS 2 classifies stock options in the category of "equity settled share-based-payment transactions" that is of "goods or services acquired through the payment of instruments representing capital"; specifically, on the basis of this principle, stock options must be evaluated at the time of being granted ("grant date") at the fair market value registering in the profit and loss account a cost which shows an equivalent in the increment of the reserves of the net assets;
- *severance payments*: Italian principles require that liabilities for severance payments (TFR) be shown on the basis of the nominal debt maturing at the date of closing the financial statement; according to the IAS/IFRS, the institution of TFR falls into the category of benefit plans defined as subject to actual evaluation to express the present value of the benefit, to be issued the end of the employment relationship, which employees have matured at the date of the financial statement;
- *composite financial instruments*: according to the IAS 32, the value of composite financial instruments (e.g. convertible bonds) must be divided between the financial liabilities and the instruments representing net assets (stocks, bonds and options for the purchase of stocks, other instruments representing net assets);
- *derived instruments*: according to IAS/IFRS principles all the derived instruments must be reflected in the financial statement at the relative "fair value". The method used for the entering into accounting of derived instruments varies according to the characteristics of the same (covering and non-covering instruments);
- *extraordinary components*: according to the IAS/IFRS principles the components of an extraordinary nature are no longer in force;

- *exemptions from the accounting principles foreseen by special laws*: for IAS/IFRS purposes accounting procedures should not take account of the interference produced by special laws and fiscal laws.

With regard to the differences identified the operating procedures for the relative quantification for each company have been defined.

In accordance with IAS 1, the financial statement according to IAS/IFRS must include, in terms of comparative information, the results of the financial period preceding that being described. The financial statement as of 31 December 2005 will be the first annual report presented by the El.En. Group drawn up according to international principles and will include therefore, for the purposes of comparison, the financial statement according to IAS/IFRS as of 31 December 2004. As regards the quarterly statements regarding the financial year starting 1st January 2005, considering that the definition of the set of laws to be referred to was only completed in December 2004 with the publication of the international accounting principles in the Official Gazette of the European Union, CONSOB has deemed fit to foresee several helpful dispositions. These can be summarised in brief as follows:
a) for the first quarterly report the use of the assessment and measurement criteria established by the regulations formerly in force for drawing up accounting reports is allowed;
b) for the second quarter the application of the assessment and measurement criteria established by international accounting principles is required; in the event of it being impossible to apply such criteria the use of the criteria previously in force is permitted but a reconciliation table must be drafted of the final balances shown in the accounting tables compared with those determined on the basis of international accounting principles;
c) for the six-monthly report the application of the dispositions established by the international accounting principle IAS 34 is required; in the event of the impossibility of applying the IAS 34 a reconciliation of the data of the net assets and of the economic result drawn up on the basis of the regulations formerly in force compared with those determined according to international accounting principles must be drafted;
d) the third and fourth quarterly reports must be drafted according to the assessment and measurement principles established by IAS/IFRS.

14) Application of the privacy regulations protecting disclosure of personal data

In accordance with the provisions of rule 26, Attachment. B, of the Legislative Decree 30 June 2003, no. 196 the company declares that it has drawn up the programme document for privacy regulations for 2004.
The opportune ness of supplementing such document within the terms permitted by the Guarantor of privacy is currently being assessed.

15) Noteworthy events occurring after the closure of the financial year

No other events worthy of particular note as regards the Group's business occurred after the closure of the financial year which this report refers to.

16) Forecast management trends

At the moment of approving the quarterly results the Board of Directors approved the budget for the current financial year. The management foresees a further increase in turnover: despite there being no operations of an extraordinary nature which increase the area of consolidation, in 2005 the revenue should be around 110 million Euro. Even the operating revenue is expected to rise, in absolute terms and in its impact on turnover, reaching 9 million Euro. As of today no extraordinary operations are foreseen such as those which permitted, during the course of 2004, the achievement of very positive results in the extraordinary management. The budgets were drafted taking the Euro/dollar exchange rate at 1.30 as reference.
The profits trend for the first weeks of 2005 seems to confirm the forecasts made above.

These forecasts have been formulated using the same accounting principles applied. We should remind you that starting from the financial year 2005 the financial statements will be drawn up in accordance with the new accounting principles, which entail considerable changes to some of the financial statement items. Among the innovations with the greatest impact on the profit and loss account, we would point out that the amortisation of start-up/goodwill paid at the moment of acquisition of a company will no longer be included, and a distinction will no longer be made between ordinary and extraordinary management: this, in terms of comparison with the principles currently in force, will lead to a reduction of the consolidated costs for amortisation and reserves to the order of one million euro, and will make the comparison of the operating income with that of 2004 which benefited considerably from exceptional operations, anomalous.

For the Board of Directors
The President – Dr. Gabriele Clementi

El.En. Group
Financial statement consolidated as of 31/12/2004

ASSETS	**31/12/2004**	**31/12/2003**
A) SUBSCRIBED UNPAID CAPITAL		
Total subscribed unpaid capital		
B) FIXED ASSETS		
I) Intangible assets		
1) Formation and expansion expenses	328	370.744
2) Costs of research, development and advertising	23.100	
3) Patents and rights to use patents of others	10.095	302.632
4) Concessions, licenses, trade marks and similar rights	211.573	228.290
5) Goodwill	126.420	191.993
6) Intangible assets in progress and payments on account	259.253	6.992
7) Other	1.218.073	64.103
8) Goodwill arising from consolidation	8.803.379	6.782.540
Total intangible assets	**10.652.221**	**7.947.294**
II) Tangible assets		
1) Land and buildings	3.800.687	2.400.819
2) Equipment and machinery	477.476	417.446
3) Industrial and commercial equipment	2.915.065	2.507.818
4) Other	1.265.781	673.813
5) Tangible assets under construction and payments on account	124.928	1.299.550
Total tangible assets	**8.583.937**	**7.299.446**
III) Financial fixed assets		
1) Equity investments in :		
b) associated companies	941.662	1.430.211
d) other companies	378.880	337.863
Total equity investments	*1.320.542*	*1.768.074*
2) Loans:		
d) other companies		
- due within 12 months	367.100	
Total loans by other companies	*367.100*	
3) Other investments		76.709
Total financial fixed assets	**1.687.642**	**1.844.783**
TOTAL FIXED ASSETS	**20.923.800**	**17.091.523**
C) CURRENT ASSETS		
I) Stocks:		
1) Raw materials and consumables	11.257.973	9.197.844
2) Work in progress and components	5.933.957	4.292.001
4) Finished goods	7.985.815	6.437.349
5) Payments on account	161.986	67.936
Total stocks	**25.339.731**	**19.995.130**
II) Debtors		
1) Trade debtors		
- due within 12 months	21.825.055	15.623.354
Total trade debtors	*21.825.055*	*15.623.354*
3) Amounts owed by non-consolidated associated companies		
- due within 12 months	140.355	417.619
Total amounts owed by associated companies	*140.355*	*417.619*
4-bis) Tax debtors		
- due within 12 months	2.626.531	2.450.553
Total tax debtors	*2.626.531*	*2.450.553*
4-ter) Defered tax assets		
- due after 12 months	1.300.766	962.559
Total defered tax assets	*1.300.766*	*962.559*
5) Other debtors		
- due within 12 months	1.221.253	714.112
- due after 12 months	480.788	268.363
Total amounts owed by other debtors	*1.702.041*	*982.475*
Total debtors	**27.594.748**	**20.436.560**
III) Investments which are not permanent		
4) Other companies		115.000
5) Own shares	346.962	354.104
6) Other investments	256.857	78.004
Total investments which are not permanent	**603.819**	**547.108**
IV) Cash at bank and in hand		
1) Bank and postal current accounts	15.033.309	16.728.704
3) Cash on hand	36.509	10.825
Total cash at bank and in hand	**15.069.818**	**16.739.529**

TOTAL CURRENT ASSETS	**68.608.116**	**57.718.327**
D) PREPAYMENTS AND ACCRUED INCOMES:		
1) Prepayments and accrued income assets	442.832	411.412
Total prepayments and accrued incomes	**442.832**	**411.412**
TOTAL ASSETS	**89.974.748**	**75.221.262**

LIABILITIES	31/12/2004	31/12/2003
A) CAPITAL AND RESERVES		
Capital and reserves of the group		
I) Subscribed capital	2.424.367	2.402.992
II) Share premium reserve	34.698.414	34.206.116
IV) Legal reserve	537.302	537.302
V) Reserve for own shares	255.937	255.937
VII) Other reserves:		
- Extraordinary reserve	6.069.661	5.486.618
- Reserve for contribution on capital account	426.657	426.657
- Profits from subsidiaries and associated in previous years	565.054	856.696
- Consolidation reserve	446.312	1.270.675
- Other reserves	-2.326.825	-1.750.562
Total other reserves	*5.180.859*	*6.290.084*
IX) Profit (loss) for the financial period	3.625.336	553.954
Total capital and reserves of the group	**46.722.215**	**44.246.385**
Capital and reserves of third parties		
X) Capital and reserves of third parties	3.723.332	5.658.060
XI) Profit (loss) of third parties	1.816.183	45.144
Total capital and reserves of third parties	**5.539.515**	**5.703.204**
TOTAL CAPITAL AND RESERVES	**52.261.730**	**49.949.589**
B) PROVISIONS FOR RISKS AND CHARGES		
1) Provisions for pensions and similar obligations	429.989	365.295
2) Provisions for taxation	713.467	677.343
3) Other provisions	2.193.289	1.649.888
Total provisions for risks and charges	**3.336.745**	**2.692.526**
C) EMPLOYEE SEVERANCE INDEMNITY	**1.673.259**	**1.118.773**
D) CREDITORS		
3) Loans from shareholders		
- due after 12 months	619.748	619.748
Total loans from shareholders	*619.748*	*619.748*
4) Amounts owed to banks		
- due within 12 months	1.566.888	336.021
- due after 12 months	206.583	441.034
Total amounts owed to banks	*1.773.471*	*777.055*
5) Amounts owed to other financial institutions		
- due within 12 months	462.543	273.977
- due after 12 months	1.728.795	782.966
Total amounts owed to other financial institutions	*2.191.338*	*1.056.943*
6) Advances received		
- due within 12 months	1.256.834	705.383
Total advances received	*1.256.834*	*705.383*
7) Amounts owed to suppliers		
- due within 12 months	15.718.435	11.620.843
Total amounts owed to suppliers	*15.718.435*	*11.620.843*
10) Amounts owed to associated companies		
- due within 12 months	196.402	91.607
Total amounts owed to associated companies	*196.402*	*91.607*
12) Amounts owed to tax administration		
- due within 12 months	3.480.773	945.805
Total amounts owed to tax administration	*3.480.773*	*945.805*
13) Amounts owed to social security institutions		
- due within 12 months	818.782	605.543
Total amounts owed to social security institutions	*818.782*	*605.543*
14) Other creditors		
- due within 12 months	5.836.348	4.575.297
Total other creditors	*5.836.348*	*4.575.297*
TOTAL CREDITORS	**31.892.131**	**20.998.224**
E) ACCRUALS AND DEFERRED INCOME		
1) Accruals and deferred income-liabilities	810.883	462.150
Total accruals and deferred income	**810.883**	**462.150**
TOTAL LIABILITIES AND CAPITAL AND RESERVES	**89.974.748**	**75.221.262**

MEMORANDUM ACCOUNTS	31/12/2004	31/12/2003
Our Guarantees		
Our Guarantees	223.968	288.127
Other memorandum accounts		
Our Obligations	391.826	1.025.704
TOTAL MEMORANDUM ACCOUNT	**615.794**	**1.313.831**

PROFIT AND LOSS ACCOUNT	31/12/2004	31/12/2003
A) VALUE OF PRODUCTION		
1) Net turnover from sales and services	94.519.282	68.195.140
2) Change in stocks of finished goods and in work in progress	3.177.536	3.411.390
4) Work performed for own purposes and capitalised	281.212	262.081
5) Other revenues and income		
a) Other revenues and income	1.510.109	1.026.946
b) Grants received pertaining to the current year	900	31.268
Total other revenues and income	*1.511.009*	*1.058.214*
TOTAL VALUE OF PRODUCTION	**99.489.039**	**72.926.825**
B) COSTS OF PRODUCTION		
6) For raw materials, consumables and goods for sale	-40.473.680	-31.319.221
7) For services	-23.982.090	-18.145.609
8) For use of assets owned by others	-2.312.660	-942.377
9) For staff costs:		
a) wages and salaries	-18.481.141	-15.407.800
b) social security costs	-3.270.746	-2.228.485
c) provision for severance indemnity	-463.010	-328.718
e) other costs relating to staff	-3.619	
Total for staff costs	*-22.218.516*	*-17.965.003*
10) Value adjustments		
a) amortisation of intangible assets	-1.906.512	-1.509.135
b) depreciation of tangible assets	-1.974.424	-1.893.447
c) reduction in value of fixed assets	-654.921	
d) allowance for debtors in current assets and other acc.s incl. in cash	-418.430	-170.024
Total value adjustments	*-4.954.287*	*-3.572.606*
11) Change in stock of raw materials, consumables and goods for resale	1.320.928	2.315.181
12) Amounts provided for risk provisions	-670.029	-555.885
14) Other operating charges	-1.294.442	-1.343.904
TOTAL COSTS OF PRODUCTION	**-94.584.776**	**-71.529.424**
(A-B) DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	**4.904.263**	**1.397.401**
C) FINANCIAL INCOME AND CHARGES		
16) Other financial income:		
b) from other permanent investments other than equity investments		708
c) from other investments which are not permanent	50.201	71.470
d) other income not included above		
- to associated companies	*2.000*	*630*
- to third parties	*153.557*	*309.627*
Total other income not included above	*155.557*	*310.257*
Total other financial income	*205.758*	*382.435*
17) Interest payable and similar charges		
b) to associated companies		*-23.425*
d) to third parties	*-204.327*	*-133.230*
Total interest payable and similar charges	*-204.327*	*-156.655*
17-bis) Foreign exchange (loss) or gain	*63.545*	*-37.028*
TOTAL FINANCIAL INCOME AND CHARGES	**64.976**	**188.752**
D) VALUE ADJUSTMENTS IN RESPECT OF INVESTMENTS		
18) Revaluation:		
a) of equity investments	154.893	717.418
Total revaluation	*154.893*	*717.418*
19) Devaluation		
a) of equity investments	-77.024	-198.325
Total devaluation	*-77.024*	*-198.325*
TOTAL VALUE ADJUSTMENTS	**77.869**	**519.093**
E) EXTRAORDINARY INCOME AND CHARGES		
20) Extraordinary income		
a) income	*1.104.412*	*550.834*
b) capital gains from disposal of assets	*2.877.287*	
Total extraordinary income	*3.981.699*	*550.834*
21) Extraordinary charges		
a) charges	*-579.874*	*-420.719*
c) other extraordinary charges	*-5.870*	*-21.941*
Total extraordinary charges	*-585.744*	*-442.660*
TOTAL EXTRAORDINARY INCOME AND CHARGES	**3.395.955**	**108.174**
PROFIT OR LOSS BEFORE INCOME TAXES	**8.443.063**	**2.213.420**
22) Income taxes:		
a) current	-3.356.122	-1.837.246
b) deferred	354.578	222.924
23) NET PROFIT (LOSS)	**5.441.519**	**599.098**
Profit (loss) of third parties	**-1.816.183**	**-45.144**
24) PROFIT (LOSS) FOR THE FINANCIAL PERIOD	**3.625.336**	**553.954**

Notes to the accounts of the financial statement closed 31/12/2004

Form and content of the consolidated financial statement

1) CRITERIA USED FOR DRAWING UP THE STATEMENT

The following consolidated financial statement complies with the dictates of articles 25 and subsequent of the Legislative Decree 127/91. It is composed of the statement of assets and liabilities, the profit and loss account and these notes to the accounts, drawn up in accordance with article 38 of the above mentioned Legislative Decree, which form an integral part of the consolidated financial statement.

2) AREA OF CONSOLIDATION

El.En. Group's consolidated financial statement includes the financial statements of the parent company and those of the Italian and foreign companies in which El.En. S.p.A. controls directly or indirectly the majority of votes exercisable at an ordinary assembly. As a result of the acquisitions which took place during 2004 the area of consolidation which this financial statement is based on results as follows:

			Percentage held:			Consolidated
Company name:	**Headquarters**	**Subscr.capital**	**Direct**	**Indirect**	**Total**	**Percentage**
Parent company:						
El.En. SpA	Calenzano (I)	2.424.367				
Subsidiary companies:						
Deka M.E.L.A. Srl	Calenzano (I)	40.560	60,00%		60,00%	60,00%
Cutlite Penta Srl (*)	Calenzano (I)	103.480	53,50%	10,00%	63,50%	63,40%
Valfivre Italia Srl	Calenzano (I)	47.840	99,00%		99,00%	99,00%
Deka Sarl	Vienne (F)	76.250	98,00%		98,00%	98,00%
Deka Lms GmbH	Freising (D)	51.129	76,16%		76,16%	76,16%
Deka Dls GmbH (**)	Freising (D)	50.000		50,40%	50,40%	38,38%
Deka Laser Technologies LLC	Fort Lauderdale (USA)	935	51,00%		51,00%	51,00%
Ot-las Srl (***)	Calenzano (I)	57.200		54,00%	54,00%	34,24%
Lasit Srl (****)	Vico Equense (I)	234.000	50,00%	20,00%	70,00%	56,85%
Neuma Laser Srl (*****)	Calenzano (I)	46.800		100,00%	100,00%	48,82%
Lasercut Inc. (1)	Branford (USA)	935	70,00%		70,00%	70,00%
Quanta System SpA (2)	Solbiate Olona (I)	364.000	60,00%		60,00%	60,00%
Asclepion Laser Technologies GmbH (3)	Jena (D)	1.025.000	50,00%	50,00%	100,00%	80,00%
Arex Srl (******) (4)	Corsico (I)	20.500		51,22%	51,22%	30,74%
AQL Srl (*******) (5)	Solbiate Olona (I)	100.000		100,00%	100,00%	58,42%
Cynosure Inc.	Chelmsford (USA)	58.898	84,67%		84,67%	84,67%
Cynosure GmbH (********)	Langen (D)	20.556		100,00%	100,00%	84,67%
Cynosure Sarl (********)	Paris (F)	75.385		100,00%	100,00%	84,67%
Cynosure KK (********)	Tokyo (J)	66.074		100,00%	100,00%	84,67%
Cynosure UK (********)	London (UK)	1		100,00%	100,00%	84,67%
Suzhou Cynosure Medical Devices Co. (********)	Suzhou (China)	no par value		51,60%	51,60%	43,69%

(*) owned by El.En. SpA (53.50%) and Valfivre Italia Srl (10%)
(**) owned by Deka Lms GmbH (50.40%)
(***) owned by Cutlite Penta Srl (54%)
(****) owned by El.En. SpA (50%) and Ot-las Srl (20%)
(*****) owned by Cutlite Penta Srl (%) and Ot-las Srl (50%)
(******) owned by Quanta System SpA (51.22%)
(*******) owned by Quanta System SpA (50%) and Lasit Srl (50%)

(*******) owned by Cynosure Inc.
(1) consolidated since April 2003
(2) consolidated since January 2004
(3) consolidated since May 2003
(4) consolidated since April 2004
(5) consolidated since June 2004

On 19 January 2004 El.En. SpA acquired a further 30% of the shares of Quanta System SpA, raising its quota of shares to 60%. The operation brought within the group's control one of the most important Italian companies in the field of the development and production of lasers, in the space sector too. A historic presence which is enjoying a period of rapid growth today. In addition Quanta System owns the remaining 50% of Asclepion Laser Technologies GmbH, the German company belonging to the El.En. Group which took over the cosmetics business from Carl Zeiss Meditec AG.
The operation involved the sale by El.En. of 10% of its subsidiary company Deka M.E.L.A. Srl and 2.5% of its American subsidiary Cynosure Inc to Laserfin (the majority shareholder of Quanta System), as well as an outlay of 1.5 million euro, of which half a million was paid upon completion of the transaction and a further million paid in the month of July 2004.

On 29 March 2004 Valfivre Italia Srl acquired a further share of capital, amounting to 6% of Cutlite Penta Srl, from third parties, thus raising its percentage of equity investment to 10%. As a result of this further acquisition, the percentage of profit-sharing of Cutlite Penta within the group has risen to 63.4%.

On 25 May 2004 Cynosure Inc. sold off its equity investment, amounting to 40% of the capital, in Sona International Inc., a company which runs a chain of "laser medical spa clinics" promoting them through franchising. The sale of its holdings did not however interrupt business relations with Sona, which were redefined in a new supply contract which binds Cynosure to a partner who is highly motivated to expand the sector and in which the group is therefore maintaining its presence in the more fitting role of technology supplier.

On 14 April 2004 the Board of Directors of Quanta System SpA ratified the acquisition operation (which took place on 25 March 2004) of a share of 51.22% of the share capital of Arex Srl, a company occupied in running health centres in Milan.

With an eye to integrating some of the group's activities, on 25 June 2004 a private limited company denominated AQL was founded in Milan, a company having as its purpose the design, production and sale of laser systems for the "Industrial business" segment as well as R&D into industrial processes and products, manufacturing processes, and the realisation of new, advanced technology in the photonics sector. The company, the share capital of which amounts to 100,000 euro, is owned equally by the subsidiary companies Quanta System SpA and Lasit Srl.

On 30 September 2004 the Parent company El.En. SpA raised its share of equity investment in Cynosure Inc. underwriting an increase in capital of 575,000 newly issued shares, equal to 9.04% of the share capital, at the price of 3.00 dollars per share; this operation was paid for through the conversion of a loan issued at the time to the subsidiary.
On the same date, El.En. SpA further raised its share of holdings in Cynosure by acquiring no. 1,740,666 shares from some minority shareholders, equal to 27.38% of the share capital, at the same price of 3.00 dollars per share. This operation entailed an investment of approximately 5 million dollars, half of which paid at the conclusion of the operation and the remaining balance to be paid by the end of March 2005, a balance which at the end of the financial year was registered as a short term financial debt.
As part of the same operation El.En. SpA completed the sale to third parties of a part of the shares acquired on 30 September, at the same conditions as the purchase operation described above, that is at a price of 3.00 dollars per share. In December El.En. sold 150,000 shares, equal to 2.36% of the share capital, to the company Laserfin Srl, already the owner of 2.5% of Cynosure, and 80,000 shares, equal to 1.26% of the share capital, to third parties; in addition it also pledged to sell no. 450,000 shares, equal to 7.8% of the share capital, by the end of April 2005 to third parties, who promised to buy them.
In the course of the month of December El.En. SpA also acquired, from a minority shareholder, at the same conditions described above, 70,708 Cynosure shares, equal to 1.11% of the share capital. In the same month of December the Parent company exercised call options on 34,460 shares, equal to 0.54% of the share capital, previously bought from one of the company managers, paying Cynosure a fee of 2.00 dollars per share as a capital increase. Following the operations described above the percentage of equity owned in Cynosure amounts to a total of 84.67%.

In October the Board of Directors of Cynosure approved a staff incentives plan using Stock Options, involving the assigning of 1,200,000 options to the plan at the striking price of 3.00 dollars per share; the number of shares assigned to the plan was subsequently raised to 1,421,717 by a specific vote by the Board of Directors of Cynosure. These options are assigned to the management of Cynosure, and will become exercisable within the next 4 years.

In the period referred to no variations to the business of the companies belonging to the El. En. Group occurred.

El.En. SpA has direct or indirect equity investments in some companies without however exerting control over them. The results of the latter are not entirely consolidated in the group's financial statement, but are evaluated using the shareholders' equity method. The equity investments constituting assets in associated companies are as follows:

			Percentage held:			Consolidated
Company name:	**Headquarters**	**Subscr.capital**	**Direct**	**Indirect**	**Total**	**percentage**
Immobiliare Del.Co. Srl	Solbiate Olona (I)	24.000	30,00%		30,00%	30,00%
Asa Srl (1)	Arcugnano (I)	46.800		40,00%	40,00%	24,00%
Actis Active Sensors Srl	Calenzano (I)	10.200	12,00%		12,00%	12,00%
IALT Scrl	Calenzano (I)	10.000	50,00%		50,00%	50,00%
M&E	Delaware (USA)	9.924	50,00%		50,00%	50,00%

(1) Held by Deka M.E.L.A. Srl

On 12 November 2004 the subsidiary Deka M.E.L.A. Srl acquired a further 20% of ASA Srl, a Venice-based company and leading producer of physiotherapy and rehabilitation appliances, raising its share of equity invested to 40%.

On 29 March 2004 El.En. SpA, subscribed 50%of the capital of the private limited consortium company "IALT Scrl", a company founded to co-ordinate the activities of the participant companies in the biomedical and health sector for the development and use of innovative diagnostic, therapeutic and surgical technologies.
The equity in the company Actis S.r.l. was maintained, as in previous accounting periods at cost. The equity investment in M&E was devaluated in the course of 2001 for an amount of 4,962 euro, equal to its original cost, given that the company is inactive.

3) REFERENCE DATA

The consolidated financial statement is prepared on the basis of the statements approved by the shareholders' assemblies or, in the absence of such, on the basis of the planned statements closed on 31 December and approved by the respective administrative bodies. The statements of the companies acquired during the financial year 2004 have been consolidated from the date of acquisition.

4) CONSOLIDATION PRINCIPLES

The financial statements used for consolidation are the annual reports on the single firms. These statements are appropriately reclassified and adjusted so as to align them with the parent company's accounting principles and evaluation criteria, which are in line with those foreseen by articles 2423 and subsequent of the civil code.
In drawing up the consolidated financial statement, elements of assets and liabilities, as well as the income and expenses of the companies included in the consolidation, have been shown in full. Conversely, amounts receivable and amounts owed, income and expenses, profits and losses originating from inter-company transactions between consolidated companies have been eliminated. The financial amount of equity investments in firms included in the consolidation is shown in relation to the corresponding fraction of their shareholder's equity.
The difference between the financial value of the equity investments, which have been suppressed, and the corresponding amount of shareholders' equity which is taken up, is due to the fact that the consolidated shareholders' equity has been rectified under the heading "consolidated reserves" or "undivided profits" if negative; if positive, the difference has been entered among the intangible fixed assets under the heading "difference arising from consolidation".

The amount of capital and reserves of the subsidiary companies corresponding to equity investments by third parties has been entered under the heading of shareholders' equity in the column called "capital and reserves of third parties"; the portion of the consolidated economic result which corresponds to equity investments by third parties has been entered under the heading " Profit (loss) of third parties during the financial year".

5) CONVERSION OF THE ENTRIES EXPRESSED IN FOREIGN CURRENCY

The entries expressed in foreign currency have been converted into euro using the "current exchange rate" method so that the exchange rate in force at the end of the period has been used for the entries in the statement of assets and liabilities and the average exchange rate for those in the profit and loss account. The exchange rate differences generated by the conversion of the entries in the initial shareholders' equity at the exchange rate in force at the end of the period are entered in the shareholders' equity under the heading "Conversion reserves". The exchange rates used for the conversion dollars to Euro for the statements of Cynosure, Lasercut and Deka Laser Technologies are: final exchange rate 1.3621; average exchange rate 1.2439.

6) EVALUATION CRITERIA

a) **General criteria**
The accounting principles and evaluation criteria have been applied in the same way to all the consolidated companies.
The evaluation criteria used to draw up the consolidated financial statement are those used by the parent company El.En. S.p.A. and comply with the above mentioned current legislative provisions, supplemented and interpreted by the Accounting Principles issued by the National Councils of Chartered and Certified Accountants. The criteria used in the financial year just ended include therefore, where necessary, the modifications introduced following the reforms implemented by the Legislator on the matter of Company Law in the Legislative Decree of 17 January 2003 no. 6 and subsequent modifications, specific mention of which is made in the continuation of this document.
The entries in the financial statement have been quantified based on the general principles of prudence and temporal applicability, with a view to the continuing activity of the company. For accounting purposes prevalence has been given to the economic substance of the operations as opposed to their juridical form; as regards financial activities these have been registered in the statement at the moment they are settled. The profits are included only if realised within the date of closure of the financial year, whereas risks and losses have been considered even if they became known at a later date. The heterogeneous elements in the single entries of the financial statement have been evaluated separately. Capital and reserve items destined for long term use have been classified as assets.

b) Value adjustments and write-backs
The value of tangible and intangible assets with a finite useful life is adjusted downwards by means of amortisation. The analytical methodologies of amortisation and devaluation applied are described in the continuation of these notes to the accounts.

c) Revaluations
No revaluations have been made.

d) Exceptions
In this and past financial years no exceptions have been made as regards the criteria of evaluation foreseen by legislation related to financial statements.

The main principles and criteria are as follows:

e) Intangible fixed assets
The intangible fixed assets have been registered at their purchase cost inclusive of accessory charges. The formation and expansion costs have been entered under the specific heading for assets and amortisations covering a five-year period. Industrial patent rights and utilisation rights for inventions have been entered at cost and amortised according to the legal constraints they are subject to or on their estimated future utility. R&D costs and advertising costs have been entirely entered in the profit and loss account of the financial year in which they were incurred. Licences, trademarks and patents have been entered into the financial statement at the purchase price and amortised at amounts which bear in mind their estimated future utility. Software has been entered at the purchase price and amortised in 3 years.
The entry, difference arising from consolidation, can be seen from the consolidated statements when the financial amounts of the equity investments are eliminated from the corresponding fractions of the shareholder's' equity of the companies in which the investment is held.

f) Tangible fixed assets and amortisations
The investments have been entered at the purchase cost or production cost, inclusive of accessory charges, net of amortisation. Ordinary maintenance expenses have been entirely entered in the profit and loss account. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and amortised according to the residual possibility of use of the said item.

The aliquots used for amortisation, reduced to half for the first fiscal year, are as follows:

Description	*Amortisation percentage*
Land and buildings	
- industrial structures	3.00%
Plants and machinery	
- generic plants and machinery	10.00%
- specific plants and machinery	10.00%
- other plants and machinery	15.50%
Industrial and commercial equipment	
- miscellaneous and minute equipment	25.00%
- kitchen equipment	25.00%
Other goods	
- motor vehicles	25.00%
- forklift	20.00%
- lightweight constructions	10.00%
- electronic office equipment	20.00%
- furniture and décor	12.00%

g) Financial investments

- *Equity investments in associate companies*

The assets consisting of equity investments in associate companies have been evaluated using the shareholders' equity method, in other words at an amount equal to the corresponding fraction of shareholders' equity shown on the last financial statement of the said company, after subtraction of the dividends and the adjustments required by the principles applied for drawing up the consolidated statement.

Capital gains and losses deriving from the application of the shareholders' equity method are entered in the profit and loss account, respectively in the column "revaluation of equity investments" and "devaluation of equity investments», for the amount referring to the financial year; the difference with reference to the first application of the method is registered in the shareholders' equity section, under the heading Consolidation reserves.

- *Other financial assets and investments*

The other financial assets and investments are evaluated at cost. In the case of long-lasting losses, also deriving from quotations on the stock market of the shares quoted, a suitable value adjustment is made and during the financial year in which the conditions for the value adjustments are no longer viable, the value before devaluation is re-established up to a maximum of its original cost.

h) Inventory

- *Raw materials, work in progress and finished products*

The stocks of raw materials and finished products are evaluated at the cost of purchase or production, whichever is the lower, inclusive of accessory charges and the presumed disposal value considering present market trends. Stocks of obsolete articles or those with a slow turn-over are devaluated bearing in mind the possibilities of reuse and sale. The cost system used is the one called LIFO (last in, first out) calculated annually.

The stocks of work in progress are evaluated on the basis of the cost of production.

i) Amounts receivable

The amounts receivable are shown at their presumed cashing-in value. This value is obtained by direct value adjustment of the amounts, performed analytically for the more important sums and at a flat-rate for the other sums.

j) Financial activity not constituting assets

Stock is evaluated at the purchase price or, in the case of listed securities, at the selling price which may be inferred from market trends, if lower.

k) Prepayments and accrued and deferred items

The principle of temporal competence is implemented by aligning assets and liabilities of the prepayments and accrued income.

l) Provisions for contingencies and liabilities

Provisions for contingencies are entered among the liabilities of the statement of assets and liabilities for the purposes of covering any potential liabilities of the company deemed likely to materialise according to realistic estimates. The product warranty fund covers the costs deriving from a realistic estimate of the operations to be performed under warranty according to the contractual commitments undertaken.

m) Employee severance indemnity
The accrual corresponds to the full amount of the sums maturing which must be paid to employees by virtue of current legislation.

n) Amounts owed
The amounts owed are shown at their nominal value.

o) Contingencies, obligations and guarantees
Obligations and guarantees are shown in the memorandum accounts at their contract value. Risks for which liability is deemed probable are described in the explanatory notes and accrued in a congruous manner in the contingencies provisions fund.
Risks for which materialisation of a risk is only a possibility are described in the explanatory notes, without risk provision, in keeping with the accounting principles applied. Risks which are only remotely possible are not considered.

p) Recognition of income
Income from the sales of products is recognised at the moment of transfer of ownership, which normally occurs at the moment of delivery or shipment of the goods. Financial income is recognised on the basis of temporal competence.

q) Accounts in foreign currency
Accounts receivable and payable in foreign currency are evaluated at the rate of exchange in force at the end of the financial year. Currency conversion profits and losses are credited or debited to the profit and loss account.

r) Capital account
In order to pay the costs of R&D debited annually to the profit and loss account, non-repayable grants are received which are registered in the financial year in which their payment is certain.
As was permitted by fiscal regulations, in the past the parent company took advantage of the possibility of suspending these grants, entirely or for 50%, in a shareholders' equity reserve. Since 1998 these funds have been entirely entered into the profit and loss account.

s) Financial leasing
Significant financial leasing operations are evaluated using the financial methodology which foresees the entering of the fixed asset acquired and of its relative financing. The relative amounts of depreciation and financial charges are entered into the profit and loss account.

t) Taxes
Current taxes have been entered according to the aliquots and regulations currently in force on the basis of a realistic estimate of taxable income, bearing in mind possible exemptions. Liability to the Internal revenue service for these taxes is entered among the amounts owed to tax authorities net of advance payments.
Deferred tax funds have been set aside on the basis of differences of a temporary nature between assets and liabilities recognised for tax purposes and those on the financial statements of the individual consolidated companies drawn up according to legal regulations and also bearing in mind the elimination of inter-Group gains and losses and the elimination of fiscal interference effected in consolidation. Liabilities have been set aside in the provisions for taxes and assets have been entered under the heading "Accounts receivable from others" payable after 12 months.

Analysis of financial statement entries:

Assets

B) Fixed assets

I – Intangible fixed assets

The breakdown of changes occurring in intangible fixed assets during the period was as follows.

Categories	Balance 31/12/2003	Increments	Revaluation (Devaluation)	Other Operations	(Amortisations)	Translation Adjustments	Balance 31/12/2004
Formation and expansion expenses	370.744				-370.416		328
Costs of research, development and advertising		1.625		58.777	-37.302		23.100
Patents and rights to use patents of others	302.632	5.506	-252.704		-25.538	-19.801	10.095
Concessions, licences, trade marks and similar rights	228.290	96.872		39.824	-150.213	-3.200	211.573
Goodwill	191.993			11.620	-77.193		126.420
Other	64.103	305.432		1.085.632	-237.048	-46	1.218.073
Intangible assets in progress and payments on account	6.992	259.253		-6.992			259.253
Difference from consolidation	6.782.540	3.684.562	-654.921		-1.008.802		8.803.379
Total	**7.947.294**	**4.353.250**	**-907.625**	**1.188.861**	**-1.906.512**	**-23.047**	**10.652.221**

	31/12/2004			31/12/2003		
Categories	Cost	(Amortisations)	Net value	Cost	(Amortisations)	Net value
Formation and expansion expenses	1.869.525	1.869.197	328	1.869.525	1.498.781	370.744
Costs of research, development and advertising	60.402	37.302	23.100			
Patents and rights to use patents of others	113.123	103.028	10.095	402.685	100.053	302.632
Concessions, licences, trade marks and similar rights	539.050	327.477	211.573	412.146	183.856	228.290
Goodwill	391.423	265.003	126.420	379.803	187.810	191.993
Other	1.687.747	469.674	1.218.073	267.574	203.471	64.103
Intangible assets in progress and payments on account	259.253		259.253	6.992		6.992
Difference from consolidation	11.226.236	2.422.857	8.803.379	8.196.595	1.414.055	6.782.540
Total	**16.146.759**	**5.494.538**	**10.652.221**	**11.535.320**	**3.588.026**	**7.947.294**

Description	Past cost	Accumulated amortisations	Residual value
Year 1995 - Formation and expansion expenses	1.653	1.653	
Year 1996 - Formation and expansion expenses	14.459	14.459	
Year 1997 - Formation and expansion expenses	1.329	1.329	
Year 2000 - Formation and expansion expenses	1.850.450	1.850.450	
Year 2001 - Formation and expansion expenses	1.634	1.306	328
Total	**1.869.525**	**1.869.197**	**328**

The amount entered under "formation and expansion expenses" consisted mainly of the capitalisation of the amounts paid by the parent company El.En. S.p.A. during the financial year 2000 for quotation on the New Market. The period of amortisation of these costs ended in 2004.
The "R&D and advertising costs" relate to the capitalisation of costs incurred in previous financial years by the subsidiary Quanta System SpA and by the subsidiary Arex Srl. Such costs are amortised over a period of 5 years.

The “patents and rights to use patents of others” regard the capitalisation of the costs paid by the subsidiary Deka Laser Technologies for patents and licence agreements and are amortised on the basis of their legal constraints or estimated future utility. The amount entered in the column “Revaluations/devaluations” includes the devaluation effected by the subsidiary Cynosure Inc. for approximately 340 thousand USA dollars, to adjust to the accounting principle which does not provide for the entering of costs incurred to obtain patents among the assets.
The entry “concessions, licences, trademarks and similar rights” includes, among others, the total costs incurred by the parent company for the purchase of new management and administrative software the implementation of which was concluded by the end of 2002; also entered under this heading are the costs incurred by El.En. itself for the licence to use relative to a patent for a safety device to be applied to laser systems.
The amount shown under the entry "goodwill" refers, among other things, to the approximately 59 thousand euro paid in the financial year 2001 by the subsidiary Deka Lms GmbH for the acquisition of the distribution business for medical appliances in Germany, net of the amortisation fund; and approximately 65 thousand euro relative to the price paid in the last financial year, as goodwill, by the subsidiary Asclepion Laser Technologies GmbH for the acquisition of the dermatology and dental business activities owned by Carl Zeiss Meditec.
The “other” entry relates mainly to the capitalisation during the last financial year (shown in the column other operations) and in the current financial year by the subsidiary Quanta System SpA of the restructuring expenses incurred for the property belonging to third parties, situated in Solbiate Olona, where the business is presently based.
The “intangible assets in progress and payments on account” shows the cost incurred by the subsidiary Cynosure for the purchase of new management software which was still being implemented at the close of the financial year.
The amount indicated for 31/12/04 under the heading “ difference from consolidation” is the consequence firstly, of the acquisition of 51.55% of Deka Lms GmbH during the course of the financial year 2001 by the parent company El.En., and of the subsequent acquisition of a further 24.61% in the month of April 2003; this amount shows the difference between the purchase price and the value of the shareholders’ equity quoted at the time of the single operations, net of the portion of amortisation. The period of amortisation used for both the entries “goodwill” and “differences from consolidation ” is 5 years.
The “differences from consolidation” also include:
a) the amount used for the purchase, during 2002, of 60% of Cynosure by the parent company and represents the difference between the purchase price and the consolidated shareholders’ equity value of Cynosure at the date of the transaction. This amount was adjusted following the sale of 2.5% of the share capital of Cynosure by El.En SpA following completion of the purchase operation of Quanta System SpA; it also reflects the effects of the equity increase resulting from operations involving the subsidiary’s capital at the end of 2004, as highlighted in the introductory part of these notes.
The amortisation period applied is commensurate with the period of time (10 years) during which the aforementioned operation is expected to produce benefits in terms of market position and know-how.
b) the difference between the purchase price and the shareholders’ equity in effect at the date of acquisition, by the parent company, of 30% of Quanta System SpA. This amount has been entered net of the consolidation reserve relative to the 30% already held by the parent company. The amortisation period applied is commensurate with the period of time (10 years) during which the said operation is expected to produce benefits in terms of market position and know-how;
c) the entry includes the devaluation which occurred, for an amount equal to approximately 655 thousand euro, of the goodwill paid at the time for the acquisition of the subsidiary Lasercut Inc. applied in consideration of the lasting crisis of the company which seems unable to achieve, in the short term, the targets originally set.

II – Tangible assets

The changes which took place in tangible assets during the financial year were as follows.

Cost	Balance 31/12/2003	Increments	Revaluations and devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31/12/2004
Land and buildings	2.971.414	129.499		1.381.529			4.482.442
Plants and machinery	819.674	89.783		61.086	-461	-9.583	960.499
Industrial and commercial equipment	7.965.715	2.564.544		120.829	-1.766.710	-401.413	8.482.965
Other goods	2.814.219	874.597		270.383	-244.412	-65.724	3.649.063
Tangible assets under construction	1.299.550	282.312		-1.456.934			124.928
Total	**15.870.572**	**3.940.735**		**376.893**	**-2.011.583**	**-476.720**	**17.699.897**

Amortisation provisions	Balance 31/12/2003	Amortisations amount	Devaluations	Other operations	(Disposals)	Translation Adjustments	Balance 31/12/2004
Land and buildings	570.595	111.484		-324			681.755
Plants and machinery	402.228	80.974		8.783	-245	-8.717	483.023
Industrial and commercial equipment	5.457.897	1.342.127		-5.513	-859.078	-367.533	5.567.900
Other goods	2.140.406	439.839		110.490	-243.043	-64.410	2.383.282
Tangible assets under construction							
Total	**8.571.126**	**1.974.424**		**113.436**	**-1.102.366**	**-440.660**	**9.115.960**

Net value	Balance 31/12/2003	Increments	Revaluations and other operations	(Amortisations and devaluations)	(Disposals)	Translation Adjustments	Balance 31/12/2004
Land and buildings	2.400.819	129.499	1.381.853	-111.484			3.800.687
Plants and machinery	417.446	89.783	52.303	-80.974	-216	-866	477.476
Industrial and commercial equipment	2.507.818	2.564.544	126.342	-1.342.127	-907.632	-33.880	2.915.065
Other goods	673.813	874.597	159.893	-439.839	-1.369	-1.314	1.265.781
Tangible assets under construction	1.299.550	282.312	-1.456.934				124.928
Total	**7.299.446**	**3.940.735**	**263.457**	**-1.974.424**	**-909.217**	**-36.060**	**8.583.937**

The heading "other goods" refers to those assets varied by changes in the area of consolidation and to the reclassification by the parent company of the "fixed assets in progress" to "land and buildings" following the completion of the restructuring work on the ex-farm property situated in the area of the Calenzano factory and the completion of the purchase operation of the property which Lasercut operates in, in Branford, Connecticut. Moreover, the said property was sold by the parent company during the first months of the financial year 2005 to the new company, constituted according to American law denominated BRCT and entirely owned by El.En. SpA.
The single, most significant entry is the real estate property in Via Baldanzese in Calenzano (FI) where the parent company and three of the subsidiary companies are based. The equipment owned by the subsidiary Cynosure, including laser systems used for sales demonstrations and for revenue sharing continue to be particularly important despite the sale by Cynosure of part of the equipment used by Sona in its cosmetic treatment business, shown in the column "disposals".
The investments made in the financial year regarded mainly new equipment destined for sales demonstrations and clinical experimentation for the medical-cosmetic sector, replacement of laboratory equipment for research and new hardware supports, mainly personal computers, required for additional personnel as well partial replacement of the vehicle fleet.
The "tangible assets under construction" heading shows the costs incurred by the parent company for the architectural and structural design required to obtain permits for the construction of the extension of the buildings situated in Via Baldanzese as in the building permit no. 256-04, which the Town Council of Calenzano approved on 27 December 2004.

As for the table of original costs, for the amortisation funds the column "other operations» shows the increments occurring following the variation in the area of consolidation.

III – Financial fixed assets

The analysis of the financial fixed assets is as follows.

	31/12/2004	31/12/2003	Variation	Var. %
Equity investments in:				
Associated companies	941.662	1.430.211	-488.549	-34,16%
Other companies	378.880	337.863	41.017	12,14%
Other credits:				
Credits towards others	367.100		367.100	0,00%
Other equity investments		76.709	-76.709	-100,00%
Total	1.687.642	1.844.783	-157.141	-8,52%

The amount shown for the entry "associate companies" has fallen on account of the reclassification of the companies controlled by Quanta System SpA, after the acquisition of its control, and the sale of Sona by Cynosure.
The associate companies Immobiliare Del.Co. Srl and ASA Srl have been consolidated using the shareholders' equity method while the equity held in the company Actis Srl and the consortium IALT were entered at cost (respectively euro 1,240 and euro 5,000) since their evaluation using the shareholders' equity method was deemed irrelevant for the purposes of representing the balance of assets in the financial year. The equity investment in M&E was devalued during the financial year 2001 for euro 4,962, given the inactivity of the company.

The increase in the entry "other companies» relates mainly to the variation in the area of consolidation, specifically to the new equity investments included with the consolidation of Quanta System SpA.

The entry "credits towards others" relates to the residual deposit of 500 thousand dollars, originally set up as 1 million dollars, tied up for a period of a year from the date of closure of the sales transaction of Sona by Cynosure Inc., as guarantee of the completion of various services contractually foreseen by the supply contract between the said companies.

Details of the consolidation of the associate companies consolidated using the shareholders' equity method are given below:

	Past Cost	Amount C.R. on 31/12/2003	Variation during the year	Amount C.R. on 31/12/2004
Quanta System SpA (*)		510.128	-510.128	
Immobiliare Del.Co. Srl	274.200	264.110	-3.920	260.190
Asa Srl	747.486	350.614	324.618	675.232
Sona International Co.		304.119	-304.119	
	1.021.686	1.428.971	-493.549	935.422

(*) historic cost as of 31/12/03

	31/12/2004	31/12/2003	Variation	Var. %
Securities		76.709	-76.709	-100,00%
Total		76.709	-76.709	-100,00%

Financial charges for amounts entered among the assets for this financial period

No financial charge was entered under the assets.

C) Current assets

I –Stocks

The breakdown of stocks was as follows:

Stocks:	31/12/2004	31/12/2003	Variation	Var. %
Raw materials and consumables	11.257.973	9.197.844	2.060.129	22,40%
Work in progress and semi finished products	5.933.957	4.292.001	1.641.956	38,26%
Finished products and goods for sale	7.985.815	6.437.349	1.548.466	24,05%
Payments on account	161.986	67.936	94.050	138,44%
Total	25.339.731	19.995.130	5.344.601	26,73%

Details of the stocks of raw materials were as follows:

Raw material:	31/12/2004	31/12/2003	Variation	Var. %
Optical components	2.276.666	1.572.325	704.341	44,80%
Electrical and electronic components	4.456.373	3.889.305	567.068	14,58%
Mechanical components	3.819.928	3.011.005	808.923	26,87%
Hydraulic components	517.108	414.167	102.941	24,85%
Empty cases	240.189	125.407	114.782	91,53%
Various materials	446.964	448.707	-1.743	-0,39%
Fitting and fixtures	491.088	518.461	-27.373	-5,28%
Laser sources	143.394	2.552	140.842	5518,89%
minus: devaluation provision	-1.133.737	-784.085	-349.652	44,59%
Total	11.257.973	9.197.844	2.060.129	22,40%

The comparison of final stocks of raw materials for the two financial years highlights the considerable increase which took place, partly due to the variation in the area of consolidation following the entry of Quanta System SpA.

As of 31/12/2004 the fund for the obsolescence of raw materials amounted to approximately 1,133 thousand euro.

The breakdown of the stocks of semi-finished products was as follows:

Semi finished products	31/12/2004	31/12/2003	Variation	Var. %
High voltage power supplies	577.181	458.590	118.591	25,86%
Assembled electronics boards	464.259	321.592	142.667	44,36%
Mechanical units	539.931	308.409	231.522	75,07%
Electrical units	425.167	214.071	211.096	98,61%
Hydraulic units	68.308	53.317	14.991	28,12%
Laser cavities and half-assembled sources	105.654	96.133	9.521	9,90%
Systems being assembled	3.841.662	2.876.330	965.332	33,56%
minus: devaluation provision	-88.205	-36.441	-51.764	142,05%
Total	5.933.957	4.292.001	1.641.956	38,26%

The increase in the quantity of semi-finished products, as well as being a consequence of the entry of Quanta System SpA to the area of consolidation, may be explained by the policy of jobbing out the simpler production processes of the group and to the consequent presence of sets and assembly kits with jobbers.

As of 31/12/2004 the fund for obsolescence of products under construction amounted to approximately 88 thousand euro.

The breakdown of the stocks of finished products was as follows:

Finished products:	31/12/2004	31/12/2003	Variation	Var. %
Medical lasers	4.653.428	3.133.054	1.520.374	48,53%
Industrial laser sources	464.972	145.158	319.814	220,32%
Medical fittings and accessories	470.110	573.091	-102.981	-17,97%
Other medical accessories	1.282.404	1.187.259	95.145	8,01%
Industrial laser systems	1.422.378	1.771.419	-349.041	-19,70%
Other finished products	81.826		81.826	0,00%
minus: devaluation provision	-389.303	-372.632	-16.671	4,47%
Total	7.985.815	6.437.349	1.548.466	24,05%

As of 31/12/2004 the fund for obsolescence of finished products amounted to approximately 389 thousand euro.

The LIFO reserve at the end of the financial year was 277 thousand euro.

II – Accounts receivable

Breakdown of accounts receivable
The breakdown of the accounts receivable is as follows:

Debtors	31/12/2004	31/12/2003	Variation	Var. %
Trade debtors	21.825.055	15.623.354	6.201.701	39,70%
Amounts owed by associated companies	140.355	417.619	-277.264	-66.39%
Tax debtors	2.626.531	2.450.553	175.978	7,18%
Deferred tax assets	1.300.766	962.559	338.207	35,14%
Other debtors	1.702.041	982.475	719.566	73,24%
Total	27.594.748	20.436.560	7.158.188	35,03%

	31/12/2004	31/12/2003	Variation	Var. %
Clients in Italy	10.390.775	6.180.553	4.210.222	68,12%
EC clients	5.997.737	5.087.519	910.218	17,89%
Clients outside of EC	6.785.320	5.213.097	1.572.223	30,16%
minus: devaluation provision for debtors	-1.348.777	-857.815	-490.962	57,23%
Total	21.825.055	15.623.354	6.201.701	39,70%

	31/12/2004
Trade debtors:	
Italy	10.390.775
EC	5.997.737
Outside of EC	6.785.320
Minus: devaluation provision for debtors	-1.348.777
Total trade debtors	21.825.055
Amounts owed by associated companies:	
Italy	127.459
Outside of EC	12.896
Total amounts owed by associated companies	140.355
Tax debtors:	
Italy	1.604.987
EC	1.021.544
Total tax debtors	2.626.531
Deferred tax assets:	
Italy	1.256.347
Outside of EC	44.419

Total deferred tax assets	1.300.766
Other debtors:	
Italy	956.310
EC	101.665
Outside of EC	644.066
Total other debtors	1.702.041
Total	27.594.748

Accounts receivable from non-consolidated associate companies are relative to a non-interest bearing short term loan granted to Immobiliare Del.Co. Srl for approximately 14 thousand euro, a short term financing granted to Actis Srl for 40 thousand euro, at the rate of 5% per annum and commercial receivables from ASA Srl for 63 thousand euro and from Actis Srl for an amount of 11 thousand euro.

The entry "tax debtors» is mainly influenced, to the extent of approximately 2.4 million euro by the VAT credit of the end of the financial year. The remaining part can be attributed to the tax credit deriving from the difference between the payments made on account and the tax debt maturing.

As regards the contents of the entry "deferred tax assets", see the paragraph below regarding the breakdown of deferred taxes paid or due.

The increase in the devaluation provision for amounts receivable is mainly attributable to the total devaluation of an amount equal to approximately 264 thousand euro owed to the parent company by a client and deemed irrecoverable.

Break-down of other receivables

The breakdown of other receivables is as follows:

	31/12/2004	31/12/2003	Variation	Var. %
Becoming payable within the next fiscal year				
Short-term and low financial operations				
Security deposits	426.562	78.822	347.740	441,17%
Prepayments to suppliers	339.307	330.942	8.365	2,53%
Other credits	455.384	304.348	151.036	49,63%
Ttotal becoming payable within the next fiscal year	1.221.253	714.112	507.141	71,02%
Becoming payable after the next fiscal year				
SP tax account	19.617	8.660	10.957	126,52%
Insurance policy TFM	234.136	208.136	26.000	12,49%
Other credits	227.035	51.567	175.468	340,27%
Total becoming payable after the next fiscal year	480.788	268.363	212.425	79,16%
Total	1.702.041	982.475	719.566	73,24%

Of the receivable amounts becoming due within 5 years 19,617 euro has been entered as a deposit on the TFR tax, and 234,136 euro as a receivable from insurance companies to cover the executives' TFM (end of term bonus).

Amounts receivable after more than five years

No amounts receivable after five years have been entered in the financial statement.

III – Investments which are not permanent

The non-permanent investments are as follows:

Investments which are not permanent:	31/12/2004	31/12/2003	Variation	Var. %
Treasury stock	346.962	354.104	-7.142	-2,02%
Other equity investments		115.000	-115.000	-100,00%
Other investments	256.857	78.004	178.853	229,29%
Total	603.819	547.108	56.711	10,37%

The entry "treasury stock" includes treasury stock owned by the parent company El.En. SpA for 255,937 euro and treasury stock owned by the subsidiary Cynosure Inc. for a counter-value of 91,025 euro. Specifically, the Board of Directors of the parent company El.En. SpA, following the vote of approval of the Assembly held on 14 April 2002 proceeded with the purchase in the same financial year of 22,714 shares at an average price of 11.2678 and put them back on sale during the month of February 2005 at an average sales price of 25.05, realising a gross total gain of 313 thousand euro.

The amount shown under the heading "Other Investments» refers to a temporary use of cash by the subsidiary Lasit Srl for approx. 47 thousand euro and by the subsidiary Quanta System SpA for 209 thousand euro.

IV – Cash at bank and on hand

Cash at bank and on hand is composed as follows:

Cash at Bank and in hand:	31/12/2004	31/12/2003	Variation	Var. %
Bank and postal current accounts	15.033.309	16.728.704	-1.695.395	-10,13%
Cash in hand	36.509	10.825	25.684	237,27%
Total	15.069.818	16.739.529	-1.669.711	-9,97%

The decrease in the amount of cash is mainly due to operations of an extraordinary nature described in the introduction of these notes. Moreover, dividends were distributed by the parent company El.En. SpA to the tune of 1,149 thousand euro and by Cynosure Sozhou to the tune of 174 thousand dollars.

D) Prepayments and accrued incomes

Composition of prepayments and accrued incomes is as follows:

	31/12/2004	31/12/2003	Variation	Var. %
Assets of accruals:				
Interests		632	-632	-100,00%
Other assets of accruals	3.465	13.410	-9.945	-74,16%
Total assets of accruals	3.465	14.042	-10.577	-75,32%
Assets of deferred incomes:				
Premiums	19.098	98.169	-79.071	-80,55%
Prepaid expenses	11.176	8.409	2.767	32,91%
Other assets of deferred incomes	409.093	290.792	118.301	40,68%
Total assets of deferred incomes	439.367	397.370	41.997	10,57%
Total	442.832	411.412	31.420	7,64%

The amounts entered among the prepayments and accrued incomes according to the relative accounting principles do not represent phenomena of sufficient importance or interest to be worthy of note for the company business.

LIABILITIES

A) Capital and reserves

Composition of the capital and reserves

The following tables highlights the changes occurring in the capital and reserves account during the last two financial years.

NET CAPITAL AND RESERVES:	**Balance 31/12/2002**	**Net income allocation**	**Dividends distributed**	**Other operations**	**Balance 31/12/2003**
Subscribed capital	2.392.000			10.992	2.402.992
Share premium account	33.954.774			251.342	34.206.116
Legal reserve	406.893	130.408		1	537.302
Reserve for own shares	255.937				255.937
Others reserves:					
Extraordinary reserves	4.153.183	1.333.435			5.486.618
Reserve for contribution on capital account	426.657				426.657
Profits of subsidiaries and associated in previous years	1.335.657	-477.115		-1.846	856.696
Reserve of consolidation	1.404.652			-133.977	1.270.675
Reserve for translation adjustments	-906.856			-843.706	-1.750.562
Other reserves					
Profits (loss) brought forward		1.144.322	-1.144.322		
Profits (loss) of the year	2.131.050	-2.131.050		553.954	553.954
Net total Capital and reserves of the group	45.553.947		-1.144.322	-163.240	44.246.385
Capital and reserves of third parties	5.481.140	732.483	-124.000	-431.563	5.658.060
Profit (loss) of third parties	732.483	-732.483		45.144	45.144
Net total capital and reserves of third parties	6.213.623		-124.000	-386.419	5.703.204
Net total capital and reserves	51.767.570		-1.268.322	-549.659	49.949.589

NET CAPITAL AND RESERVES:	**Balance 31/12/2003**	**Net income allocation**	**Dividends distributed**	**Other operations**	**Balance 31/12/2004**
Subscribed capital	2.402.992			21.375	2.424.367
Share premium account	34.206.116			492.298	34.698.414
Legal reserve	537.302				537.302
Reserve for own shares	255.937				255.937
Others reserves:					
Extraordinary reserves	5.486.618	583.043			6.069.661
Reserve for contribution on capital account	426.657				426.657
Profits of subsidiaries and associated in previous years	856.696	-1.178.696		887.054	565.054
Reserve of consolidation	1.270.675			-824.363	446.312
Reserve for translation adjustments	-1.750.562			-576.263	-2.326.825
Other reserves					
Profits (loss) brought forward		1.149.607	-1.149.607		
Profits (loss) of the year	553.954	-553.954		3.625.336	3.625.336
Net total Capital and reserves of the group	44.246.385		-1.149.607	3.625.437	46.722.215
Capital and reserves of third parties	5.658.060	45.144	-120.000	-1.859.872	3.723.332
Profit (loss) of third parties	45.144	-45.144		1.816.183	1.816.183
Net total capital and reserves of third parties	5.703.204		-120.000	-43.689	5.539.515
Net total capital and reserves	49.949.589		-1.269.607	3.581.748	52.261.730

The shareholders' Assembly of the parent company El.En. SpA held on 14 May 2004 voted to distribute the profits from the financial year 2003 as follows: 583,044 euro to the extraordinary reserve and 1,149,607 as dividends.

Following the purchase of treasury stock by the head company El.En. SpA in the financial year 2002, a reserve was set aside for an amount equal to that of the shares which had been purchased. The reserve for treasury stock in the portfolio is an inaccessible reserve, maintained until the treasury stock was put back on sale during the month of February 2005.

With reference to the share capital and share premium reserve, the increase shown in the column "other operations" derives from the exercising of the option rights assigned by El.En. SpA to some of the group's employees, and to the relative increase of capital with premium. Exhaustive information on the stock options plan is given in the paragraph on the "composition of the capital".

The difference in the exchange rate derived from the entries for the net assets on the respective dates of acquisition (Lasercut Inc. and Cynosure Inc.) and founding (Deka Laser Technologies LLC) compared to the exchange rate in force at the end of the financial year referred to has been entered directly into the consolidated shareholders' equity under the heading "Currency conversion reserve"; this entry also includes the conversion of the result of the financial year entered into the profit and loss account of the same company (evaluated at the average conversion rate) at the rate in force at the end of the year.

The reduction of the consolidation reserve for the purchase of a further 30% of Quanta System S.p.A. by El.En. S.p.A. and of a further 6% of Cutlite Penta Srl by Valfivre Italia Srl witnessed a similar decrease in the relative differences arising from consolidation.

The increase in the unshared profits of 887,054 euro is equal to 27% of the profits made by Cynosure during the first 9 months which go to make up part of the group's shareholders' equity following the acquisition of a further 27% of Cynosure Inc. by El.En. S.p.A. already described above.

The Capital and reserves of third parties decreased due not only to the distribution of dividends to third parties by the subsidiary Deka MELA, but also on account of the variation in the percentage owned by El.En. S.p.A. of Cynosure Inc. (+27%), Quanta System (+30%), Deka MELA (–10%) and by Valfivre Italia Srl of Cutlite Penta (+6%).

Composition of capital

The special assembly of El.En. SpA held on 16 July 2002 voted to authorise 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 capital stock of the Company once or several times upon payment, by a nominal maximum amount of euro 124,800 through the issue of a maximum of 240,000 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 last six months – and as a unitary value inclusive of the premium, equal to the greater of the following: a) the value of each share determined on the basis of the consolidated shareholders' equity of the group El.En. as of 31 December 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, organised and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options; c) the arithmetical mean 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; d) the arithmetical mean 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 period of time before the assignment of the options decided by the Board of Directors in the regulations of the incentives plans.

On 6 September 2002 the Board of Directors voted to implement in part the decision of the Shareholders' assembly dated 16 July 2002 to increase the share capital to euro 31,817.76 for use in the 2003/2004 stock-options plan and approved the relative regulations. The option rights were assigned exclusively to the Group's Executives, Managers and Employees who at the time of the assignment were employed by the group. The above plan was divided into two phases, one for each year; the first phase, for a maximum of 30,600 shares, was exercisable by the assignees from 18 November to 31 December 2003, from 15 August to the 30 September 2004 and from 18 November to the 31 December 2004; the second phase, for a maximum of 30,588 shares was exercisable by the assignees from 15 August to the 30 September 2004 and from 18 November to the 31 December 2004.

With reference to this vote, as of 31 December 2004 (the deadline for the exercising of such rights) the total of 61,188 option rights had been opted, of which 21.139 opted in the previous financial year.

Moreover, on 13 November 2003, the Board of Directors voted to partially implement the decision of the shareholders' assembly dated 16 July 2002 to increase the share capital by euro 13,145.60 to be used for the 2004/2005 stock-options

plan and approved the relative regulations. The option rights were assigned exclusively to the Group's executives, managers and employees who at the moment of assignment were employed by the group. The above plan was divided into two phases, one for each year; the first phase, for a maximum of 12,640 shares, exercisable by the assignees from 18 November to 31 December 2004, from 15 August to the 30 September 2005 and from 18 November to the 31 December 2005; the second phase, for a maximum of 12,640 shares will be exercisable by the assignees from 15 August to the 30 September 2005 and from 18 November to the 31 December 2005.
With reference to this vote, relative to the first phase of 12,640 shares, in the period from 18 November to 31 December 2004 1,056 option rights were exercised.

Following this vote, the capital stock of El.En. S.p.A. as of 31 December 2004 was:

Authorised	euro	2.436.963
Underwritten and deposited	euro	2.424.367

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

Categories	**31/12/2003**	**Increase.**	**(Decrease.)**	**31/12/2004**
No. of Ordinary Shares	4.621.139	41.105		4.662.244
Total	**4.621.139**	**41.105**		**4.662.244**

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 collectable 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.

Availability and divisibility of the reserves

NET CAPITAL AND RESERVES:	**Balance 31/12/2004**	**Possibility of utilisation**	**Portion available**	**Utilised in the previous two periods for covering losses**	**Utilised in the previous two period for other purposes**
Subscribed capital	2.424.367				
Share premium account	34.698.414	ABC	34.698.414		
Legal reserve	537.302	B			
Reserve for own shares	255.937				
Others reserves:					
Extraordinary reserves	6.069.661	ABC	6.069.661		
Reserve for contribution on capital account	426.657	ABC	426.657		
Reserve for translation adjustments	-2.326.825				
Profits (loss) brought forward					
Other reserves					
Reserve of consolidation	446.312				
Profits of subsidiaries and associated in previous years	565.054				
			41.194.732		
Portion not distributable					
Portion distributable			**41.194.732**		

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

Other reserves
The breakdown for the reserves for payment on capital account is as follows:

	31/12/2004	31/12/2003	Variation	Var. %
DIFF3 contribution on capital account	150.659	150.659		0,00%
CESVIT contribution on capital account	3.099	3.099		0,00%
CCIAA contribution on capital account	3.892	3.892		0,00%
EU contribution on capital account	269.007	269.007		0,00%
Total	426.657	426.657		0,00%

Table of comparison of the financial statement of the parent company and the consolidated financial statement

	Profit and loss account 31/12/2004	Capital and reserves 31/12/2004	Profit and loss account 31/12/2003	Capital and reserves 31/12/2003
Balance as per statement of the parent company El.En.	**1.901.175**	**46.313.512**	**1.732.650**	**45.048.273**
Elimination of investments in:				
Companies totally consolidated	3.057.769	-8.543.462	-134.819	-7.599.868
Companies consolidated with the shareholders' equity method	-26.640	-57.362	33.926	346.258
Goodwill arising from consolidation	-1.663.723	8.803.379	-860.212	6.782.540
Elimination of dividends for the financial period	-180.000		-386.000	
Elimination of internal profits on warehouse stock	-48.811	-890.182	-330.989	-841.371
Elimination of internal profits from sales of material assets	12.965	-49.450	20.476	-62.415
Value adjustments on equity investments	943.451	1.267.785	408.100	325.012
Effect of early amortisations	-340.451		101.221	339.563
Other	-30.399	-122.005	-30.399	-91.607
Balance as per consolidated statement – Group quota	**3.625.336**	**46.722.215**	**553.954**	**44.246.385**
Balance as per consolidated statement – Third party quota	**1.816.183**	**5.539.515**	**45.144**	**5.703.204**
Balance as per consolidated statement	**5.441.519**	**52.261.730**	**599.098**	**49.949.589**

(*) net of relative fiscal effects

B) Provisions for risks and charges

The following table shows the changes which occurred in these funds during the financial year:

	Balance 31/12/2003	Provision	(Utilisation)	Other	Translation Adjustments	Balance 31/12/2004
Pension costs and similar	365.295	64.694				429.989
For taxation	677.343	75.388	-123.727	84.463		713.467
Others:						
Reserve for guarantee on the products	1.223.921	374.633	-23.399	30.000	-105.607	1.499.548
Reserve for risks and charges	59.463	295.396	-38.944	11.322		327.237
Other minor reserves	366.504					366.504
Total other reserves	1.649.888	670.029	-62.343	41.322	-105.607	2.193.289
Total	2.692.526	810.111	-186.070	125.785	-105.607	3.336.745

The column "Other" shows the increments in the funds resulting from variations in the area of consolidation.

The severance pay fund relates to the end of term bonus (TFM) of the administrators, entered for the amount of 249,700 euro and the clients'-agents' indemnity fund for euro 180,289.
Provisions for taxes includes the reserve set aside by the parent company in the financial year 2000 and subsequently added to in 2001 for payment of charges which might arise from the issue inspection documents after the PVC notification given on the 8 May 2001, net of the payments made in the previous financial year following the settlement of the years 1997, 1998 and 1999. The provision for taxes also includes the deferred taxes analysed in the paragraph below, to the extent of 304,345 euro.

The reserves 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 said financial year.

Analysis of deferred and anticipated taxes

The deferred taxes are accrued on the basis of the temporary differences between assets and liabilities recognised for fiscal purposes and those which have been entered into the financial statement. The fiscal aliquots used for calculations are 33% for IRES and 4.25% for IRAP.

The breakdown is as follows:

	Balance 31/12/2004	**Balance 31/12/2003**	**Variation**
Deferred tax assets on stock devaluations	344.055	222.846	121.209
Deferred tax assets for provisions on guarantee products	50.288	43.285	7.003
Deferred tax assets on credit devaluation	116.577	43.977	72.600
Deferred tax assets on loss brought forward from the previous years	84.188	57.812	26.376
Other deferred tax assets	125.115	58.128	66.987
Deferred tax assets on internal profits	580.543	536.511	44.032
Total deferred tax assets	1.300.766	962.559	338.207
Deferred tax liabilities on advanced amortisations	264.815	235.889	28.926
Deferred tax liabilities for contributions on capital account	405	7.503	-7.098
Other deferred tax liabilities	39.125	4.616	34.509
Total deferred tax liabilities	304.345	248.008	56.337

Credits for anticipated taxes amount to approximately 1,301 thousand euro and refer to the anticipated taxes calculated during the preceding financial years and the current financial year on the inventory obsolescence fund, product warranty fund and on the fund for non-deductible credit devaluations. The subsidiaries Ot-las Srl and Lasit Srl registered anticipated taxes on the fiscal losses registered in the financial year as far as recoverable in subsequent financial years. Anticipated taxes have also been registered on the elimination of the inter-group profits effected upon consolidation.

The fund for deferred taxes which, as of 31 December amounted to approximately 304 thousand euro, was used for the capital account contributions while deferred taxes have been entered on the anticipated amortisations elided upon the act of consolidation.

C) Employee severance indemnity

The following table shows the changes occurring in the period.

Balance 31/12/2003	**Provision**	**Utilization**	**Other**	**Balance 31/12/2004**
1.118.773	463.010	-194.781	286.257	1.673.259

The reserve fund represents the effective debt of the company towards its employees at the date indicated, net of any advance payments. The amount entered under the heading "other" is a consequence of the variation of the period of consolidation caused by the entrance of Quanta System SpA, Arex Srl and AQL Srl.

D) Amounts owed

Analysis of amounts owed

Below is a breakdown of the debts:

	31/12/2004	31/12/2003	Variation	Var. %
Loans from shareholders	619.748	619.748		0,00%
Amounts owed to banks	1.773.471	777.055	996.416	128,23%
Amounts owed to other financiers	2.191.338	1.056.943	1.134.395	107,33%
Advances	1.256.834	705.383	551.451	78,18%
Amounts owed to suppliers	15.718.435	11.620.843	4.097.592	35,26%
Amounts owed to associated companies	196.402	91.607	104.795	114,40%
Amounts owed to tax administration	3.480.773	945.805	2.534.968	268,02%
Amounts owed to social security institutions	818.782	605.543	213.239	35,21%
Other creditors	5.836.348	4.575.297	1.261.051	27,56%
Total	31.892.131	20.998.224	10.893.907	51,88%

	31/12/2004
Loans from shareholders	
Italy	619.748
Total Loans from shareholders	619.748
Amounts owed to banks	
Italy	1.622.622
EC	35.359
Outside of EC	115.490
Total Amounts owed to banks	1.773.471
Amounts owed to other financiers	
Italy	1.737.885
Outside of EC	453.453
Total Amounts owed to other financiers	2.191.338
Advances	
Italy	546.964
EC	46.165
Outside of EC	663.705
Total Advances	1.256.834
Amounts owed to suppliers	
Italy	10.255.698
EC	1.655.337
Outside of EC	3.807.400
Total Amounts owed to suppliers	15.718.435
Amounts owed to associated companies	
Italy	196.402
Total Amounts owed to associated companies	196.402
Amounts owed to tax administration	
Italy	1.809.180
EC	1.315.422
Outside of EC	356.171
Total Amounts owed to tax administration	3.480.773
Amounts owed to social security institutions	
Italy	695.599
EC	123.183
Total Amounts owed to social security institutions	818.782

Other creditors	
Italy	1.501.001
EC	853.106
Outside of EC	3.482.241
Total Other creditors	5.836.348
Total	31.892.131

In obeisance to the dispositions of the new legislation on the matter of financial statements, the entry "loans from shareholders" includes the reclassification of the debenture loan, previously entered under the heading "stocks".

The general increase in debt is mainly due to the variation in the area of consolidation. Specifically the "amounts owed to banks " increased as a result of the total consolidation of Quanta System SpA which utilises current account overdrafts granted by banking institutions. The increase shown in the entry "amounts owed to other financial institutions" relates mainly to the issue, in previous financial years to the same Quanta System SpA, of loans for the applied research fund to the amount of approximately 820 thousand euro.

The entry "advances" shows the advances received from clients for 868 thousand euro; approximately 86 thousand euro received as advance payments by the parent company El.En. SpA for the research projects NMED02 and EUV02 have also been entered under this heading; these sums will only be entered among the revenues after the approval of the relative expense budgets. Lastly, 303 thousand euro, equal to 412,500 USA dollars calculated at the exchange rate in force at the end of the financial year and received as an advance payment on the sales operation of the 450,000 shares of Cynosure Inc. to third parties, already described above, are entered under this heading.

The amounts owed in foreign currency, particularly those sums owed expressed in USA dollars and in pounds sterling, have been shown converting such amounts at the exchange rate in force at the date of reference of the financial statement.

Analysis of debts according to due date

The ordinary debenture loan of euro 619,748 is to be reimbursed in a single payment on the 31/12/2006 and pays a fixed interest rate of 9.75%, adjusted annually on 31/12.
Mid-term debts to banks are made up of a ten-year mortgage loan issued by the Cassa di Risparmio di Firenze, for 1,652,662 euro, to be reimbursed in fixed six-monthly instalments of 103,291 euro starting on 31/3/1999, at an interest rate equivalent to the quarterly EURIBOR plus a spread of 0.95%, with interest paid quarterly.

Mid-term debts to other financiers are made up of:
a) IMI facilitated financing for applied research, as follows:
Reference DIFF 3
Multi-year financing granted for 487,095 euro at the fixed annual rate of 3.70%, last instalment 1/7/2008
Reference TMR 4
Multi-year financing granted for 492,431 euro at the fixed annual rate of 3.70%, last instalment 1/7/2008
b) MPS facilitated financing for applied research, reference TRL01, granted for 681,103 euro of which 461,421 euro have already been paid at a rate of 2% per annum, to be reimbursed in 16 half-yearly instalments delayed until the start of the second half-yearly due date after the actual conclusion of the research which is expected to be in the month of February 2005.
c) IMI facilitated financing for applied research granted to the subsidiary Quanta System SpA, for 929,157 euro at the annual rate of 2%, to be reimbursed in 16 half-yearly delayed to start from 1 July 2003.
d) Centrobanca financing, issued to the subsidiary Lasit Srl, granted for 57,765 euro, at the annual rate of 0.96%, to be reimbursed in 9 annual instalments starting from 5 August 2005.

The table below shows the debts described above and the dates on which the debts for the capital stock are due.

	Expiration	Rate	Remain	Amount within 1 year	Amount within 5 years	Amount beyond 5 years
Ten-year debenture loans	31/12/2006	9,75%	619.748		619.748	
CRF ten-year loan	07/03/2006	Euribor+,95%	413.166	206.583	206.583	
Financing IMI DIFF3	01/07/2008	3,70%	219.084	59.754	159.330	
Financing IMI TMR 4	01/07/2008	3,70%	124.267	82.083	42.184	
Financing MPS TRL 01	01/07/2013	2,00%	461.421	26.737	223.748	210.936
Financing IMI l.1089	01/01/2011	2,00%	819.858	165.336	468.854	185.668
Fin.to Centrobanca	05/08/2013		57.765	6.176	25.302	26.287
Other financing			72.986	53.073	19.913	
Leasing			457.243	90.669	366.574	
Total			3.245.538	690.411	2.132.236	422.891

The amount written in the column "amount within 1 year» is made up of the total of the instalments due in the short term of the mid-term loans.

Changes in long term financing
During the financial year the following changes occurred in relation to medium/long term loans. The amounts shown include the quota of short-term capital and do not include the sums owed as interest.

	Balance 31/12/2003	Increase	Reimbursement	Other	Translation Adjustments	Balance 31/12/2004
Debenture loans	619.748					619.748
CRF loan	619.748		-206.582			413.166
Financing IMI DIFF3	276.687		-57.603			219.084
Financing IMI TMR 4	203.395		-79.128			124.267
Financing MPS TRL 01	351.592	109.829				461.421
Financing IMI L.1089			-109.300	929.158		819.858
Fin.to Centrobanca		57.765				57.765
Other financings	37.101	48.899	-18.120	5.106		72.986
Leasing	216.036	265.610	-9.216		-15.187	457.243
Total	2.324.307	482.103	-479.949	934.264	-15.187	3.245.538

The increase shown in the "other» column regards the variation in the area of consolidation.

Debts guaranteed by real estate property
The factory in Via Baldanzese, 17 has a ten-year mortgage on it issued by the Cassa di Risparmio di Firenze and described in the paragraphs above.

Analysis of tax debts

	31/12/2004	31/12/2003	Variation	Var. %
Taxes on profit	1.526.390	226.530	1.299.860	573,81%
Debts owed to tax administration for VAT	1.211.532	228.062	983.470	431,23%
Debts owed to tax administration for deductions	742.851	491.213	251.638	51,23%
Total	3.480.773	945.805	2.534.968	268,02%

The debts for income tax have been entered into the accounts net of the relative down payments and withholdings paid; the increase reflects the increase in profitability achieved during the financial year 2004.

Analysis of amounts owed to social security institutions and other debts

	31/12/2004	31/12/2003	Variation	Var. %
Debts owed to INPS	742.767	543.057	199.710	36,78%
Debts owed to INAIL	37.180	26.069	11.111	42,62%
Debts owed to other Social Security Institutions	38.835	36.417	2.418	6,64%
Total	818.782	605.543	213.239	35,21%

The breakdown of the other debts is as follows:

	31/12/2004	31/12/2003	Variation	Var. %
Owed to staff for holidays	2.017.393	1.334.532	682.861	51,17%
Owed to staff for wages and salaries	567.546	449.681	117.865	26,21%
Other debts	3.251.409	2.791.084	460.325	16,49%
Total	5.836.348	4.575.297	1.261.051	27,56%

The increase in amounts owed to employees for salaries and to social security and pension institutions is a consequence of the variation in the area of consolidation as well as the increase in the number of employees during the financial year.

The entry “other debts» includes 1,996 thousand euro (equal to 2,718 thousand USA dollars calculated at the exchange rate in force at the end of the financial year) regarding the balance of the purchase operation of Cynosure Inc. shares by the parent company El.En. SpA, a balance which must be paid by the end of March 2005.

E) Accruals and deferred income

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

	31/12/2004	31/12/2003	Variation	Var. %
Accrual liabilities:				
Other	49.361	26.251	23.110	88,03%
Total accrual liabilities	49.361	26.251	23.110	88,03%
Deferred income liabilities				
Other	761.522	435.899	325.623	74,70%
Total deferred income liabilities	761.522	435.899	325.623	74,70%
Total	810.883	462.150	348.733	75,46%

The deferred income liabilities refer mainly to the subsidiary Cynosure Inc. in relation to the servicing contracts entered in proportion to the duration of the contracts.

Memorandum accounts

Leasing contracts guaranteed by Cynosure
Some leasing contracts stipulated by the former subsidiary Sona International Co. were guaranteed by Cynosure Inc. which committed itself to pay the rental fees should SONA be unable to honour their debts. Specifically the total amount guaranteed up to 2008 amounts to approximately 224 thousand euro.

Put options granted to some of the Cynosure managers for the purchase of Cynosure shares
The cost of the agreement formulated at the time by El. En SpA and Cynosure with the managers composing the executive staff of the subsidiary, which has been described in full in the notes to the accounts of the financial statement closed on 31 December 2003, was sustained by Cynosure and entered among the staff operating costs; for this reason the amount entered under the heading "Our obligations" at the end of the last financial year has not been re-entered.

Asa operation
Upon the stipulation of the contract for the purchase of a 20% equity of Asa Srl, Deka M.E.L.A. Srl underwrote with the sellers a private document which provided for a series of "call" and "put" options which would mature in September 2004 and 2005, each one on a further 20% equity in Asa Srl. By virtue of this transaction, which foresees a price-adjustment mechanism based on revenue and turnover, Deka M.E.L.A. is entitled to buy control of ASA by September 2005. In the course of the financial year 2004 Deka M.E.L.A. exercised call options on the second tranche equal to 20% of the stock capital, thus raising its shareholding to 40% at a cost of 362 thousand euro.
The financial commitment deriving from exercising the last call-option may be estimated, on the basis of the results in 2004, as 391 thousand euro.

Profit and loss account

A) Value of the production

Analysis of sales and services

	31/12/2004	31/12/2003	Variation	Var. %
Sales of industrial laser systems	16.301.958	15.031.138	1.270.820	8,45%
Sales of medical laser systems	63.132.539	41.605.518	21.527.021	51,74%
Consulting and research	536.038	151.899	384.139	252,89%
Service and sales of spare parts	14.548.747	11.406.585	3.142.162	27,55%
Total	94.519.282	68.195.140	26.324.142	38,60%

During 2004 the trends of the last financial year were repeated: increased growth of the medical sector (+52%) and limited growth of the industrial sector (+9%) where the recovery of the manufacturing sector was not in any case sufficient to determine the increase in turnover hoped for at the beginning of the year.
The sales volume for technical assistance and connected services showed an increase of 28%, thanks, among other things, to the contribution of the companies recently acquired. In this regard the positive trend of the “revenue sharing” operated in the USA by Cynosure through the company Sona International, an associated company until 25 May 2004, should be remembered.
The income deriving from research projects and the relative repayments resulting from the contracts entered into with managing institutions financed by MIUR, while markedly increasing during the financial year, continues to be insignificant; it continues to be shown however since such revenue must be added to what is entered in the accounts under the heading “other revenue and income”. In the course of the period in question “other income” amounted to 860 thousand euro (854 thousand euro as of 31 December 2003) income relative, among other things, to the following projects CHOCLAB, EUV02, NETMED, TRL01, SIDART, DIONE and LASUS.

Breakdown of income by geographical area

	31/12/2004	31/12/2003	Variation	Var. %
Sales in Italy	21.705.023	16.153.192	5.551.831	34,37%
Sales other EC countries	27.621.985	20.563.753	7.058.232	34,32%
Sales outside EC	45.192.274	31.478.195	13.714.079	43,57%
Total	94.519.282	68.195.140	26.324.142	38,60%

The increase in turnover appears consistent in all the areas. In the Rest Of the World the American market has assumed increased importance thanks to the good work done by Cynosure on its distribution in North America: one might say that it is this particularly significant specific result which has made the difference in terms of growth of the markets outside Europe compared to the European market. In Europe, the contribution of Asclepion and its distribution network in Germany and of the European companies controlled by Cynosure has been decisive. Progress in Italy too has been good, thanks also to the entrance of Quanta System S.p.A in the area of consolidation.

Increase in investments for company improvements

During this financial year, under the heading of technical investments, laser systems have been entered for an amount of 281,212. In consideration of their long term use for sales demonstrations and for clinical and technical experiments. The amount capitalised is equal to the industrial cost sustained.

Other income and revenues

The analysis of other income and revenues is as follows:

	31/12/2004	31/12/2003	Variation	Var. %
Recovery for accidents and insurance reimbursements	23.112	26.437	-3.325	-12,58%
Expense recovery	326.223	39.735	286.488	721,00%
Capital gains on ordinary property conveyances	260.371	37.973	222.398	585,67%
Other income	900.403	922.801	-22.398	-2,43%
Contribution on fiscal year account and on capital account	900	31.268	-30.368	-97,12%
Total	1.511.009	1.058.214	452.795	42,79%

Under the heading “other income” the contributions received for research projects by the parent company El.En. SpA and by the subsidiary Quanta System SpA for the respective amounts of 655 thousand and 71 thousand have been entered.

B) Production costs

Purchase of raw and subsidiary materials, consumables and goods

The analysis of these costs is as follows:

	31/12/2004	31/12/2003	Variation	Var. %
Purchase of raw materials and finished products	38.626.672	30.075.591	8.551.081	28,43%
Purchase of packaging	224.684	171.971	52.713	30,65%
Purchase of stationery	199.441	144.808	54.633	37,73%
Purchase of fuels	196.891	120.178	76.713	63,83%
Purchase of advertising materials	250.932	106.681	144.251	135,22%
Shipment of purchases	367.076	271.098	95.978	35,40%
Other purchase expenses	111.853	87.292	24.561	28,14%
Other purchases	496.131	341.602	154.529	45,24%
Total	40.473.680	31.319.221	9.154.459	29,23%

The increase in the purchases of raw materials is the direct consequence of the increase in the volume of sales and is reflected, among other things, in the increase in final inventory of raw materials registered at the end of the financial year.

Breakdown of expenses for services

The following table shows the breakdown for the various services:

	31/12/2004	31/12/2003	Variation	Var. %
Expenses for work in progress at third parties’	2.619.261	1.922.184	697.077	36,26%
User services	889.248	735.051	154.197	20,98%
Consulting and technical services	2.287.184	1.488.017	799.167	53,71%
Maintenance	128.407	129.329	-922	-0,71%
Services and commercial consulting	825.551	850.871	-25.320	-2,98%
Shipment	1.607.750	1.140.058	467.692	41,02%
Insurance	695.041	517.795	177.246	34,23%
Travel and overnight expenses	2.533.667	2.093.076	440.591	21,05%
Commissions	3.996.787	2.823.302	1.173.485	41,56%
Promotional and advertising expenses	2.682.948	2.163.906	519.042	23,99%
Royalties	163.181	132.942	30.239	22,75%
Other services	5.553.065	4.149.078	1.403.987	33,84%
Total	23.982.090	18.145.609	5.836.481	32,16%

Under the heading “other services», among other things the amounts due to administrators and auditors as well as the costs of legal services, of auditing and charges related to quotation of the company on the stock market have been entered.

Break down of operating expenses

The break down of operating expenses is shown in the table below:

	31/12/2004	31/12/2003	Variation	Var. %
Other taxes	134.378	193.296	-58.918	-30,48%
Associating contributions	61.066	39.045	22.021	56,40%
Newspaper and magazine subscriptions	13.642	13.041	601	4,61%
Expenses for vehicles	337.499	282.183	55.316	19,60%
Capital losses on ordinary possession conveyances	19.927	7.277	12.650	173,84%
Purchase of consumables art. 67 T.U.	74.787	101.390	-26.603	-26,24%
Fines	8.850	4.047	4.803	118,68%
Other minor charges	644.293	703.625	-59.332	-8,43%
Total	1.294.442	1.343.904	-49.462	-3,68%

C) Financial income and charges

Analysis of the financial income

The break down of financial income is shown in the table below:

	31/12/2004	31/12/2003	Variation	Var.%
From investments which are not equity investments				
Interests		708	-708	-100,00%
Total		708	-708	-100,00%
From non-permanent investments which are not equity investments				
Interests	786	1.379	-593	-43,00%
Income from negotiations	49.415	70.091	-20.676	-29,50%
Total	50.201	71.470	-21.269	-29,76%
Financial income different from the previous ones:				
To associated company	2.000	630	1.370	217,46%
Total	2.000	630	1.370	217,46%
Financial income different from the previous ones: to third party				
Interests - assets - to bank	143.343	303.974	-160.631	-52,84%
Other financial incomes	10.214	5.653	4.561	80,68%
Total	153.557	309.627	-156.070	-50,41%
Total	205.758	382.435	-176.677	-46,20%

Interest assets towards banks, amounting to 143 thousand, have decreased compared to the last financial year as a result of the fact that they have been applied to smaller amounts of money as cash was used for the extraordinary financial operations occurring during the financial year. Among the other entries are the profits from the negotiations related to temporary investments of the cash at hand.

Interest and other financial charges

Financial charges towards third parties	31/12/2004	31/12/2003	Variation	Var. %
Debenture loans	60.425	60.425		0,00%
Bank debts for account overdraft	42.310	2.365	39.945	1689,01%
Bank debts for medium and long - term loans	56.802	50.223	6.579	13,10%
Other financial charges	44.790	20.217	24.573	121,55%
Total	204.327	133.230	71.097	53,36%
Financial charges towards associated companies				
Debts to associated companies		23.425	-23.425	-100,00%
Total		23.425	-23.425	-100,00%
Total	204.327	156.655	47.672	30,43%

The bank debts for account overdraft refer mainly to Quanta System SpA. The interest charges paid to banks for loans and mid- and long-term financing refer, among other things, to the loan issued to the parent company El.En. SpA by the Cassa di Risparmio di Firenze and to the facilitated financing granted by MIUR (ex MURST) and issued by IMI and MPS.

Foreign exchange losses and gains

Foreign exchange loss or gain	31/12/2004	31/12/2003	Variation	Var. %
Foreign exchange loss	-697.915	-849.715	151.800	-17,86%
Foreign exchange gain	761.460	812.687	-51.227	-6,30%
Total	63.545	-37.028	100.573	-271,61%

The exchange differences derive from the adjustment of the entries in foreign currency operated at the time of effective realisation, if occurring during financial year or, evaluating the entries still open at the end of the financial year on the basis of the respective exchange rates. Along general lines and as a result of the fall in the value of the dollar compared to the euro occurring in 2004, exchange liabilities have been entered in the European companies (El.En. in particular) on credits expressed in dollars from American or Eastern clients, and exchange assets on the debts in dollars of some European companies (in particular the European subsidiaries of Cynosure).

D) Value rectifications for financial activities

The rectification of value shown at entry D18 a) of the profit and loss account for approx. 155 thousand euro, is related to the application of the shareholders' equity method to the evaluation of the equities in associate companies which are not fully consolidated. The rectification made by the subsidiary Cynosure in relation to the application of the shareholders' equity method to Sona until the date of transfer of the said equity is particularly significant.

The rectification of value shown at entry D19 a) of the profit and loss account reflects the amount of amortisation calculated on the differences from consolidation amounting to approx. 8 thousand euro attributable to Immobiliare Del.Co. Srl and approx. 65 thousand euro attributable to ASA Srl.

E) Extraordinary income and charges

Breakdown of exceptional income

The table below shows a break down of the extraordinary income:

	31/12/2004	31/12/2003	Variation	Var. %
Extraordinary incomes:				
Miscellaneous income	1.104.412	550.776	553.636	100,52%
Other extraordinary incomes	2.877.287	58	2.877.229	4960739,66%
Total	3.981.699	550.834	3.430.865	622,85%

The "contingent assets" reflect, among other things, the reimbursement of approx. 310 thousand USA dollars received judicially by the subsidiary Cynosure Inc. for legal charges not reimbursed at the time by its insurance company, and a tax reimbursement, relative to previous financial years, collected by Cynosure at the end of the year.
The "other extraordinary income» entry includes the capital gain made by Cynosure Inc.'s sale of Sona International shares for 2.427 thousand euro, as well as the capital gains made by the parent company in the sale of 10% of Deka MELA Srl and 2.5% of Cynosure Inc., sales which took place as part of the acquisition of control of Quanta System SpA, for a total amount of 450 thousand euro.

Below is a breakdown of the extraordinary charges:

	31/12/2004	31/12/2003	Variation	Var. %
Extraordinary charges:				
Corrections for mistakes made in previous years				
Miscellaneous losses	579.871	420.719	159.152	37,83%
Other extraordinary charges	3		3	0,00%
Total	579.874	420.719	159.155	37,83%
Taxation related to the previous fiscal years				
Other taxes related to the previous years	5.870	21.941	-16.071	-73,25%
Total	5.870	21.941	-16.071	-73,25%
Total	**585.744**	**442.660**	**143.084**	**32,32%**

The "contingent liabilities" reflect, among other things, the devaluation by the subsidiary Cynosure Inc. of the costs incurred for obtaining patents previously entered among the assets in the statement of assets and liabilities for an amount equal to approx. 277 thousand euro.

Taxes on the revenues for the financial year

Description:	31/12/2004	31/12/2003	Variation	Variation %
IRES and other foreign income taxes	2.520.067	1.308.995	1.211.072	92,52%
IRAP	836.055	528.251	307.804	58,27%
IRES and other foreign income taxes - Deferred (Advanced)	-341.307	-215.908	-125.399	58,08%
IRAP - Deferred (Advanced)	-13.271	-7.016	-6.255	89,15%
Total income taxes	3.001.544	1.614.322	1.387.222	85,93%

The fiscal load of the financial year increased, in absolute terms, compared to the previous period as a result of the increase in profitability. The 2004 tax rate was equal to 35.60% (72.90% in 2003) and was positively influenced by the resumed profitability of Cynosure Inc and the limited tax burden which the said profits were subjected to given the losses accumulated previously which the American company had not discounted any anticipated tax payments against.

Other information

In accordance with the law, the following table gives a breakdown of the employees according to category and indicates the salaries paid to Administrators and Auditors.

Average number of employees divided by category

	Average 2004	31/12/2004	Average 2003	31/12/2003	Variation	Var. %
Executives	24,0	25	19,0	23	2	8,70%
Management	7,0	11	2,5	3	8	266,67%
White collar	307,5	331	246,0	284	47	16,55%
Blue collar	93,0	97	79,5	89	8	8,99%
Total	431,5	464	347,0	399	65	16,29%

The increase in the number of employees compared to 31 December 2003 derives mainly from the new acquisitions; the number of staff was in fact increased by the inclusion of Quanta System SpA, which brought in 42 units involved mainly in R&D activities, design and production as well as administrative and sales activities.

Salaries paid to Administrators and Auditors

The table below shows the salaries paid to the administrators and auditors of the parent company El.En.SpA in conformity with art. 78 of the Consob regulations which became effective after vote of approval n. 11971 on 14 May 1999.

Person	***Appointment description***		***Salary***			
Name	*Position*	*Term duration*	*Perquisites*	*Non monetary benefits*	*Bonus and other incentives*	*Other rewards*
Gabriele Clementi	President of the Board of Directors	Until the date of the assembly for the approval of the financials for 31.12.05	90.000			6.500
Barbara Bazzocchi	Deputy member	Until the date of the assembly for the approval of the financials for 31.12.05	90.000			6.500
Andrea Cangioli	Deputy member	Until the date of the assembly for the approval of the financials for 31.12.05	90.000			6.500
Francesco Muzzi	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Michele Legnaioli	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Marco Canale	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Paolo Blasi	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Angelo Ercole Ferrario	Member	From February 13th 2004 until the date of the assembly for the approval of the financials for 31.12.05	10.525			
Paolo Ernesto Agrifoglio	Member	Outgoing on 21 March 2005	12.000			
Alberto Pecci	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Ennio Carnevale	Member	Until February 2nd 2004	1.475			
Vincenzo Pilla	President of the Board of Statutory Auditors	for three years from Nov. 6th, 2003	15.952			
Giovanni Pacini	Statutory Auditor	for three years from Nov. 6th, 2003	11.279			
Paolo Caselli	Statutory Auditor	for three years from Nov. 6th, 2003	13.405			

The other salaries refer to end-of-term premiums (TFM) for the administrators which have been set aside in reserves during the financial period.

The salaries of the administrators of the controlling company for carrying out their functions in other companies included in the consolidation are as follows: Francesco Muzzi, as President of Deka M.E.L.A. Srl received a salary from the said company of 90.000 euro and for the same period is shown as the beneficiary of a TFM (end-of-term bonus) of 6.500 euro; Barbara Bazzocchi as sole Administrator of Cutlite Penta Srl received a salary of 12.000 euro from the said company; Gabriele Clementi as sole Administrator of Valfivre Italia Srl, received a salary of 12.000 euro from the said company; Angelo E. Ferrario, as President of the Board of Directors of Quanta System SpA received a salary of 90,000 euro from the said company.

The parent company, El.En. SpA does not have a general director.

Amounts paid to correlated parties

In accordance with I.A.S. 24, payments made to people who were defined as correlated parties in the Business report, not included among the administrators and auditors are indicated below:

- Prof. Leonardo Masotti, president of the scientific commission received a salary of 9,200 euro during the year;
- Mr Carlo Raffini, as head of the Quality Control System, received a salary of 59,393 euro;
- Prof. Pio Burlamacchi, the holder of an industrial monopoly consisting of a patent pending for the invention of a “Support for optical cavity for lasers with regulation of the alignment of the beam”, received royalties for euro 36,152.

For a better comprehension of the overall consolidated financial statement, the table below shows the general financial report for the purposes of illustrating, in a structured and synthetic form, the most significant variations which haveoccurred under the different headings for the financial period. This statement has been drawn up using the system of "cash flow" recommended by the accounting principles of the National Council of Certified and Chartered Accountants

Financial statement (cash flow)		**31/12/2004**		**31/12/2003**
Cash flow generated by manufacturing activity:				
Profit (loss) for the financial period		**3.625.336**		**553.954**
Amortizations and devaluation of fixed assets	4.788.641		3.503.972	
Variation of employee severance indemnity	256.583		169.979	
Variation of provisions for risks and charges	548.265		114.359	
Elimination of fiscal effects on depreciation				
		9.218.825		**4.342.264**
Variation in the current assets and liabilities:				
Debtors	-4.742.718		-1.448.096	
Stocks	-3.895.943		-4.808.713	
Prepayments and accruals assets	-7.079		-240.718	
Creditors	5.015.957		-530.774	
Prepayments and accruals liabilities	307.689		-78.678	
		-3.322.094		**-7.106.979**
Cash flow generated by manufacturing activity		**5.896.731**		**-2.764.715**
Cash flow generated by investment activity:				
(Increase) decrease in tangible assets	-3.023.659		-3.041.028	
(Increase) decrease in intangible assets	-4.330.079		-1.233.718	
(Increase) decrease in equity investments	-316.835		-878.638	
		-7.670.573		**-5.153.384**
Cash flow from financial activity:				
Increase (decrease) in mid-long term loans	-109.562		-27.427	
Variation in short term loans	1.435.511		-183.098	
Variation in financial credits	6.973		-40.000	
(Increase) decrease investments which are not permanent	664.001		-94.941	
Variation in Capital and Reserves	100		-717.192	
Variation in Capital and Reserves of third parties	-163.689		-510.419	
Dividends distributed	-1.149.607		-1.144.322	
		683.727		**-2.717.399**
Increase (decrease) in cash at bank and on hand		**-1.090.115**		**-10.635.498**
Cash at bank and on hand at the start of the financial period		**16.739.529**		**27.050.567**
Changes in consolidation area		**-579.596**		**324.460**
Cash at bank and on hand at the end of the financial period		**15.069.818**		**16.739.529**

This consolidated financial statement, composed of the Statement of assets and liabilities, Profit and loss account and Notes to the Accounts, constitutes a correct and truthful representation of the balance of assets and financial situation as well the economic result of the financial year for the group.

For the Board of Directors
The President – Dr. Gabriele Clementi

El.En. S.p.A.
Business report for the financial year ending 31/12/2004

To the shareholders,

The financial year ending on 31/12/2004 closed with a net profit of 1,901 thousand euro net of taxes for the period amounting to 1,486 thousand euro.
It should be pointed out that El.En. controls a group of companies which operate in the same business area as itself, namely the design, manufacture and sale of laser equipment for medical and industrial applications, so that alongside its own business El.En also acts as parent company managing the various equity investments which both as regards El.En's involvement in co-ordinating activities and as regards its management of cash assets and financial revenues, has become increasingly significant in its impact on the economic results of the company.

In the financial year 2004 the traditional area of business showed a growth in the sales volume thanks in part to the sales destined to companies belonging to the group, thus improving operating revenue. As regards the management of equity investments, because of the difficulty which some of the subsidiary companies found themselves in, El.En. devaluated some of the equities and this clearly affected the extraordinary management figures.

1) Main financial and economic data

The activities of El.En. SpA, as in the previous financial year, were conducted in the main offices in Calenzano (Florence) and the local branch in Castellammare di Stabia (Naples).

The company operated in three different areas: laser equipment for medical and cosmetic use, laser power sources for industrial applications, and the provision of after-sales technical service and assistance. In addition to the sales in these sectors, intensive R&D activities during this financial period also brought in a revenue which, although marginal in absolute terms, still had a fundamental role in the financing of research activities. As noted previously, your company also dedicates operating and financial resources to the control of the group, in order to achieve the maximum synergy between the various activities conducted.

The table below shows the sales trends for the four sectors mentioned above compared to the same figures for the previous financial year. The figures indicated in this table and in all the tables in this report are expressed in thousands of euros, unless indicated otherwise.

	31/12/2004	Inc%	31/12/2003	Inc%	Var%
Industrial systems and lasers	4.495	15,99%	5.915	23,73%	-24,01%
Medical and cosmetic lasers	20.618	73,34%	16.437	65,93%	25,44%
Research and Development	117	0,42%	172	0,69%	-32,10%
Service	2.883	10,25%	2.408	9,66%	19,71%
Total	28.112	100,00%	24.932	100,00%	12,76%

The medical/cosmetic sector showed an increase in turnover of 25% compared to the last financial year, and was again the most important business area for the company in 2004; a sizeable contribution to this increase was made by the American subsidiaries Cynosure and Deka Laser Technologies, even with the reduced margins caused by the continuing weakness of the dollar and on which, in order not to penalise their competitiveness on the American market, El.En. did not effect price increases.

The positive trend in the medical sector was not repeated in the industrial sector where there was a slight recovery of the manufacturing sector but not sufficient to determine an inversion of trends and the increase in turnover at the level hoped for at the beginning of the year.

The income deriving from research projects continues to be insignificant; it is worth pointing out however that most of the revenue relative to research has been entered under the heading "other revenue and income". In fact, during the financial period in question "other income" received as grants for the projects Choclab, TRL01, NETMED, Dione, LASUS, EUV02 and SIDART amounted to 655 thousand euro while another 86 thousand euro received for the NMED02 and EUV02 projects have also been entered under this heading; these sums will only be entered among the revenues after the approval of the relative expense budgets.

As far as the after sales servicing activity is concerned, the turnover increased as a result of the growing number of installations to be serviced. This sector is considered to be of fundamental strategic importance since punctuality, efficiency and economy of the after-sales service are seen as strongly influencing the clients' perception of the quality of the "extended product" which the company offers and which characterises its position on the market.

The following chart shows the reclassified profit and loss account

Profit and loss account	**31/12/2004**	**Inc.%**	**31/12/2003**	**Inc.%**	**Var.%**
Revenues	28.112	92,5%	24.932	92,1%	12,8%
Change in inventory of finished goods and WIP	1.146	3,8%	1.023	3,8%	12,0%
Other revenues and income	1.144	3,8%	1.127	4,2%	1,5%
Value of production	**30.402**	**100,0%**	**27.083**	**100,0%**	**12,3%**
Purchase of raw materials	14.411	47,4%	13.320	49,2%	8,2%
Change in inventory of raw material	(559)	-1,8%	(931)	-3,4%	-40,0%
Other direct services	2.712	8,9%	2.425	9,0%	11,8%
Gross margin	**13.838**	**45,5%**	**12.269**	**45,3%**	**12,8%**
Other operating services and charges	3.895	12,8%	3.621	13,4%	7,6%
Added value	**9.943**	**32,7%**	**8.648**	**31,9%**	**15,0%**
For staff costs	5.080	16,7%	4.509	16,6%	12,7%
EBITDA	**4.863**	**16,0%**	**4.139**	**15,3%**	**17,5%**
Depreciation, amortisation and other accruals	1.386	4,6%	1.221	4,5%	13,5%
EBIT	**3.477**	**11,4%**	**2.919**	**10,8%**	**19,1%**
Net financial income (charges)	127	0,4%	322	1,2%	-60,6%
Income from continuing operations	**3.604**	**11,9%**	**3.241**	**12,0%**	**11,2%**
Value adjustments (Devaluations)	(1.181)	-3,9%	(488)	-1,8%	142,3%
Extraordinary income (Charges)	964	3,2%	16	0,1%	6091,2%
Income before taxes	**3.387**	**11,1%**	**2.769**	**10,2%**	**22,3%**
Income taxes	1.486	4,9%	1.036	3,8%	43,4%
Income for the financial period	**1.901**	**6,3%**	**1.733**	**6,4%**	**9,7%**

The gross margin of contribution rose from 12,269 thousand euro to 13,838 thousand euro, 13% up on the last financial year and with a slight increase in the incidence on the Value of production (45.5% in 2004 compared to 45.3% in 2003), given the improved profits on sales as well as the increase in turnover.

The costs for services and operating charges rose from 3,621 thousand euro in 2003 to 3,895 thousand euro in 2004. This increase is due to a number of factors, including the increase in the expenses for co-ordinating and managing the group of subsidiary companies, the size of which has continued to grow and which consequently absorbs an increasing amount of resources.

An increase of 13% was also registered for personnel expenses. The number of persons employed by the company rose from 116 units on 31 December 2003 to 121 units on 31 December 2004; recent hiring related mainly to the manufacturing sector.

The Gross Operating Margin was 4,863 thousand euro, showing an increase of 17% compared to the 4,139 thousand of the previous financial year and with an incidence of approx. 16% on the value of production.

The amortisations and accruals entry showed an increase, rising from the 1,221 thousand euro of the last financial year to 1,386 thousand euro in 2004, with an incidence of approx. 5% on the value of production. Within this entry the accrual for the "fund for risks on credits", for an overall amount of 287 thousand euro, which includes the total devaluation of a credit deemed irrecoverable owed by a client, is particularly significant. Of the amortisations, the amount shown for the cost of quotation on the stock market, which took place in 2000, for an amount of 366 thousand euro is of considerable importance; the amortisation period for this expense will terminate with the financial year 2004.

The operating result rose from 2,919 thousand euro in 2003 to 3,477 thousand euro in 2004 with an increase of approx. 19% and an incidence of approx. 11% on the value of production.

The result of financial management was positive at 127 thousand euro. This is lower than the amount shown for last year on account of the reduction of cash assets, used for various operations of an extraordinary nature, and on account of the negative differences in the exchange rate, caused by the fall in the value of the dollar compared to the European currency.

As explained in the Notes to the Accounts, the amount entered under value rectification relates to the direct devaluation made on the value of equity investments in the subsidiary companies Lasercut Inc. and Deka Sarl amounting to 544 thousand euro and the further indirect devaluation through accrual for the "Fund set aside for losses by the subsidiaries" amounting to 632 thousand euro, for the amount corresponding to the relative portion of negative shareholders' equity shown by the said subsidiaries as of 31 December 2004.

Extraordinary management contributes to the operating result to the tune of 964 thousand euro. The entry is mainly influenced by the capital gains made following the sale of 10% of the share capital of Deka M.E.L.A. Srl and 2.5% of the share capital of Cynosure Inc., sales which were part of the acquisition operation of Quanta System SpA.
It is also affected by the net effect of the other operations on the anticipated amortisations calculated exclusively on the application of tax regulations, exhaustive information about which is given in the notes to the accounts closed on 31 December 2004, of approx. 279 thousand euro.

The pre-tax result was 3,387 thousand euro compared to the 2,769 thousand euro of the previous financial year with an increase of approx. 22%. Its incidence on the value of production was 11%, a slight increase compared to the 10% of 2003.

The fiscal expenditure for the financial period was certainly influenced by the disappearance of the benefits foreseen by the Dual Income Tax, applying to newly listed companies in the year of quotation (2000) and the following three financial years. As a result the overall tax rate for the financial year increased compared to the previous financial year, rising from 37.43% to 43.88%.

The reclassified statement of assets and liabilities shown below enables comparison with the figures for the previous financial year.

	31/12/2004	31/12/2003
Balance Sheet		
Intangible assets	82	559
Tangible assets	5.127	4.491
Equity investments	21.807	16.031
Other investments	2.638	2.933
Total fixed assets (A)	**29.653**	**24.014**
Stocks	10.882	9.404
Trade debtors	13.031	13.174
Other debtors	792	1.467
Other equity investments	994	115
Own shares	256	256
Cash in banks and on hand	6.306	8.597
Total current assets (B)	**32.260**	**33.013**
Trade creditors	6.083	6.438
Other debtors	2.937	1.725
Financial liabilities due within 12 months	2.374	348
Total current liabilities (C)	**11.394**	**8.512**
Net working capital (D)= B-C	**20.867**	**24.501**
Employee severance indemnity	847	697
Other provisions	1.896	1.042
Net medium and long term financial debts	1.463	1.728
Mid and long terms creditors (E)	**4.206**	**3.467**
Net invested capital (A + D - E)	**46.314**	**45.048**
Shareholders' equity	46.314	45.048
Shareholders' equity	**46.314**	**45.048**
Memorandum accounts		
Obligations to third parties		298
Total memorandum accounts		**298**

The net financial position of the company as of 31 December 2004 was as follows.

Net financial position		
	31/12/2004	**31/12/2003**
Financial mid and long term debts	(1.463)	(1.728)
Financial mid and long term debts	*(1.463)*	*(1.728)*
Financial liabilities due within 12 months	(2.374)	(348)
Cash in banks and on hand	6.306	8.597
Net financial short term position	*3.932*	*8.249*
Total financial net position	**2.469**	**6.521**

The net financial position is positive at over 2.4 million euro despite the considerable expenditure of an extraordinary nature incurred during the financial year.

In the month of January the acquisition of 30% of Quanta System entailed an investment of 1.5 million as well as the sale of some equity investments in the subsidiaries, which obviously had no impact on the net financial position of El.En.
The increase in September of the equity held in Cynosure Inc. through the purchase of shares from several minority shareholders entailed an investment of approximately 5 million dollars, half of which paid up at closing with the balance to be paid in March 2005: the amount payable as the balance due, amounting to 1,995 thousand euro, (corresponding to 2,718 thousand USA dollars evaluated at the exchange rate in force at the end of the financial year) has therefore been entered as a short term financial debt.

The payment of dividends in the month of May 2004 for an amount equal to 1,149 thousand euro also absorbed cash.

As amply explained in the notes to the accounts of the financial statement closed on 31 December 2004, part of the Cynosure shares purchased in September will be sold as part of an operation which will be accounted in the financial year 2005. The sale will bring in a total of approx. 2 million dollars (of which 877 thousand dollars have already been received) with a consequent improvement to the net financial position.

Cash on hand was invested mainly in low-risk temporary uses with easy cash availability for any strategic requirements which should arise. In any case these investments were cashed in by the end of the financial period and the cash thus derived is available in the checking accounts of the company.

2) Financial results of the subsidiary companies

El.En. S.p.A. controls a group of companies operating in the same general field of lasers, each of which has its own niche of applications and a specific market function.

The following table summarises the results of the companies in the group included in the area of consolidation; for the recently acquired companies the economic data relate to the period starting from the date of acquisition until the end of the financial year. Brief explanatory notes on the business of the single companies and a comment on the results of the financial year 2004 follow.

	Net Turnover 31/12/2004	Net Turnover 31/12/2003	Var. %	Net income 31/12/2004	Net income 31/12/2003
Cynosure (*)	33.358	23.832	39,97%	4.118	-406
Deka Mela Srl	18.028	15.128	19,17%	1.164	620
Cutlite Penta Srl	7.334	4.956	48,00%	-10	-144
Valfivre Italia Srl	439	432	1,49%	-1	17
Deka Sarl	931	1.596	-41,63%	-203	1
Deka Lms GmbH	1.201	1.350	-11,04%	56	-41
Deka Dls GmbH	527	356	48,06%	11	-69
Deka Laser Technologies LLC	1.650	722	128,56%	12	51
Quanta System SpA (**)	8.277	0		188	0
Asclepion Laser Technologies GmbH	8.781	5.281	66,28%	378	89
Arex Srl	523	0		2	0
AQL Srl	529	0		-8	0
Ot-Las Srl	2.467	4.244	-41,87%	-72	239
Lasit Srl	3.768	3.459	8,92%	-109	-46
Lasercut Inc.	1.673	1.329	25,90%	-591	-474
Neuma Laser Srl	208	90	130,52%	4	-58

(*) Consolidated data
(**) subsidiary company since January 2004

Cynosure Inc.
The company operates in the design, production and sale of laser systems for medical and cosmetic applications and has its main headquarters and plant in Chelmsford, Massachusetts (USA) and international branches in Europe and Asia. Cynosure is one of the most important companies in the sector for medical lasers and achieved its present stature thanks to the superior performance and the high quality of its products, especially thanks to the DYE lasers for vascular applications and the Alexandrite laser for hair removal.
The company handles the sales and marketing of its products on the USA market directly and on international markets through its subsidiary companies and a network of distributors. Production takes place almost entirely in Chelmsford as does R&D, a key factor of success in this sector.
Cynosure Inc. is in turn the head of a group of companies operating at a worldwide level in the field of lasers: the companies Cynosure Sarl in France, Cynosure Ltd in Great Britain, Cynosure GmbH in Germany and Cynosure KK in Japan are 100% controlled and act as local distributors also providing after-sales technical assistance; the company Suzhou Cynosure in the People's Republic of China is 52% owned and also produces special equipment for use in dermatology.
After being acquired in 2002 in a moment of operative difficulty shown by the negative profit results, Cynosure underwent a period of reorganisation, entailing the addition of some of El.En group's products to the range of products offered by it and involving the replacement of some members of the management staff. Specifically, at the end of 2003 the CEO was replaced and with him some of the chiefs of key company areas, thus determining a turning point in the management of the company.

The results of this reorganisation were reaped during the financial year 2004 which, despite the need for further corrective measures entailing a series of costs presumably not to be repeated in the coming financial years, saw Cynosure's return to positive profitability, on the operative front too.
During the month of May 2004 Cynosure sold its equity holding, equal to 40% of the subscribed capital, in Sona International Inc., a company which manages centres for laser depilation in the USA directly and under licence; at the moment of sale, the supply contract between the two companies was also renegotiated: Cynosure has now sold half of the equipment used by Sona for its cosmetic laser treatment business in return for a reduction of the "revenue sharing" fee paid by Sona in proportion to the turnover achieved in its centres. This resulted therefore in an increase in the turnover of laser systems in the cosmetics sphere offset by a reduction of the turnover for services, which the revenue sharing business is part of.
The gains achieved by the sale of the equity held in Sona determined the brilliant pre-tax result and also enabled a re-equilibrium of the financial situation of the company which the parent company, El.En. had extended credit to.
Cynosure closed the financial year 2004 with consolidated profits of approximately 5,122 thousand dollars compared to a loss of 459 thousand dollars in the previous financial year.

Deka M.E.L.A. Srl
The company deals in the distribution of the medical laser appliances produced by El.En. S.p.A. in Italy and abroad. Specifically, it operates directly in the dermatological, cosmetic and surgical sectors and has set up advantageous partnerships for the dental sector in Italy (Anthos Impianti). Deka has also acquired an important share (40%) in ASA Srl, the company appointed by the group to deal with distribution in the physiotherapy sector.
During the financial year 2004 the turnover, which grew in absolute terms by 19% compared to the previous financial year, highlighted the brilliant performance in the cosmetics sector, as in the dental sector and in that of CO_2 surgical lasers which showed a good rate of growth thanks to product innovation and skilful management of the distribution channels.
The increase in turnover achieved without an increase of the same level in structural costs, enabled the company to achieve a considerable increase in profitability, with the net result rising from 620 thousand euro in 2003 to 1,165 thousand euro in 2004.

During the month of January 2004, as part of the transactions which led to the acquisition by El.En. of the controlling interest in Quanta System S.p.A. El.En. sold 10% of the investments in Deka M.E.L.A. to Laserfin Srl, so that today the equity held by the company is 60%.

Cutlite Penta Srl
This company produces industrial laser systems for cutting applications, installing the CNC controlled movement on laser power sources produced by El.En. S.p.A. The intense marketing and promotion activity conducted in years characterised by a difficult economic situation and the recovery of the manufacturing sector, although slight, produced a considerable result in terms of turnover which grew by almost 50% compared to the previous financial year. The return to a level of business in keeping with the size of the organisation, after a year in which the economic crisis had resulted in the company registering a significant loss, made it possible to end the financial year close to breaking even and to look forward with greater optimism to the prospects of the company, despite the markets traditionally catered to being in a phase of persistent economic difficulty.

Valfivre Italia Srl
As in the previous financial year, the Company produced and provided technical assistance for special laser systems for industrial applications as well as services for the companies belonging to the group. The financial year closed with a result close to breaking even with a constant turnover compared to the previous financial year.

Ot-las Srl
This company designs and produces special systems of CO_2 laser marking for the decoration of large surfaces and for which it offers absolutely state-of-the–art technological solutions thanks to its close technological collaboration with the parent company El.En. in perfecting the strategic components.
After years of good and, in some cases, brilliant results, in 2004 Ot-las went through a difficult period due primarily to the severe crisis affecting its main client markets, in other words small Italian firms in the manufacturing sector of leather, footwear and textiles. The financial year result showed a loss of 72 thousand euro.
Intense efforts have been made both at a commercial level and through the development of new products, to reposition the company in those market niches which will enable it to expand its turnover again. The efforts made to open up new international markets, jointly with the subsidiary company Neuma Laser, which has always supported the business of the group in eastern Asia and South America, are particularly significant.

Lasit Srl
The company designs and produces laser marking systems complete with dedicated software and controls, which can be used both for marking metals and raw materials such as wood, glass, leather and textiles.

During the course of the financial year 2004 too Lasit was heavily engaged in R&D activities, co-ordinated and supported in part by the parent company which provided suitable funding.
2004 was therefore a year of transition which saw the reconfiguration of some of the historic Lasit products made more compact and flexible, and some important steps towards the development of a distribution network and commercial presence in Italy and in the world; these latter efforts were undertaken jointly with other companies in the group with an eye to strengthening the marking sector.
The negative result, with a loss of 109 thousand euro, shows how the results of the efforts made and the outlays incurred during 2004 still have to mature.

Neuma Laser Srl
The Company, which closed the financial year close to parity, conducted after-sales technical assistance, as well as acting as a technical support for the commercial activities in the Far East and South America for the industrial laser systems and equipment sold by the other companies in the Group and specifically the systems produced by its controlling companies Cutlite Penta Srl and Ot-las Srl.

Deka Sarl
This company distributes medical-cosmetic laser appliances and the relative accessories produced by El.En. in France as well as providing after-sales services for medical and cosmetic lasers. Now a point of reference for the sector in France, with a highly respected equipped base and an excellent brand position, in 2004 Deka Sarl suffered the effects of a rather stagnant market resulting in a consistent reduction in sales. The loss shown was a result of such.

Deka Lms GmbH
The company Deka Lms GmbH which distributes medical cosmetic laser appliances produced by El.En. S.p.A. in Germany registered a turnover of approximately 1,200 thousand euro in 2004, with a net result of 56 thousand euro. Thanks to the skilful management of its resources and a favourable equilibrium of fixed and variable costs, Deka LMS succeeded in returning to viability. The turnover however remains very much lower than expected and is well behind the plans for expansion formulated at the time, also due to the highly negative economic situation of the German market which all the companies in this sector are suffering from. The German market remains, however, a key point for the development of our business in Europe and in the future Deka Lms could be the vehicle for more consistent expansion in this market.

Deka Dls GmbH
The company Deka Dls GmbH, a subsidiary of Deka Lms, distributes laser systems for the dental sector in Germany. Thanks to the distribution efforts made on the German market, the financial year registered an increase in the volume of sales, making it possible to break even.

Deka Laser Technologies LLC
The company, founded in February 2003, distributes the laser systems produced by El.En. S.p.A for the dental market in the United States. Thanks to the intensive work done in laying the foundations for future expansion from a distribution point of view, the company has seen its considerable effort rewarded in terms of turnover. Despite being active in a specialised market niche, the company was able to continue to break even, thanks in part to the continual support from the parent company which should enable the definitive repayment of the financial investments supporting the start-up activities. Turnover increased by 25%, reaching 1,650 thousand euro, the income result more or less in parity is suffering from the significant start-up costs of the distribution network on the American market.

Lasercut Inc.
This American company with its headquarters in Branford (CT) acquired in April 2003 designs, produces and sells laser systems for flat cutting; in the financial period it showed a turnover of 2,100 thousand dollars, with an operating loss of 624 thousand dollars, not managing therefore to improve the result of the previous financial year.
In the manufacturing production sector which Lasercut caters for, the American market is unfortunately still going through a difficult period partly due to the persistent weakness of the American dollar which has affected the competitiveness of Cutlite Penta and Ot-las products, distributed on the American market through Lasercut. In the last quarter of 2004, thanks partly to the further efforts made to reorganise the company, the results in terms of profits improved with a limitation of the losses.

Asclepion Laser Technologies GmbH
The company through which the group took over the business in the cosmetic sector of Carl Zeiss Meditec, founded in February and acquired by El.En. S.p.A (50% with Quanta System S.p.A) in May 2003, had a turnover of approximately 8.7 million euro thanks to the excellent results achieved in the cosmetics and dental sectors, the latter significantly influenced by the "additional" turnover achieved through the distributor KaVo.

Thanks to its research centre in Jena, a greenhouse of electro-optics and one of the most important centres world wide for this type of technology as well as the quality of its products and the fame of the brand on international markets too, Asclepion achieved a brilliant income result during the course of 2004.

Quanta System S.p.A
In the month of January 2004 El.En. acquired a further 30% of the equity of Quanta System S.p.A thus raising its equity holding to 60%. Quanta System S.p.A is one of the most important Italian companies in the field of laser development and production both in the medical and industrial sector, a historic presence which is experiencing a rapid phase of growth.
In the financial year 2004 the turnover, which grew in absolute terms by approximately 20% compared to the previous financial year, showed its brilliant performance in the cosmetics segment with depilatory and vascular oriented products, and in the dental segment with low voltage diode systems. In the industrial sector the turnover expressed in the laser sources segment was significant thanks to the production of solid state laser sources for scientific and industrial applications. The welding and restoration sector was important too with its turnover reflecting the many years of research and training of the main users of the restoration sector in the use of this innovative technology.
It should be remembered that Quanta System is one of the most dynamic concerns as regards innovation and technological research in the laser sector and how its highly qualified research team participates in important development projects, also jointly with other companies in the group and the most important Italian and European research centres.

Arex Srl
The company, which became part of the group in April 2004, manages a health centre in Milan.

AQL Srl
The company AQL Srl, founded in Milan in June 2004 designs, produces and sells laser systems for the "Industrial Business" segment as well as being active in the R&D of industrial processes and products, manufacturing processes and in the realisation of pioneering new technology in the photonics sector.

3) Relations with associated and subsidiary companies

The exchange of different products and services offered by the Group frequently generates transactions between the different companies belonging to the Group itself. One of the main inter-group sources of commercial activity is represented by the production by El.En. SpA of medium to high power CO_2 laser sources, an essential part of the manufacturing operations of Cutlite Penta Srl, Valfivre Italia Srl, Ot-Las Srl and Lasit Srl. Other inter-group commercial activity takes the form of the production of medical laser equipment by El.En. SpA, some of which is sold to Cynosure, Deka M.E.L.A. Srl, Deka Sarl, Deka Lms GmbH, and Deka Dls GmbH, which then distribute them.

The price for the transfer of this equipment is determined with reference to the normal market price. The aforementioned inter-group transactions therefore reflect the trend in market prices, which they may vary slightly from depending on the marketing policy of the Group.

The tables below offers a breakdown of the operations occurring during the financial year between the various companies belonging to the Group, both as regards commercial exchanges and as regards credits and liabilities at the end of the year.

	Financial credits		Commercial credits	
Subsidiary companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cynosure		202	641	
Asclepion Laser Technologies GmbH			72	
Deka MELA Srl			2.718	
Cutlite Penta Srl	5		2.817	
Valfivre Italia Srl			162	
Deka Sarl			669	
Deka Lms GmbH		256	463	
Deka Dls GmbH			231	
Deka Laser Technologies LLC		136	171	
Lasercut Inc.		1.317	329	
Lasit Srl	150		350	
Ot-Las Srl			553	
Quanta System SpA			22	
AQL Srl			3	
Neuma Laser Srl		77	18	
Total	**155**	**1.988**	**9.219**	

	Financial credits		Commercial Credits	
Associated companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
ASA Srl			59	
Actis Srl	40		11	
Immobiliare Del.Co. Srl	14			
M&E			13	
Total	**54**		**83**	

	Financial payables		Commercial payables	
Subsidiary companies:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cynosure			7	
Deka MELA Srl			37	
Cutlite Penta Srl			79	
Deka Sarl			6	
Deka Lms GmbH			12	
Lasit Srl			2	
Ot-Las Srl			4	
Quanta System SpA			21	
Total			**168**	

Associated companies:	Financial payables < 1 year	Financial payables > 1 year	Commercial payables < 1 year	Commercial payables > 1 year
ASA Srl			1	
Actis Srl			135	
Total			**136**	

Subsidiary companies:	Purchase raw materials	Services	Other	Total
Cynosure	11	48		59
Deka MELA Srl	76	47		123
Cutlite Penta Srl	118	10		128
Valfivre Italia Srl	7	1		8
Deka Sarl	34	1		35
Deka Lms GmbH		10		10
Lasit Srl	13			13
Ot-Las Srl	1	11		12
Quanta System SpA	124	12		136
Asclepion Laser Technolohies GmbH	531			531
Total	915	140		1.055

Associated companies:	Purchase of raw materials	Services	Other	Total
Actis Srl	225			225
Total	**225**			**225**

Subsidiary companies:	Sales	Services	Total
Cynosure	1.823	4	1.827
Deka MELA Srl	12.808	139	12.948
Cutlite Penta Srl	1.414	244	1.658
Valfivre Italia Srl	318		318
Deka Sarl	602	13	615
Deka Lms GmbH	558		558
Deka Dls GmbH	243		243
Lasit Srl	144	82	225
Ot-Las Srl	549	63	611
Neuma Laser Srl	25	3	27
Deka Laser Technologies LLC	501	1	502
Asclepion Laser Technologies GmbH	96		96
Quanta System SpA	42	1	43
Lasercut Inc.	250		250
Total	**19.372**	**550**	**19.922**

Associated companies:	Sales	Service	Total
Actis Srl	1	1	2
Asa Srl	442	1	443
Total	443	2	445

Subsidiary companies:	Other revenues
Cynosure	36
Deka MELA Srl	43
Cutlite Penta Srl	80
Valfivre Italia Srl	3
Deka Lms GmbH	5
Deka Dls GmbH	2
Deka Laser Technologies LLC	25
Asclepion Laser Technologies GmbH	97
AQL Srl	2
Lasercut Inc.	11
Total	**305**

The other income, refers, among other things, to the rent paid by Deka M.E.L.A. Srl and Cutlite Penta Srl for the parts of the Calenzano premises occupied by them.

During this financial year, the company also received dividends for an amount of 180 thousand euro from the subsidiary Deka M.E.L.A. Srl.

Approx. 163 thousand euro were entered into accounting for income from earned interest on financing granted to subsidiary companies, details of which are given in the paragraph related to receivables in the Notes to the accounts of the financial statement as well as 2 thousand euro for earned interest on financing granted to the associate company Actis Srl for 40 thousand euro.

The amounts shown in the above mentioned tables refer to operations inherent to the traditional management of the Company.

4) R&D activities

In the course of 2004 intensive R&D activities continued with the aim of opening up new laser applications both in the medical and industrial fields and of launching innovative products on the market.

The global market, especially for highly technological products, requires that the competition be faced with an almost continual introduction onto the market of new products and versions of products that are innovative in their performance using increasingly cutting-edge technology and components. Wide-ranging and intensive R&D organised along scheduled short and medium term lines is therefore needed.
Research aimed at achieving results in the medium term tends to be directed towards more speculative topics inspired by ideas coming from inside the company and by prospects suggested by the scientific work of pioneering laboratories and research centres worldwide.
Research aimed at achieving results in the short term concentrates on topics for which pre-feasibility has already been verified. In addition, for such topics the selection and drafting of the characteristics and specifications has already been done on the basis of information obtained through the work of in-house specialists and also as a result of the activities of the public and private institutions involved, which have acted as consultants during the preliminary study phase.

The research conducted is mostly applied and, to a lesser degree, basic, for some specific topics. Both the applied research and the development of the pre-prototypes and prototypes is sustained by financial resources in part the company’s own and in part in the form of grants deriving from research contracts stipulated with the managing institutions acting on behalf of the Ministry of University Education and Research and with the European Union both directly and through Research Institutions.

Below are some details of the research conducted.

<u>Laser systems and applications in medicine</u>
The development of laser appliances and apparatus for mini-invasive, robot-assisted, microsurgery continued; this work is part of the project on New Medical Engineering as an FIRB (Basic Research Investment Fund) project, financed in part by the MIUR (Ministry of University Education and Research) following the awarding of grants after selection based on the opinions of international experts. Theoretical and experimental studies continued into the fine-tuning of the doses for processes involving the cutting and ablation of soft tissue and the cauterisation of small blood vessels. A directable micro-tweezer and multiple-way-path catheter for endoscopy, for endoluminal photodynamic therapy and for diagnostics using opto-acoustic microprobes are being developed. Research activities are under way to develop a technique and appliances for the laser-assisted anastomosis of blood vessels.
The development of instrumentation and the clinical experimentation of innovative laser equipment for use in physiotherapy and orthopaedics continued. Research is under way into new appliances and methods for the percutaneous laser ablation of the liver and thyroid, as part of the activities of the consortium company IALT (Image Aided Laser Therapy) recently founded by El.En. and Esaote.
At the same time clinical experimentation is continuing in Italy and in qualified centres in Europe and the United States to confirm and document the efficacy of innovative therapeutic laser treatment in various fields of medicine: odontostomatology, cardiosurgery, gastroenterology, oculistics, venology, eco-guided interstitial hyperthermia, dermatology and cosmetics. A new type of low fluence and isotropic emission radiator is being developed for interstitial laser hyperthermia to carry out mini-invasive microsurgery operations on the thyroid guided by images and ultrasound.
A programme of innovative ophthalmology technology which regards the attachment of the cornea using laser light is in progress.
The development of lasers for ophthalmology to carry out photocoagulation of the retina has been started.

Research into the development of a diode laser for applications in neurosurgery using mini-invasive techniques continued.
Research is being conducted to produce a new laser surgical tweezer for use in laparoscopic surgery.
A research programme is in progress into applications of mechatronics and micro-technology in the biomedical industry financed by the European Union.

Laser systems and applications in industry
Research regarding an excimer laser system for use in the nano-manufacture of appliances for electronics and optical-electronics continued.
In addition, applied research continued into the development of large mirrors made in new forms and new materials for scanning the laser beam, designed to mark or treat the surfaces of different kinds of material for the aesthetic enhancement of garments and craft products with laser power of over 1kW. The development of electronics based on a Digital Signal Processor to translate the results of theoretical research carried out on the numerical control of galvanometers for scansion heads into HW continued.
Studies continued into the perfection of algorithms, calculus programmes and HW structures for artificial vision systems to use in automised surface decoration using laser markers, of leather and other materials and for the cutting and marking of objects set on the worktop in any direction.
A project for the creation of a high power solid state laser source with active material in an amorphous ceramic support is being conducted.
The development of new laser equipment for the diagnosis and documentation of cultural assets continued, as part of the PON (National Operative Programmes) for the development of strategic sectors in Southern Italy.
As part of this, a new system of sensors which memorises the environmental strain on works of art while they are being transferred from a museum to a different exhibition site is being studied.
Moreover, a new system of presenting thermic transients is being developed for the study of the degree of conservation of works of art and industrial products during the set-up phase in the manufacturing process.

The following table lists the costs attributable to R&D in the period.

thousands of euros	**31/12/2004**
Costs for personnel and general expenses	3.618
Costs for instruments and equipment	98
Costs for building of prototypes	288
Costs for technological consultants	228
Services provided	76
Intangible assets	6
Total	**4.314**

As regards the costs for “Staff and general expenses” the amount shown above indicates the costs incurred during 2004 for staff devoted to R&D, amounting to 2,261 thousand euro and increased by 60% as a flat-rate attribution of general expenses, to research activities. The percentage increase applied is that recognised by the funding bodies of the R&D activities which allow, within the sphere of the research projects being funded, a flat-rate repayment of the general costs thus quantified.

The amount of the costs incurred corresponds to approx. 15% of turnover, a very significant amount which weighs heavily on the short term financial result, but which guarantees the companies and the Group a continuous innovation in the range of products and experimentation in the frontiers of technology related to the products, which thus assures development potential for future years. In relation to the above mentioned expenses, El.En. SpA has entered into accounting for this year income received as grants for an amount of approx. 655 thousand euro. The resources and efforts involved in this activity obviously represent a major commitment, in financial terms too, but one which is essential and necessary for the development of the company.

5) Structure of company management

In accordance with art. 19 of the Articles of Incorporation, the company is administrated by a Board of Directors composed of a minimum of three to a maximum of fifteen members.

The current Board of Directors, elected by the shareholders' assembly held on the 6 November 2003, is composed as follows:

NAME	POST	PLACE AND DATE OF BIRTH
Gabriele Clementi	President with conferred powers	Incisa Valdarno (FI), 8 July 1951
Barbara Bazzocchi	Deputy Board Member	Forlì, 17 June 1940
Andrea Cangioli	Deputy Board Member	Florence, 30 December 1965
Francesco Muzzi	Board Member	Florence, 9 September 1955
Marco Canale	Board Member	Naples, 12 November 1959
Paolo Blasi*	Board Member	Florence, 11 February 1940
Michele Legnaioli*	Board Member	Florence, 19 December 1964
Angelo Ercole Ferrario**	Board Member	Busto Arsizio, 20 June 1941
Alberto Pecci	Board Member	Pistoia, 18 September 1943
Paolo Ernesto Agrifoglio ***	Board Member	Genoa, 1 January 1966

* * Independent administrators, in accordance with art. 3 of the Code of Self-discipline of Listed Companies
** Co-opted by the Board of Directors at the meeting of 13 February 2004 in accordance with and by effect of art. 2386 of the civil code in place of Prof. Ennio Carnevale who resigned. Subsequently confirmed by the Shareholders' assembly on 14 May 2004 he will remain in office until the expiry of office of the other members of the Board of Directors
*** Outgoing on 21 March 2005; the Shareholders' assembly of 29 April 2005 / 13 May 2005 will be asked to deliberate on the substitution of the outgoing board member or the reduction of the number of Board members, currently agreed as ten.

The previous Board of Directors having been appointed on 5 September 2000, in order to align the expiry date of the Board of Directors with the approval of the budget, without exceeding the maximum term of the mandate, established as three years by what is now art. 19 of the internal regulations, the shareholders' assembly which elected the present Board of Directors on 6 November 2003 has set as the expiry date of the term of office, the date of the assembly meeting for the approval of the budget relative to the financial year ending 31 December 2005.

The members of the Board of Directors are domiciled for the purpose at the headquarters of El.En. S.p.A in Calenzano (FI), Via Baldanzese n. 17.

On 13 November 2003 the Board of Directors attributed to the President of the Board of Directors, Eng. Gabriele Clementi and to the deputy board members Mrs. Barbara Bazzocchi and Eng. Andrea Cangioli, separately from each other and with independent signature, all the ordinary and extraordinary administrative powers for the fulfilment of all the activities inherent to the company goals, excluding only those activities for which powers may not be delegated by law, in accordance with art. 2381 of the civil code and of the company statutes.

In accordance with the provisions of the Code of self-discipline for Listed Companies:

a) as of 31 August 2000, the Board of Directors has among its members two independent administrators as in art. 3 of the Code of self-discipline mentioned. At present these are Prof. Paolo Blasi and Dott. Michele Legnaioli.

b) as of 5 September 2000 it has set up the following internal committees composed mainly of non-executive administrators:
1. " the Appointments Committee", responsible for proposing nominations, receiving them from shareholders and checking that the procedure laid down by the company statute for the selection of candidates is respected;
2. "the Fees Committee", responsible for information and transparency regarding the method and manner used to determine the fees paid to Board Members;
3. "the Auditing Committee", which must offer consultancy, proposals and support to the Board in setting up and monitoring the internal control system and activities.

c) as of 5 September 2000 it has designated a person to monitor internal control, such post is at present held by Mrs. Cristina Morvillo.

The Board of Directors meets at least every three months to ensure that the Board of Auditors is adequately informed of the business and the most important operations performed by the Company and by its subsidiary companies.

The Group is controlled internally by the Parent company in collaboration with the personnel of the subsidiary companies. From an organisational point of view, the administrators of the Parent company participate in the Board Meetings of the subsidiary companies as members of the same administrative organ or else they hold the title of Sole administrator. Wherever this is not the case the administrative body of the subsidiary company must supply sufficient information for the organisational definition of the activities of the Group.

As regards accounting information, the subsidiary companies must supply all the information needed for the parent company to draw up the consolidated economic and financial reports before the end of the month following the quarter in question.

As of 11 December 2003 the para social pact (the “Pact”) between the shareholders Immobiliare del Ciliegio Srl, Andrea Cangioli, Gabriele Clementi, Barbara Bazzocchi, Francesco Muzzi, Pio Burlamacchi, Carlo Raffini and Autilio Pini stipulated in 2000, added to in 2003 and having the purpose as specified below, was renewed for a further three years:
- a majority vote syndicate which conferred a total of no. 2,391,994 ordinary shares of El.En. S.p.A equal to 51.31% of the Share capital;
- a block syndicate in which they conferred a total of no. 2,391,994 ordinary shares of El.En. S.p.A equal to 51.31% of the Share capital.

The Pact foresees, for the member shareholders, constraints on the sale of shares and dispositions regarding the exercising of their vote at the assemblies, in any case respecting the right to equal treatment of all the shareholders as regards information.
The constraints on sale take the form of an obligation not to transfer the shares (and relative rights) of the company conferred to them by the Pact to persons outside the syndicate for a period of three years.
As regards the dispositions on the exercising of voting rights at the shareholders’ assemblies the Pact stipulates that the Steering Committee of the syndicate (to which all the Pact members belong) must meet before each assembly of the Company to decide on the line of conduct to adopt during the assembly and which way they are going to vote. The decisions of the Steering Committee are made on the basis of majority vote calculated on the basis of the number of shares possessed by each member and are binding on the partners who must vote at the company assembly in accordance with the majority decision of the syndicate.

6) Code of conduct

In accordance with and by effect of articles 2.6.3 and 2.6.4 of the “Regulations of the New Market organised and managed by Borsa Italiana SpA” the company has adopted from 1 January 2003 the “Code of conduct” which, with reference to the so-called “internal dealing” operations performed by relevant persons, sets out the information obligations and code of behaviour which must be respected so as to guarantee the maximum transparency and homogeneity of information towards the market.
Such document also indicates the time limits and quantity limits so that the relevant persons must notify:
a) within the third day of the stock exchange being open subsequent to the end of each period of survey (each calendar quarter) the operations effected in the quarter which if added together exceed the amount of 25 thousand euro;
b) immediately and in any case within one day of the stock exchange being open subsequent to that when the operation took place or of the amount specified below being exceeded, of the operations which singly or added together with others performed during the period of survey, but not declared, amount to or exceed the amount of 150 thousand euro.

7) Correlated parties

In accordance with the I.A.S. 24 the following subjects are considered correlated parties of El.En. S.p.A:
- the subsidiary and associated companies as shown in this Business report;
- the members of the Board of Directors, Board of Auditors and the other executive directors with strategic responsibilities;
- the individuals holding shares in El.En. S.p.A;
- the legal bodies of which a significant number of shares is owned by one of the main shareholders of El.En. S.p.A, by one of the El.En. S.p.A shareholders belonging to the voting syndicate, by a member of the Board of Directors, by a member of the Board of Auditors, by any other of the executives with strategic responsibilities.

The following should be noted:

Subsidiary and associated companies
All the relations of amounts receivable and amounts owed, expenditure and income, all the financing and guarantees granted to subsidiary or associated companies during the financial year 2004, are shown clearly and in detail in this financial statement.

Sale prices are set with reference to what normally happens in the market. The above-mentioned inter-group transactions reflect therefore the price trends of the market, with respect to which they may differ slightly depending on the marketing policy of the Group.
It should be noted that in October 2002 El.En. S.p.A. acquired, free of charge, from Deka Mela Srl the licence to use the trademark of the same name for the marketing of laser equipment produced by El.En. for the medical, dental and cosmetic sectors in various countries in Europe and outside Europe.

Members of the Board of Directors, the Board of Auditors and other strategic executives
The members of the Board of Directors and of the Board of Auditors receive the salaries indicated in the notes to the accounts.
The President of the Scientific Committee receives the salary indicated in the notes to the accounts.

Legal bodies, shares of which are owned by members of the Board of Directors or Board of Auditors or by other strategic executives
The members of the Board of Directors, of the Board of Auditors and the President of the Scientific Committee own the shares shown in the continuation of this Report.

Individuals holding shares in El.En. S.p.A
As well as the members of the Board of Directors, the Board of Auditors and the President of the Scientific Technical Committee, the partners Carlo Raffini and Pio Burlamacchi receive emoluments, as shown in the notes to the accounts inasmuch as:
a) Carlo Raffini has been appointed as the Quality System Director by El.En. S.p.A;
b) Pio Burlamacchi is the holder, by virtue of a special contract, of industrial monopoly rights consisting in the patent application for the invention of a “Support for the optical cavity for lasers with adjustment of the beam”.

8) Equity investments of directors, auditors and general managers

Some of the members of the Board of Directors also hold company positions in the subsidiary or associate companies, as shown in the table below:

Name and surname	Post
Gabriele Clementi	- Sole Administrator of Valfivre Italia S.r.l. (company in which El.En. S.p.A. holds a 99% equity.) - Board member of Cynosure Inc. (company in which El.En. S.p.A. holds a 84.67% equity.) - Board member of Quanta System S.p.A (company in which El.En. S.p.A. holds a 60.00% equity.)
Barbara Bazzocchi	- Sole Administrator of Cutlite Penta Srl (company in which El.En. S.p.A. holds a 53.50% equity.) - President of the Board of Directors of Actis – Active Sensor s.r.l. (company in which El.En. S.p.A. holds a 12.00% equity.)
Francesco Muzzi	- President of the Board of Directors of Deka M.E.L.A. Srl (company in which El.En. S.p.A. holds a 60.00% equity.)
Andrea Cangioli	- Sole Administrator of Neuma Laser Srl (company controlled indirectly through Cutlite Penta Srl and Ot-las Srl) - Board member of Quanta System S.p.A (company in which El.En. S.p.A. holds a 60.00% equity.) - Board member of Cynosure Inc. (company in which El.En. S.p.A. holds a 84.67% equity.) - Board member of Ot-las Srl (company controlled indirectly through Cutlite Penta Srl) - Board member of A.S.A. s.r.l. (company in which the subsidiary company Deka M.E.L.A. Srl holds a 40% equity) - Sole Administrator of Asclepion Laser Technologies (company in which El.En. S.p.A and Quanta System S.p.A both hold a 50% equity) - Board member of Lasercut Inc. (with an equity of 70%)
Angelo E. Ferrario	- President of the Board of Directors of Quanta System S.p.A (company in which El.En. S.p.A. holds a 60.00% equity.)

The acting members of the Board of Auditors of El.En. S.p.A are also members of the boards of auditors of subsidiary companies as shown in the following table:

Name and surname	Post
Vincenzo Pilla	- President of the Board of Auditors of Lasit Srl since 3 December 2004 (ex acting auditor) - President of the Board of Auditors of Deka M.E.L.A. Srl - Acting auditor of Cutlite Penta Srl
Paolo Caselli	- President of the Board of Auditors of Cutlite Penta Srl - Acting auditor of Deka M.E.L.A. Srl - Acting auditor of Lasit Srl
Giovanni Pacini	- Acting auditor of Cutlite Penta Srl - Acting auditor of Deka M.E.L.A. Srl

The table below, in accordance with art. 79 of the Consob regulations, approved with vote no. 11971 on 14 May 1999 shows the investments in the Company by the administrators and auditors and their families.

Name	*Company*	*No. of shares on 31/12/2003*	*No. of shares acquired*	*No. of shares sent*	*No. of shares on 31/12/2004*
Andrea Cangioli	El.En. S.p.A.	624.460			624.460
Barbara Bazzocchi	El.En. S.p.A.	494.824			494.824
Gabriele Clementi	El.En. S.p.A.	495.650			495.650
Francesco Muzzi	El.En. S.p.A.	486.724			486.724
Immobiliare del Ciliegio Srl (*)	El.En. S.p.A.	312.412			312.412
Lucia Roselli	El.En. S.p.A.	350			350
Paolo Caselli	El.En. S.p.A.	300			300
Vincenzo Pilla	El.En. S.p.A.	300			300
Michele Legnaioli	El.En. S.p.A.	160			160
Paolo Ernesto Agrifoglio	El.En. S.p.A.		1.980		1.980
Alberto Pecci	El.En. S.p.A.	55.637	116.550		172.187

(*) L'immobiliare del Ciliegio Srl is a company with registered office in Prato and stock capital of euro 2,553,776 . Andrea Cangioli is the holder of bare ownership rights of a portion of 25% of the stock capital.

9) Stock options offered to executives and employees

The special assembly of 16 July 2002 voted to entitle the Board of Directors, in accordance with and by effect of art. 2443 of the Civil Code, for a maximum period of five years from the date of the vote, to increase the share capital of the Company once or several times upon payment, for maximum amount of euro 124,800 by issuing a maximum of 240,000 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 acquired by payment of a price to be determined by the Board of Directors bearing in mind the dictates of art. 2441, sub-paragraph VI, civil code. – that is on the basis of the value of net assets, also bearing in mind the trend of the official prices registered for the shares on the stock exchange in the last six months – and as a unitary value inclusive of the premium, equal to the greater of the following: a) the value of each share determined on the basis of the consolidated net assets of the group El.En. as of 31 December 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, organised and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options; c) the arithmetical mean 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; d) the arithmetical mean 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 period of time prior to the assigning of the options determined by the Board of Directors in the regulation of the incentives plans.

On 6 September 2002 the Board of Directors voted to implement in part the decision of the Shareholders' assembly dated 16 July 2002 to increase the share capital to euro 31,817.76 for use in the 2003/2004 stock-options plan and approved the relative regulations. The option rights were assigned exclusively to the Group's Executives, Managers and Employees who at the time of the assignment were employed by the group. The above plan was divided into two phases, one for each year; the first phase, for a maximum of 30,600 shares, was exercisable by the assignees from 18 November to 31 December 2003, from 15 August to the 30 September 2004 and from 18 November to the 31 December 2004; the second

phase, for a maximum of 30,588 shares was exercisable by the assignees from 15 August to the 30 September 2004 and from 18 November to the 31 December 2004.
With reference to this vote, as of 31 December 2004 (the deadline for the exercising of such rights) the total of 61,188 option rights had been opted, of which 21.139 opted in the previous financial year.

Moreover, on 13 November 2003, the Board of Directors voted to partially implement the decision of the shareholders' assembly dated 16 July 2002 to increase the share capital by euro 13,145.60 to be used for the 2004/2005 stock-options plan and approved the relative regulations. The option rights were assigned exclusively to the Group's executives, managers and employees who at the moment of assignment were employed by the group. The above plan was divided into two phases, one for each year; the first phase, for a maximum of 12,640 shares, exercisable by the assignees from 18 November to 31 December 2004, from 15 August to the 30 September 2005 and from 18 November to the 31 December 2005; the second phase, for a maximum of 12,640 shares will be exercisable by the assignees from 15 August to the 30 September 2005 and from 18 November to the 31 December 2005.
With reference to this vote, relative to the first phase of 12,640 shares, in the period from 18 November to 31 December 2004 1,056 option rights were exercised.

10) Debenture loan

On 7 November 1996 the special assembly of the company approved the emission of a debenture loan up to the amount of euro 619,748 through the issue of 120,000 bonds with a nominal value of euro 5.16 each. The entire debenture loan was underwritten to the amount of 412,133 euro by the following persons: Autilio Pini, Andrea Cangioli, Francesco Muzzi, Barbara Bazzocchi, Carlo Raffini and Gabriele Clementi; to the amount of euro 123,950 by Mr Gabriele Clementi and his wife; to the amount of euro 10,329 by Mr Carlo Raffini and his wife. The remaining part of the loan, for the sum of euro 73,336 was underwritten by other shareholders. The length of the loan is ten years, with repayment by 31 December 2006. The annual interest rate is 9.75% payable in yearly instalments deferred to the 1 January of each year. Upon expiry the bonds will be reimbursed at their nominal value.

11) Treasury stock

The Board of Directors of the company, at the express mandate received from the shareholders' assembly on 24 April 2002, purchased, in the same financial year and in the manner foreseen by the said shareholders' mandate, 22,714 shares with a counter value of 255,937 euro at an average price of 11.2678 euro. As of 31 December 2004 such shares were prudentially maintained at purchase cost.
It is important to remember that during the month of February 2005, in compliance with the deliberation of the same shareholders' assembly, the Company put back in circulation all the shares previously acquired, in the full respect of current law. The average sales price was 25.05 euro each with a gross overall gain of 313 thousand euro.

12) Adjustment of the company statute in accordance with the Legislative Decree 6/2003

The company, having taken note of the modifications introduced by the Legislative Decree dated 17 January 2003, no. 6 and subsequent modifications, modified its company statute by deliberation of the shareholders' assembly so as to adjust the content to the new imperative dispositions and to take the opportunity at the same time, to improve and clarify the formulation of the some of the statutory dispositions.

13) Application of the IAS/IFRS principles

During the financial year 2004, El.En. S.p.A continued its implementation of international principles through the creation of a dedicated task force which foresaw the involvement of the main companies belonging to the El.En. Group.
Specifically, analysis aimed at identifying the main differences between Italian accounting principles and the IAS/IFRS principles and at quantifying, on the basis of the differences found, the most significant effects on the consolidated financial statement of the El.En. Group.
The project aimed at achieving the following objectives:

- Identification of the main differences between Italian accounting principles and the IAS/IFRS principles therein included those for the preparation of the opening budget (1/1/2004, date of transition) and quantification of the relative impact;

- Implementation of the administrative processes and company information systems to enable the drawing up of financial statements and quarterly reports according to IAS/IFRS principles.

The analysis conducted so far has revealed some differences between Italian accounting principles and the IAS/IFRS when properly applied, the most important of which are described below:

- *start-up and difference from consolidation*: these entries will no longer be automatically amortised in the profit and loss account but will be subject to evaluation performed on an annual basis, so as to identify any loss in value (impairment test);
- *treasury stock,* this stock, according to the IAS/IFRS, may no longer be entered among the assets and must be cancelled along with the corresponding reserve fund; moreover, the total amount of treasury stock must be shown as a reduction of the net assets;
- *consolidation principles*: the exclusion of firms of an insignificant size, firms being wound up and those with business of a different nature from the consolidation area is no longer permitted; the shares of consolidated subsidiary companies with circulating assets must be included in the area of consolidation;
- *stock options*: the IFRS 2 classifies stock options in the category of "equity settled share-based-payment transactions" that is of "goods or services acquired through the payment of instruments representing capital"; specifically, on the basis of this principle, stock options must be evaluated at the time of being granted ("grant date") at the fair market value, registering in the profit and loss account a cost which shows an equivalent in the increment of the reserves of the net assets;
- *severance payments*: Italian principles require that liabilities for severance payments (TFR) be shown on the basis of the nominal debt maturing at the date of closing the financial statement; according to the IAS/IFRS, the institution of TFR falls into the category of benefit plans defined as subject to actual evaluation to express the present value of the benefit, to be issued the end of the employment relationship, which employees have matured at the date of the financial statement;
- *composite financial instruments*: according to the IAS 32, the value of composite financial instruments (e.g. convertible bonds) must be divided between the financial liabilities and the instruments representing net assets (stocks, bonds and options for the purchase of stocks, other instruments representing net assets);
- *derived instruments*: according to IAS/IFRS principles all the derived instruments must be reflected in the financial statement at the relative "fair value". The method used for the entering into accounting of derived instruments varies according to the characteristics of the same (covering and non-covering instruments);
- *extraordinary components*: according to the IAS/IFRS principles the components of an extraordinary nature are no longer in force;
- *exemptions from the accounting principles foreseen by special laws*: for IAS/IFRS purposes, accounting procedures should not take account of the interference produced by special laws and fiscal laws.

With regard to the differences identified the operating procedures for the relative quantification for each company have been defined.

In accordance with IAS 1, the financial statement according to IAS/IFRS must include, in terms of comparative information, the results of the financial period preceding that being described. The financial statement as of 31 December 2005 will be the first annual report presented by the El.En. Group drawn up according to international principles and will include therefore, for the purposes of comparison, the financial statement according to IAS/IFRS as of 31 December 2004. As regards the quarterly statements regarding the financial year starting 1 January 2005, considering that the definition of the set of laws to be referred to was only completed in December 2004 with the publication of the international accounting principles in the Official Gazette of the European Union, CONSOB has deemed fit to foresee several helpful dispositions. These can be summarised in brief as follows:
a) for the first quarterly report the use of the assessment and measurement criteria established by the regulations formerly in force for drawing up accounting reports is allowed;
b) for the second quarter the application of the assessment and measurement criteria established by international accounting principles is required; in the event of it being impossible to apply such criteria the use of the criteria previously in force is permitted but a reconciliation table must be drafted of the final balances shown in the accounting tables compared with those determined on the basis of international accounting principles;
c) for the six-monthly report the application of the dispositions established by the international accounting principle IAS 34 is required; in the event of the impossibility of applying the IAS 34 a reconciliation of the data of the net assets and of the economic result drawn up on the basis of the regulations formerly in force compared with those determined according to international accounting principles must be drafted;
d) the third and fourth quarterly reports must be drafted according to the assessment and measurement principles established by IAS/IFRS.

14) Application of the privacy regulations protecting disclosure of personal data

In accordance with the provisions of rule 26, Attachment. B, of the Legislative Decree 30 June 2003, no. 196 the company declares that it has drawn up the programme document for privacy regulations for 2004.
The opportune ness of supplementing such document within the terms permitted by the Guarantor of privacy is currently being assessed.

15) Noteworthy events occurring after the closure of the financial year

In January 2005 El.En. bestowed the real estate property held in Branford, Connecticut, on the company BRCT Inc. 100% held and founded for the purpose, to as to simplify the bureaucratic procedures regarding the property, which we remind you, Lasercut Inc. conducts its business in.
No other events worthy of particular note as regards the Group's business occurred after the closure of the financial year which this report refers to.

16) Forecast management trends

In relation to the forecasts formulated by El.En. Group for the financial year 2005, which estimate at a consolidated level expansion of the turnover to 110 million euro and an operating income of 5 million, the forecasts for El.En. estimate a 10% increase in the volume of sales and a corresponding increase in the operating income.
As far as income from management of the equity investments is concerned, the dividends received will increase on account primarily of the excellent performance of Deka M.E.L.A. Srl and as of today no devaluations of the equities at the levels effected in 2004 are foreseen.

The trend for the first few months of 2005 would seems to confirm the forecasts made above, thanks especially to the sales trend which is in line with the forecasts.

17) Allocation of profits

We would like to invite our shareholders therefore to approve the financial statement for the financial year and allocate the profits of 1,901,175.00 euro as follows; 1,631,785.40 euro for distribution as dividends (0.35 euro per share) and the remainder as extraordinary reserve.

For the Board of Directors
The President – Dr. Gabriele Clementi

El.En. S.p.A.
Financial statement for the year ending 31/12/2004

ASSETS	31/12/2004	31/12/2003
A) SUBSCRIBED UNPAID CAPITAL		
Total subscribed unpaid capital		
B) FIXED ASSETS		
I) Intangible assets		
1) Formation and expansion expenses		370.090
4) Concessions, licenses, trade marks and similar rights	68.282	160.591
6) Intangible assets in progress and payments on account		6.992
7) Other	13.652	21.523
Total intangible assets	**81.934**	**559.196**
II) Tangible assets		
1) Land and buildings	3.800.687	2.356.873
2) Equipment and machinery	270.079	169.319
3) Industrial and commercial equipment	703.292	377.731
4) Other	255.136	288.002
5) Tangible assets under construction and payments on account	97.329	1.299.550
Total tangible assets	**5.126.523**	**4.491.475**
III) Financial fixed assets		
1) Equity investments in :		
a) subsidiary companies	21.387.705	15.402.952
b) associated companies	280.440	405.150
d) other companies	138.853	145.781
Total equity investments	*21.806.998*	*15.953.883*
3) Other investments		76.709
Total financial fixed assets	**21.806.998**	**16.030.592**
TOTAL FIXED ASSETS	**27.015.455**	**21.081.263**
C) CURRENT ASSETS		
I) Stocks:		
1) Raw materials and consumables	5.870.455	5.311.869
2) Work in progress and components	3.380.773	2.977.924
4) Finished goods	1.630.709	1.113.872
Total stocks	**10.881.937**	**9.403.665**
II) Debtors		
1) Trade debtors		
- due within 12 months	3.520.459	2.569.714
Total trade debtors	*3.520.459*	*2.569.714*
2) Amounts owed by subsidiary companies		
- due within 12 months	9.374.130	10.412.674
- due after 12 months	1.987.633	2.511.406
Total amounts owed by subsidiary companies	*11.361.763*	*12.924.080*
3) Amounts owed by associated companies		
- due within 12 months	136.467	192.052
Total amounts owed by associated companies	*136.467*	*192.052*
4-bis) Tax debtors		
- due within 12 months	255.185	1.063.061
Total tax debtors	*255.185*	*1.063.061*
4-ter) Defered tax assets		
- due after 12 months	436.013	221.989
Total defered tax assets	*436.013*	*221.989*
5) Other debtors		
- due within 12 months	467.978	354.997
- due after 12 months	213.915	199.321
Total amounts owed by other debtors	*681.893*	*554.318*
Total debtors	**16.391.780**	**17.525.214**
III) Investments which are not permanent		
1) Subsidiary companies	993.526	
4) Other companies		115.000
5) Own shares	255.937	255.937
Total investments which are not permanent	**1.249.463**	**370.937**
IV) Cash at bank and in hand		
1) Bank and postal current accounts	6.298.369	8.594.432
3) Cash on hand	7.138	2.931
Total cash at bank and in hand	**6.305.507**	**8.597.363**
TOTAL CURRENT ASSETS	**34.828.687**	**35.897.179**
D) PREPAYMENTS AND ACCRUED INCOMES:		
1) Prepayments and accrued income assets	68.975	48.670
Total prepayments and accrued incomes	**68.975**	**48.670**
TOTAL ASSETS	**61.913.117**	**57.027.112**

LIABILITIES	31/12/2004	31/12/2003
A) CAPITAL AND RESERVES		
I) Subscribed capital	2.424.367	2.402.992
II) Share premium reserve	34.698.414	34.206.116
IV) Legal reserve	537.302	537.302
V) Reserve for own shares	255.937	255.937
VII) Other reserves:		
- Extraordinary reserve	6.069.661	5.486.618
- Reserve for contribution on capital account	426.657	426.657
- Other reserves	-1	1
Total other reserves	*6.496.317*	*5.913.276*
IX) Profit (loss) for the financial period	1.901.175	1.732.650
TOTAL CAPITAL AND RESERVES	**46.313.512**	**45.048.273**
B) PROVISIONS FOR RISKS AND CHARGES		
1) Provisions for pensions and similar obligations	216.184	196.471
2) Provisions for taxation	581.145	397.836
3) Other provisions	1.098.918	447.775
Total provisions for risks and charges	**1.896.247**	**1.042.082**
C) EMPLOYEE SEVERANCE INDEMNITY	**847.255**	**697.028**
D) CREDITORS		
3) Loans from shareholders		
- due after 12 months	619.748	619.748
Total loans from shareholders	*619.748*	*619.748*
4) Amounts owed to banks		
- due within 12 months	209.796	211.471
- due after 12 months	206.583	413.166
Total amounts owed to banks	*416.379*	*624.637*
5) Amounts owed to other financial institutions		
- due within 12 months	168.575	136.732
- due after 12 months	636.197	694.942
Total amounts owed to other financial institutions	*804.772*	*831.674*
6) Advances received		
- due within 12 months	481.104	361.815
Total advances received	*481.104*	*361.815*
7) Amounts owed to suppliers		
- due within 12 months	5.779.395	5.744.000
Total amounts owed to suppliers	*5.779.395*	*5.744.000*
9) Amounts owed to subsidiary companies		
- due within 12 months	167.506	676.615
Total amounts owed to subsidiary companies	*167.506*	*676.615*
10) Amounts owed to associated companies		
- due within 12 months	135.710	17.799
Total amounts owed to associated companies	*135.710*	*17.799*
12) Amounts owed to tax administration		
- due within 12 months	1.245.353	237.586
Total amounts owed to tax administration	*1.245.353*	*237.586*
13) Amounts owed to social security institutions		
- due within 12 months	400.045	347.761
Total amounts owed to social security institutions	*400.045*	*347.761*
14) Other creditors		
- due within 12 months	2.803.764	777.749
Total other creditors	*2.803.764*	*777.749*
TOTAL CREDITORS	**12.853.776**	**10.239.384**
E) ACCRUALS AND DEFERRED INCOME		
1) Accruals and deferred income-liabilities	2.327	345
Total accruals and deferred income	**2.327**	**345**
TOTAL LIABILITIES AND CAPITAL AND RESERVES	**61.913.117**	**57.027.112**

MEMORANDUM ACCOUNTS	31/12/2004	31/12/2003
Other memorandum accounts		
Our Obligations		297.704
TOTAL MEMORANDUM ACCOUNT		**297.704**

PROFIT AND LOSS ACCOUNT	31/12/2004	31/12/2003
A) VALUE OF PRODUCTION		
1) Net turnover from sales and services	28.112.085	24.931.995
2) Change in stocks of finished goods and in work in progress	919.686	782.402
4) Work performed for own purposes and capitalised	226.663	240.803
5) Other revenues and income		
a) Other revenues and income	1.142.879	1.109.135
b) Grants received pertaining to the current year	900	18.253
Total other revenues and income	*1.143.779*	*1.127.388*
TOTAL VALUE OF PRODUCTION	**30.402.213**	**27.082.588**
B) COSTS OF PRODUCTION		
6) For raw materials, consumables and goods for sale	-14.555.254	-13.461.311
7) For services	-6.155.240	-5.643.739
8) For use of assets owned by others	-36.403	-23.097
9) For staff costs:		
a) wages and salaries	-3.687.812	-3.265.785
b) social security costs	-1.149.792	-1.031.097
c) provision for severance indemnity	-242.108	-211.650
Total for staff costs	*-5.079.712*	*-4.508.532*
10) Value adjustments		
a) amortisation of intangible assets	-492.513	-489.767
b) depreciation of tangible assets	-587.409	-648.368
d) allowance for debtors in current assets and other acc.s incl. in cash	-286.977	-62.431
Total value adjustments	*-1.366.899*	*-1.200.566*
11) Change in stock of raw materials, consumables and goods for resale	558.586	931.438
12) Amounts provided for risk provisions	-18.801	-20.000
14) Other operating charges	-271.267	-237.852
TOTAL COSTS OF PRODUCTION	**-26.924.990**	**-24.163.659**
(A-B) DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	**3.477.223**	**2.918.929**
C) FINANCIAL INCOME AND CHARGES		
15) Income from equity investments:		
a) in subsidiary companies	180.000	603.125
Total income from equity investments	*180.000*	*603.125*
16) Other financial income:		
b) from other permanent investments other than equity investments		708
c) from other investments which are not permanent	45.134	68.330
d) other income not included above		
- to subsidiary companies	*163.169*	*95.629*
- to associated companies	*2.000*	*630*
- to third parties	*67.926*	*213.596*
Total other income not included above	*233.095*	*309.855*
Total other financial income	*278.229*	*378.893*
17) Interest payable and similar charges		
b) to associated companies		*-4.768*
d) to third parties	*-102.401*	*-110.730*
Total interest payable and similar charges	*-102.401*	*-115.498*
17-bis) Foreign exchange (loss) or gain	*-229.129*	*-544.542*
TOTAL FINANCIAL INCOME AND CHARGES	**126.699**	**321.978**
D) VALUE ADJUSTMENTS IN RESPECT OF INVESTMENTS		
19) Devaluation		
a) of equity investments	-1.181.129	-487.545
Total devaluation	*-1.181.129*	*-487.545*
TOTAL VALUE ADJUSTMENTS	**-1.181.129**	**-487.545**
E) EXTRAORDINARY INCOME AND CHARGES		
20) Extraordinary income		
a) income	*453.541*	*49.029*
b) capital gains from disposal of assets	*685.041*	
Total extraordinary income	*1.138.582*	*49.029*
21) Extraordinary charges		
a) charges	*-5.710*	*-33.356*
c) other extraordinary charges	*-168.526*	*-97*
Total extraordinary charges	*-174.236*	*-33.453*
TOTAL EXTRAORDINARY INCOME AND CHARGES	**964.346**	**15.576**
PROFIT OR LOSS BEFORE INCOME TAXES	**3.387.139**	**2.768.938**
22) Income taxes:		
a) current	-1.681.862	-1.010.508
b) deferred	195.898	-25.780
23) NET PROFIT (LOSS)	**1.901.175**	**1.732.650**

Notes to the accounts of the financial statement closed on 31/12/2004

Form and content of the financial statement

1) CRITERIA USED FOR DRAWING UP THE STATEMENT

The following financial statement complies with the dictates of articles 2423 and subsequent of the Civil Code. It is composed of the statement of assets and liabilities, the profit and loss account and the notes to the accounts, drawn up in accordance with article 2427 of the Civil code, which forms, in accordance with and by effect of article 2423 an integral part of the financial statement.
The statement of assets and liabilities and the profit and loss account have been drawn up according to the criteria foreseen by the civil code as modified following the implementation of the Legislative Decree 17 January 2003 no. 6.
The financial statement has been presented in a comparative form with that of the previous financial year, the data of which is in keeping with and in the same form as that of the current financial year. For the purposes of accurate comparison, following the modifications introduced by the aforementioned legislative decree, the relevant entries, such as for example the tax credits and anticipated taxes, have been suitably reclassified.

2) EVALUATION CRITERIA

a) **General criteria**
The evaluation criteria used to draw up the financial statement comply with the aforementioned current legislative provisions, supplemented and interpreted by the Accounting Principles issued by the National Councils of Chartered and Certified Accountants. The criteria used in the financial year just ended include therefore, where necessary, the modifications introduced following the reforms implemented by the Legislator on the matter of Company Law in the Legislative Decree of 17 January 2003 no. 6 and subsequent modifications, specific mention of which is made in the continuation of this document.
The entries in the financial statement have been quantified based on the general principles of prudence and temporal applicability, with a view to the continuing activity of the company. For accounting purposes prevalence has been given to the economic substance of the operations as opposed to their juridical form; as regards financial activities these have been registered in the statement at the moment they are settled. Profits have only been included if realised within the date of closure of the financial year, whereas risks and losses have been considered even if they became known at a later date. The heterogeneous elements in the single entries of the financial statement have been evaluated separately. Capital and reserve items destined for long term use have been classified as assets.

b) Value adjustments and write-backs
The value of tangible and intangible assets with a finite useful life is adjusted downwards by means of amortisation. The analytical methodologies of amortisation and devaluation applied are described in the continuation of these notes to the accounts.

c) Revaluations
No revaluations have been made.

d) Exceptions
In this and past financial years no exceptions have been made as regards the criteria of evaluation foreseen by legislation regarding financial statements.

e) Accounting entries which appear only for the purposes of conforming with tax laws
As mentioned in the notes to the accounts closed on 31 December 2003, in that financial year and in previous ones the company availed of the possibility of attributing early amortisations to the profit and loss account within the limits permitted for the sole purpose of obtaining the relative tax benefits.
With the introduction of the Legislative Decree 17 January 2003 no. 6, the second sub-paragraph of art. 2426 of the civil code permitting accounting entries appearing exclusively for the purposes of tax laws was repealed. The company has therefore modified the evaluation criteria previously adopted by omitting to enter, in this financial year, the early amortisation lacking a considered civil justification and eliminating, through suitable accounting procedures, the fiscal

interference deriving from what had been permitted by previous legislation, as amply described in the section relating to tangible assets.

The main principles and criteria are as follows:

f) Intangible fixed assets

The intangible fixed assets have been registered at their purchase cost inclusive of accessory charges. The formation and expansion costs have been entered under the specific heading for assets and amortisations covering a five-year period. R&D costs and advertising costs have been entirely entered in the profit and loss account of the financial year in which they were incurred. Licences, trademarks and patents have been entered into the financial statement at the purchase price and amortised at amounts which bear in mind their estimated future utility. Software has been entered at the purchase price and amortised in 3 years.

g) Tangible fixed assets and amortisations

The tangible assets have been entered at the purchase cost or production cost, inclusive of accessory charges, net of amortisation. Ordinary maintenance expenses have been entirely entered in the profit and loss account. Maintenance costs of an incremental nature have been attributed to the asset item they refer to and amortised according to the residual possibility of use of the said item.

The aliquots used for amortisation, reduced to half for the first fiscal year, are as follows:

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

As a result of it being no longer possible to attribute to the profit and loss account value rectifications and reserves applied solely for the purposes of conforming with tax laws it has been deemed opportune to set aside, as in previous financial years, early amortisations on some categories of items, such as vehicles and electronic office equipment, so as to divide up the cost according to the residual possibility of use, in accordance with art. 2426 2nd sub-paragraph.

h) Financial investments

- Equity investments in associate and subsidiary companies

The assets consisting of equity investments in associate and subsidiary companies have been evaluated using the cost method, devaluated where necessary in relation to long-lasting losses in value by the company in which the equity is held. Any capital losses are shown in the financial statement under the heading for "devaluation of equity investments. Since the necessary conditions exist, a consolidated financial statement has been drawn up.

- Other financial assets and investments

The other financial assets and investments are evaluated at cost. In the case of long-lasting losses, even if deriving from quotations on the stock market of the shares quoted, a suitable value adjustment is made and during the financial year in which the conditions for the value adjustments are no longer viable, the value before devaluation is re-established up to a maximum of its original cost.

i) Inventory

- Raw materials, work in progress and finished products

The stocks of raw materials and finished products are evaluated at the cost of purchase or production, whichever is the lower, inclusive of accessory charges and the presumed disposal value considering present market trends. Stocks of obsolete articles or those with a slow turn-over are devaluated bearing in mind the possibilities of reuse and sale. The cost system used is the one called LIFO (last in, first out) calculated annually.

The stocks of work in progress are evaluated on the basis of the cost of production.

j) Amounts receivable
The amounts receivable are shown at their presumed cashing-in value. This value is obtained by direct value adjustment of the amounts, performed analytically for the more important sums and at a flat-rate for the other sums.

k) Financial activity not constituting assets
Stock is evaluated at the purchase price or, in the case of listed securities, at the selling price which may be inferred from market trends, if lower.

l) Prepayments and accrued income
The principle of temporal competence is implemented by aligning assets and liabilities of the prepayments and accrued income.

m) Provisions for contingencies and liabilities
Provisions for contingencies are entered among the liabilities of the statement of assets and liabilities for the purposes of covering any potential liabilities of the company deemed likely to materialise according to realistic estimates. The product warranty fund covers the costs deriving from a realistic estimate of the operations to be performed under warranty according to the contractual commitments undertaken.

n) Employee severance indemnity
The accrual corresponds to the full amount of the sums maturing which must be paid to employees by virtue of current legislation.

o) Amounts owed
The amounts owed are shown at their nominal value.

p) Contingencies, obligations and guarantees
Obligations and guarantees are shown in the memorandum accounts at their contract value. Risks for which liability is deemed probable are described in the explanatory notes and accrued in a congruous manner in the contingencies provisions fund.
Risks for which materialisation of a risk is only a possibility are described in the explanatory notes, without risk provision, in keeping with the accounting principles applied. Risks which are only remotely possible are not considered.

q) Recognition of income
Income from the sales of products is recognised at the moment of transfer of ownership, which normally occurs at the moment of delivery or shipment of the goods. Financial income is recognised on the basis of temporal competence. Dividends from shares are entered according to the income-expenditure principle gross of the relative tax credit.

r) Accounts in foreign currency
Accounts receivable and payable in foreign currency are entered at the spot rate at the end of the financial year and the relative currency conversion gains and losses are credited or debited to the profit and loss account, the amount of net profit, if any, deriving from adjustment to the exchange rate at the end of the financial year is set aside in a special reserve until the moment of subsequent realisation.

s) Capital account
The company receives, against the costs of R&D debited annually to the profit and loss account, non-repayable grants mainly from the Ministry for University Education and Research (MIUR) which are entered among the revenues for the financial year in which their issue is certain.
As was permitted by fiscal regulations, in the past the company took advantage of the possibility of suspending these grants, entirely or for 50%, in a shareholders' equity reserve. Since 1998 these funds have been entirely entered into the profit and loss account.

t) Taxes
Current taxes have been entered according to the aliquots and regulations currently in force on the basis of a realistic estimate of taxable income, bearing in mind possible exemptions. Liability to the Internal revenue service for these taxes is entered among the amounts owed to tax authorities net of advance payments.
Deferred tax funds have been set aside on the basis of differences of a temporary nature between assets and liabilities recognised for tax purposes and those in the financial statements drawn up according to legal regulations. Liabilities have been set aside in the provisions for "taxes, also deferred" and assets have been entered among the accounts receivable for "deferred tax assets" in the entry 4-ter). Anticipated taxes have only been entered where there is

reasonable probability of there being recovered. The permanent taxation differences result in an increase in the fiscal impact on the income for the financial year.

Analysis of financial statement entries:

Assets

B) Fixed assets

I – Intangible assets

The breakdown of changes occurring in intangible fixed assets during the period was as follows:

Categories	Balance 31/12/2003	Increments	Revaluation (Devaluation)	Other Operations	(Amortisations)	Translation Adjustemnts	Balance 31/12/2004
Formation and expansion expenses	370.090				-370.090		
Concessions, licences, trade marks and similar rights	160.591	5.214		6.992	-104.515		68.282
Other	21.523	10.037			-17.908		13.652
Intangible assets in progress and payments on account	6.992			-6.992			
Total	**559.196**	**15.251**			**-492.513**		**81.934**

	31/12/2004			31/12/2003		
Categories	Cost	(Amortisations)	Net value	Cost	(Amortisations)	Net value
Formation and expansion expenses	1.866.238	1.866.238		1.866.238	1.496.148	370.090
Concessions, licences, trade marks and similar rights	325.716	257.434	68.282	313.510	152.919	160.591
Goodwill						
Other	139.656	126.004	13.652	129.619	108.096	21.523
Intangible assets in progress and payments on account				6.992		6.992
Total	**2.331.610**	**2.249.676**	**81.934**	**2.316.359**	**1.757.163**	**559.196**

Description	Past cost	Accumulated amortisations	Residual value
Year 1996 - Formation and expansion expenses	14.459	14.459	
Year 1997 - Formation and expansion expenses	1.329	1.329	
Year 2000 - Formation and expansion expenses	1.850.450	1.850.450	
Total	**1.866.238**	**1.866.238**	

The amount entered under “formation and expansion expenses” consisted mainly of the capitalisation of the amounts paid during the financial year 2000 for quotation on the New Market, the period of amortisation of which terminates in 2004.

The entry “concessions, licences, trademarks and similar rights” includes, among other things, the costs incurred in the financial year 2003 for the granting of a licence to use a patent for a safety device to be applied to laser systems; it also includes the overall costs incurred for the purchase of new management and administrative software, and, among these, the costs relative to an additional software process of the same management system which, at the closure of the last financial year had been entered among the “intangible assets in progress” since the process was still being implemented.

II - Tangible assets

The changes which took place in tangible assets during the financial year were as follows:

Cost	Balance 31/12/2003	Increments	Revaluations and devaluations	Other operations	(Disposals)	Balance 31/12/2004
Land and buildings	2.971.414	129.499		1.381.529		4.482.442
Plants and machinery	344.506	26.337		47.928		418.771
Industrial and commercial equipment	1.599.309	384.831			-82.962	1.901.178
Other goods	1.075.114	70.106		-62	-27.862	1.117.296
Tangible assets under construction	1.299.550	254.713		-1.456.934		97.329
Total	**7.289.893**	**865.486**		**-27.539**	**-110.824**	**8.017.016**

Amortisation provisions	Balance 31/12/2003	Amortisations amount	Devaluations	Other operations	(Disposals)	Balance 31/12/2004
Land and buildings	614.541	111.484		-44.270		681.755
Plants and machinery	175.187	38.204		-64.699		148.692
Industrial and commercial equipment	1.221.578	285.365		-279.716	-29.341	1.197.886
Other goods	787.112	152.356		-50.784	-26.524	862.160
Tangible assets under construction						
Total	**2.798.418**	**587.409**		**-439.469**	**-55.865**	**2.890.493**

Net value	Balance 31/12/2003	Increments	Revaluations and other operations	(Amortisations and devaluations)	(Disposals)	Balance 31/12/2004
Land and buildings	2.356.873	129.499	1.425.799	-111.484		3.800.687
Plants and machinery	169.319	26.337	112.627	-38.204		270.079
Industrial and commercial equipment	377.731	384.831	279.716	-285.365	-53.621	703.292
Other goods	288.002	70.106	50.722	-152.356	-1.338	255.136
Tangible assets under construction	1.299.550	254.713	-1.456.934			97.329
Total	**4.491.475**	**865.486**	**411.930**	**-587.409**	**-54.959**	**5.126.523**

Amortisations provisions calculated according to useful duration of source	Balance 31/12/2003	Amortisations amount	Devaluations	Other operations	(Disposals)	Balance 31/12/2004
Land and buildings	570.596	111.484		-325		681.755
Plants and machinery	110.487	38.204		1		148.692
Industrial and commercial equipment	941.862	285.365			-29.341	1.197.886
Other goods	731.225	152.356		5.103	-26.524	862.160
Tangible assets under construction						
Total	**2.354.170**	**587.409**		**4.779**	**-55.865**	**2.890.493**

Amortisations provisions exceeding if compared with the useful duration of source	Balance 31/12/2003	Amortisations amount	Devaluations	Fiscal Correction	(Disposals)	Balance 31/12/2004
Land and buildings	43.945			-43.945		
Plants and machinery	64.700			-64.700		
Industrial and commercial equipment	279.716			-279.716		
Other goods	55.887			-55.887		
Tangible assets under construction						
Total	**444.248**			**-444.248**		

In the last table, the amount indicated in the "fiscal correction" column shows the past effects of the fiscal correction applied in relation to the early amortisation exceeding the useful life of the asset calculated in previous financial years, which finds its exact counterpart among the extraordinary income of the profit and loss account. In the same way, the relative deferred taxes, amounting to 165 thousand euro, were entered under a specific heading of the extraordinary charges of the profit and loss account. For an explicit and clear explanation of the fiscal correction operation see the paragraph relative to "extraordinary income and charges" and, specifically, the table shown there.

The most valuable item is the real estate property in Via Baldanzese in Calenzano (FI) where the Company and the three subsidiary companies, Deka M.E.L.A., Cutlite Penta and Valfivre Italia, are based.
During the financial year, following the completion of the restructuring of the farm house situated inside the area of the Calenzano premises, the costs incurred in previous financial years were reclassified from the "tangible assets under construction" entry to the "land and buildings" entry; the same reclassification was applied following completion of the purchase of the property which the subsidiary Lasercut is based in, in March 2004. Moreover, the said property was sold during the early months of 2005 by El.En. to the new company, constituted according to American law denominated BRCT and entirely owned by El.En. SpA.
The increase in investments made regarded mainly new equipment destined for sales demonstrations and clinical experimentation for the medical-cosmetic sector, replacement of laboratory equipment for research and new hardware supports required, given the increase in personnel.
The "tangible assets under construction" heading shows the costs incurred by the parent company for the architectural and structural design required to obtain permits for the construction of the extension of the plant situated in Via Baldanzese as in the building permit no. 256-04, which the Town Council of Calenzano approved on 27 December 2004.

III – Financial fixed assets

Information about the equity investments held directly or indirectly is given below.

Equity investments in: subsidiary companies

Company name:	Headquarters	Share Capital	% owned	Value of charge	Capital and reserves on 31/12/2004	Result 31/12/2004	Fraction account C.R.	Difference
Cynosure	Chelmsford (USA)	58.898	77,59%	16.668.048	10.673.091	4.117.514	8.281.251	8.386.797
Deka M.E.L.A. Srl	Calenzano	40.560	60,00%	24.170	4.808.496	1.164.363	2.885.098	-2.860.928
Cutlite Penta Srl	Calenzano	103.480	53,50%	118.263	227.532	-9.558	121.730	-3.467
Valfivre Italia Srl	Calenzano	47.840	99,00%	47.039	77.509	-938	76.734	-29.695
Quanta System SpA	Solbiate Olona (VA)	364.000	60,00%	2.859.710	1.888.010	187.581	1.132.806	1.726.904
Lasit Srl	Vico Equense (NA)	234.000	50,00%	110.814	660.707	-108.633	330.354	-219.540
Deka Sarl	Vienne (F)	76.250	98,00%		-124.362	-203.452	-121.875	121.875
Deka Lms GmbH	Freising (G)	51.129	76,16%	1.033.305	721.632	55.836	549.595	483.710
Asclepion Laser Technologies GmbH	Jena (G)	1.025.000	50,00%	525.879	1.491.604	378.061	745.802	-219.923
Deka Laser Technologies LLC	Fort Lauderdale (USA)	935	51,00%	477	54.716	12.437	27.905	-27.428
Lasercut	Branford (USA)	935	70,00%		-1.202.918	-591.200	-842.043	842.043
Total				21.387.705	19.276.017	5.002.011	13.187.357	8.200.348

The amount of the portion of shareholders' equity shown is approximately the amount obtained applying the shareholders' equity method. For Deka Lms and Quanta System the difference between the amount of the financial statement and the corresponding portion of shareholders' equity derives from the goodwill paid at the moment of purchase; for Cynosure, this difference is also influenced by the difference in the exchange rate at the moment of purchase and 31 December 2004.

The equity investments in the subsidiaries Deka Sarl and Lasercut Inc. were subjected to direct devaluation in view of the losses incurred during the financial year 2004, up to the amount of the financial statement; for the losses exceeding the amount of the equity, a reserve was set aside of "Funds for risks and charges" during the financial year amounting to 122 thousand euro (Deka Sarl) and 510 thousand euro (Lasercut Inc.), in addition to the amount of 332 thousand euro set aside during the financial year 2003 in relation to the losses of Lasercut Inc.

It should also be pointed out that on 19 January 2004 the company acquired the controlling interest of Quanta System SpA and raised its equity in the company to 60% after the purchase of another 30% of the shares of the company. Quanta System SpA also owns 50% of Asclepion Laser Technologies GmbH, the German company which purchased the cosmetic business from Carl Zeiss Meditec AG. El.En. SpA owns the remaining 50%.
Moreover, as part of the above operation, El.En. SpA sold to Laserfin (the company which had the controlling interest in Quanta System) 10% of the subsidiary Deka M.E.L.A. Srl and 2.5% of the American subsidiary Cynosure Inc., as well as expenditure of 1.5 million euro.

On 30 September 2004 your company raised its share of equity investment in Cynosure Inc. underwriting an increase in capital of 575,000 newly issued shares, equal to 9.04% of the share capital, at the price of 3.00 dollars per share; this operation was paid for through the conversion of a loan issued at the time by El.En. SpA.
On the same date the company further raised its share of holdings in Cynosure by acquiring no. 1,740,666 shares from some minority shareholders, equal to 27.38% of the share capital, at the same price of 3.00 dollars per share. This operation entailed an investment of approximately 5 million dollars, half of which paid at the conclusion of the operation and the remaining balance to be paid by the end of March 2005. At the end of the financial year this balance was entered as a short term financial debt.
As part of the same operation, but officially during the month of November, your company completed the sale to third parties of a part of the shares acquired on 30 September, at the same conditions as the purchase operation described above, that is at a price of 3.00 dollars per share. This operation was formalised in December by the sale of 150,000 shares, equal to 2.36% of the share capital, to the company Laserfin Srl, already the owner of 2.5% of Cynosure, and 80,000 shares, equal to 1.26% of the share capital, to third parties; in addition it also underwrote a pledge to sell no. 450,000 shares, equal to 7.8% of the share capital, by the end of April 2005 to third parties, who promised to buy them. As a result of the formalisation of this pledge the shares which such future sale regards have been entered in the financial statement among the current assets as short term investments.
In the course of the month of December El.En. SpA also acquired, from a minority shareholder, at the same conditions described above, 70,708 Cynosure Inc. shares, equal to 1.11% of the share capital to round up its equity investment. In the same month of December the company also exercised call options on 34,460 shares, equal to 0.54% of the share capital, previously bought by one of the company managers, paying Cynosure a fee of 2.00 dollars per share as a capital increase. Following the operations described above the percentage of equity held in Cynosure amounts to a total of 84.67% of which 77.59% has been entered among the financial fixed assets and 7.08% entered among the short term investments.

Equity investments in associate companies

Company Name:	Headquarters	Share Capital	% owned	Value of charge	Capital and reserves on 31/12/2004	Result 31/12/2004	Fraction account C.R.	Difference
Actis Srl	Calenzano	10.200	12,00%	1.240	11.830	490	1.420	-180
IALT Scrl	Calenzano	10.000	50,00%	5.000	-1.765	-11.765	-883	5.883
Immobiliare Del.Co. Srl	Solbiate Olona	24.000	30,00%	274.200	98.041	12.295	29.412	244.788
M&E	Delaware (USA)	9.924	50,00%		9.924		4.962	-4.962
Total				280.440	118.030	1.020	34.911	245.529

On 29 March 2004 the company subscribed 50% of the capital of the private limited consortium company being founded "IALT Scrl", set up to co-ordinate the activities of the participant companies in the biomedical and health sector for the development and use of innovative diagnostic, therapeutic and surgical technologies.

The figures shown for the associate company "Immobiliare Del.Co. Srl", which owns a real estate property rented out to Quanta System SpA, shows a difference between the purchase cost and corresponding portion of shareholders' equity deriving from the greater implicit value of owned land and buildings, as shown in the valuer's report drawn up at the time supporting the company's own value estimate.

The equity investment in M&E was entirely devaluated in the course of 2001 given that the company is inactive.

Financial fixed assets – composition

	31/12/2004			31/12/2003		
Company name:	**Cost**	**Reval. (deval.)**	**Report value**	**Cost**	**Reval. (deval.)**	**Report value**
Subsidiary companies:						
Deka M.E.L.A. Srl	24.170		24.170	28.199		28.199
Cutlite Penta Srl	118.263		118.263	118.263		118.263
Valfivre Italia Srl	47.039		47.039	47.039		47.039
Deka Sarl	76.953	-76.953		321.327	-244.374	76.953
Deka Lms GmbH	1.033.305		1.033.305	1.033.305		1.033.305
Lasit Srl	110.814		110.814	110.814		110.814
Quanta System SpA	2.859.710		2.859.710			
Cynosure	16.668.048		16.668.048	12.994.690		12.994.690
Deka Laser Technologies	477		477	477		477
Lasercut	467.333	-467.333		467.333		467.333
Asclepion Laser T. GmbH	525.879		525.879	525.879		525.879
Total	21.931.991	-544.286	21.387.705	15.647.326	-244.374	15.402.952
Associated companies:						
Quanta System SpA				129.710		129.710
Actis Srl	1.240		1.240	1.240		1.240
Ialt	5.000		5.000			
Immobiliare Del.Co.	274.200		274.200	274.200		274.200
Total	280.440		280.440	405.150		405.150
Other companies:						
CALEF	8.527		8.527	10.955		10.955
R&S	516		516	516		516
RTM	129.810		129.810	285.780	-155.970	129.810
EJTN	4.500	-4.500		4.500		4.500
Total	143.353	-4.500	138.853	301.751	-155.970	145.781
Other investments:						
Securities				76.709		76.709
Stock option rights						
Total				76.709		76.709
Total	22.355.784	-548.786	21.806.998	16.430.936	-400.344	16.030.592

Company name:	Balance 31/12/2003	Financial year operations				Balance 31/12/2004
		Increments	(Disp. assets)	Revaluations (Devaluations)	Other	
Subsidiary companies:						
Deka M.E.L.A. Srl	28.199		-4.029			24.170
Cutlite Penta Srl	118.263					118.263
Valfivre Italia Srl	47.039					47.039
Deka Sarl	76.953			-76.953		
Deka Lms GmbH	1.033.305					1.033.305
Lasit Srl	110.814					110.814
Quanta System SpA		2.730.000			129.710	2.859.710
Cynosure	12.994.690	4.214.803	-541.445			16.668.048
Deka Laser Technologies LLC	477					477
Lasercut	467.333			-467.333		
Asclepion Laser T. GmbH	525.879					525.879
Total	15.402.952	6.944.803	-545.474	-544.286	129.710	21.387.705
Associated companies:						
Quanta System SpA	129.710				-129.710	
Actis Srl	1.240					1.240
Ialt		5.000				5.000
Immobiliare Del.Co.	274.200					274.200
Total	405.150	5.000			-129.710	280.440
Other companies:						
CALEF	10.955		-2.428			8.527
R&S	516					516
RTM	129.810					129.810
EJTN	4.500			-4.500		
Total	145.781		-2.428	-4.500		138.853
Other investments:						
Securities	76.709		-76.709			
Stock option rights		47.524	-47.524			
Total	76.709	47.524	-124.233			
Total	16.030.592	6.997.327	-672.135	-548.786		21.806.998

Financial charges for amounts entered among the assets for this financial period

No financial charges were entered under the assets for this financial period.

C) Current assets

I -Stocks

Breakdown of the stocks is as follows:

Stocks:	31/12/2004	31/12/2003	Variation	Var. %
Raw materials and consumables	5.870.455	5.311.869	558.586	10,52%
Work in progress and semi finished products	3.380.773	2.977.924	402.849	13,53%
Finished products and goods for sale	1.630.709	1.113.872	516.837	46,40%
Total	10.881.937	9.403.665	1.478.272	15,72%

The inventory which is deposited with third parties for work, repair, technical assistance, demonstration and clinical experimentation, at the end of this financial period amounted to approx. 2.4 million euro.

The break-down of the inventory of raw materials is as follows:

Raw material:	**31/12/2004**	**31/12/2003**	**Variation**	**Var. %**
Optical components	850.874	933.745	-82.871	-8,88%
Electrical and electronic components	2.367.949	1.950.538	417.411	21,40%
Mechanical components	2.313.586	1.732.864	580.722	33,51%
Hydraulic components	336.546	301.066	35.480	11,78%
Empty cases	95.480	95.210	270	0,28%
Various materials	84.555	88.297	-3.742	-4,24%
Fitting and fixtures	330.184	398.173	-67.989	-17,08%
minus: devaluation provision	-508.719	-188.024	-320.695	170,56%
Total	5.870.455	5.311.869	558.586	10,52%

Comparison between the final inventories for the two financial periods shows a considerable increase in their quantity, which is the natural effect of the increase in production volume. As of 31/12/2004 the reserve for obsolescence of raw materials amounted to approx. 509 thousand euro.

The break-down of the inventory of semi-finished products is as follows:

Semi finished products	**31/12/2004**	**31/12/2003**	**Variation**	**Var. %**
High voltage power supplies	560.695	458.590	102.105	22,26%
Assembled electronics boards	440.589	310.428	130.161	41,93%
Mechanical units	339.485	305.290	34.195	11,20%
Electrical units	367.481	184.040	183.441	99,67%
Hydraulic units	60.239	53.247	6.992	13,13%
Laser cavities and half-assembled sources	74.789	96.133	-21.344	-22,20%
Systems being assembled	1.622.625	1.605.077	17.548	1,09%
minus: devaluation provision	-85.130	-34.881	-50.249	144,06%
Total	3.380.773	2.977.924	402.849	13,53%

The increase shown in the quantity of semi-finished pieces reflects, as well as the increase in volume of production, the policy of jobbing out the simpler parts of the manufacturing process and of the consequent increase in the number of sets for assembly in circulation at the jobbers, where, as of December 31/12/2004 a large portion of the semi-finished pieces listed above were deposited.

The breakdown of the inventory of finished products is as follows:

Finished products:	**31/12/2004**	**31/12/2003**	**Variation**	**Var. %**
Medical lasers	762.872	603.325	159.547	26,44%
Industrial laser sources	464.128	217.689	246.439	113,21%
Medical fittings and accessories	333.222	304.578	28.644	9,40%
Other medical accessories	6.590		6.590	0,00%
Industrial laser systems	236.110	172.294	63.816	37,04%
minus: devaluation provision	-172.213	-184.014	11.801	-6,41%
Total	1.630.709	1.113.872	516.837	46,40%

The LIFO reserve at the end of this financial period was 215 thousand euro.

II – Accounts receivable

Breakdown of accounts receivable

Debtors can be analysed as follows:

Debtors:	31/12/2004	31/12/2003	Variation	Var. %
Trade debtors	3.520.459	2.569.714	950.745	37,00%
Amounts owed by subsidiary companies	11.361.763	12.924.080	-1.562.317	-12,09%
Amounts owed by associated companies	136.467	192.052	-55.585	-28,94%
Tax debtors	255.185	1.063.061	-807.876	-76,00%
Defered tax assets	436.013	221.989	214.024	96,41%
Other debtors	681.893	554.318	127.575	23,01%
Total	16.391.780	17.525.214	-1.133.434	-6,47%

	31/12/2004	31/12/2003	Variation	Var. %
Clients in Italy	2.639.940	1.682.869	957.071	56,87%
EC clients	1.257.879	1.029.699	228.180	22,16%
Clients outside of EC	195.481	143.010	52.471	36,69%
Minus: devaluation provision for debtors	-572.841	-285.864	-286.977	100,39%
Total	3.520.459	2.569.714	950.745	37,00%

	31/12/2004
Trade debtors:	
Italy	2.639.940
EC	1.257.879
Outside of EC	195.481
minus: devaluation provision for debtors	-572.841
Total trade debtors	3.520.459
Amounts owed by subsidiary companies:	
Italy	6.875.244
EC	1.764.417
Outside of EC	2.722.102
Total amounts owed by subsidiary companies	11.361.763
Amounts owed by associated companies:	
Italy	123.571
Outside of EC	12.896
Total amounts owed by associated companies	136.467
Tax debtors:	
Italy	255.185
Total tax debtors	255.185
Defered tax assets:	
Italy	436.013
Total defered tax assets	436.013
Other debtors:	
Italy	681.893
Total other debtors	681.893
Total	16.391.780

Accounts receivable in foreign currency amount to 4,097 thousand USA dollars and to 459 pounds sterling and have been shown converting such amounts using the exchange rate in use on the day the report was drawn up, in other words 1.3621 dollars per euro and 0.7051 pounds sterling per euro.

The amount entered among the "tax debtors" relates to the VAT credit arising as a natural consequence of the relevant portion of exports in the turnover of your company.

As regards the contents of the entry "deferred tax assets", see the paragraph below regarding the breakdown of deferred taxes paid or due.

The increase in the devaluation provision for amounts receivable is mainly attributable to the total devaluation of an amount of approx. 287 thousand euro owed by a client and deemed irrecoverable.

Amounts receivable from subsidiary companies

Trade receivables from subsidiary companies are inherent to typical management operations. Financial receivables are related to financing issued in order to meet normal operating requirements. Among the receivables entered due within the next financial year is financing granted to Lasit Srl amounting to 150 thousand euro, paid back at the annul BCE rate +1%.
Receivables payable after the end of next year have also been entered into accounts from Neuma Laser Srl for 77 thousand euro paid at the rate of 5% per annum, Deka Lms GmbH for 256 thousand euro paid at the BCE rate +2% up to a maximum of 5.5% for the first period, and at the BCE rate + 2% for the following periods, Deka Laser Technologies for 185 thousand dollars paid at the rate of 3% per annum, and from Lasercut for 1.175 thousand dollars and Cynosure Inc. for 1,391thousand dollars, both paid at the rate of 5% per annum.

The break down of the inter-group sums for amounts receivable and amounts owed, and for expenses and income, is shown in the business report.

Analysis of other amounts receivable

The breakdown of the other accounts receivable is as follows:

	31/12/2004	31/12/2003	Variation	Var. %
Becoming payable within the next fiscal year				
Security deposits	4.827	5.402	-575	-10,64%
Prepayments to suppliers	292.909	255.331	37.578	14,72%
Other credits	170.242	94.264	75.978	80,60%
Total becoming payable within the next fiscal year	467.978	354.997	112.981	31,83%
Becoming payable after the next fiscal year				
SP tax account	3.108	8.014	-4.906	-61,22%
Insurance policy TFM	210.807	191.307	19.500	10,19%
Total becoming payable after the next fiscal year	213.915	199.321	14.594	7,32%
Total	681.893	554.318	127.575	23,01%

Among the receivables due within five years, 3 thousand euro have been entered as advance TFR (severance pay) payments and 210 thousand euro as a receivable from insurance companies covering the TFM of the administrators.

Amounts receivable after more than five years

No amounts receivable after more than five years are entered on the financial statement.

III – Investments which are not permanent

Equity investments in subsidiaries

The amount of 994 thousand euro (corresponding to 1,353 thousand USA dollars at the exchange rate in force at the end of the financial year, of 1.3621 dollars per euro) relative to the value of 450,000 shares of Cynosure Inc. equal to 7.08% of the share capital, which your company has pledged to sell to third parties within the terms established by the "Stock purchase agreement", as already referred to in the comments on financial fixed assets, has been entered into the accounts.

Treasury stock

Following the vote of approval on behalf of the shareholders' assembly of 24 April 2002, the Board of Directors of the company proceeded with the purchase of treasury stock in accordance with the provisions established by the assembly, in the same period of a number of 22,714 shares for a total value of 255,937 euro at an average price of 11.2678 euro. As of 31 December 2004 these shares were prudently maintained at purchase cost.
It should be remembered that in February 2005, in obeisance to the deliberation of the said shareholders' assembly, the Company put back on sale all the shares previously purchased, in the full respect of current legislation on the matter. The average sales price was 25.05, with a gross overall gain of 313 thousand euro.

IV – Cash at bank and on hand

Cash at bank and on hand is composed as follows:

Cash at Bank and in hand:	**31/12/2004**	**31/12/2003**	**Variation**	**Var. %**
Bank and postal current accounts	6.298.369	8.594.432	-2.296.063	-26,72%
Cash in hand	7.138	2.931	4.207	143,53%
Total	6.305.507	8.597.363	-2.291.856	-26,66%

Most of the cash was used during this period for the operations of an extraordinary nature described in the paragraph on investments, and for the distribution of dividends for approx. 1.149 thousand euro. For a full breakdown see the financial report.

D) Prepayments and accrued income assets

The composition of prepayments and accrued assets is as follows:

	31/12/2004	**31/12/2003**	**Variation**	**Var. %**
Assets of accruals:				
Interests		632	-632	-100,00%
Total assets of accruals		632	-632	-100,00%
Assets of deferred incomes:				
Premiums	18.902	24.200	-5.298	-21,89%
Other assets of deferred incomes	50.073	23.838	26.235	110,06%
Total assets of deferred incomes	68.975	48.038	20.937	43,58%
Total	68.975	48.670	20.305	41,72%

The amounts entered among the prepayments and accrued income assets according to the relevant accounting principles, do not represent phenomenon of particular interest or importance for the company business.

LIABILITIES

A) Shareholders' equity

Breakdown of shareholders' equity

The table below shows the main changes which have occurred in the shareholders' equity accounts during the past two financial years.

NET CAPITAL AND RESERVES:	**Balance 31/12/2002**	**Net income allocation**	**Dividends distributed**	**Other operations**	**Balance 31/12/2003**
Subscribed capital	2.392.000			10.992	2.402.992
Share premium account	33.954.774			251.342	34.206.116
Legal reserve	406.893	130.408		1	537.302
Reserve for own shares	255.937				255.937
Others reserves:					
Extraordinary reserves	4.153.183	1.333.435			5.486.618
Reserve for contribution on capital account	426.657				426.657
Reserve for translation adjustments	5			-4	1
Profits (loss) brought forward		1.144.322	-1.144.322		
Profits (loss) of the year	2.608.165	-2.608.165		1.732.650	1.732.650
Net total capital and reserves	44.197.614		-1.144.322	1.994.981	45.048.273

NET CAPITAL AND RESERVES:	**Balance 31/12/2003**	**Net income allocation**	**Dividends distributed**	**Other operations**	**Balance 31/12/2004**
Subscribed capital	2.402.992			21.375	2.424.367
Share premium account	34.206.116			492.298	34.698.414
Legal reserve	537.302				537.302
Reserve for own shares	255.937				255.937
Others reserves:					
Extraordinary reserves	5.486.618	583.043			6.069.661
Reserve for contribution on capital account	426.657				426.657
Reserve for translation adjustments	1			-2	-1
Profits (loss) brought forward		1.149.607	-1.149.607		
Profits (loss) of the year	1.732.650	-1.732.650		1.901.175	1.901.175
Net total capital and reserves	45.048.273		-1.149.607	2.414.846	46.313.512

The assembly held on 14 May 2004 voted to distribute the results of the financial year 2003 as follows: 583,043.75 euro as extraordinary reserve and 1,149,606.25 euro as dividends.

After the operations for the purchase of treasury stock during the financial year 2002, a reserve was set aside for an amount equal to the purchase price of the stock. The reserve for treasury stock in portfolio is a closed reserve which was maintained until the treasury stock was put back in circulation in February 2005.

With reference to the share capital and share premium reserve the increase shown in the column "other operations" is relative to the exercising of option rights assigned to employees of the group, on which ample information is provided in the continuation of this document.

Composition of capital

The special assembly held on 16 July 2002 voted to authorise 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 capital stock of the Company once or several times upon payment, by a nominal maximum amount of euro 124,800 through the issue of a maximum of 240,000 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, equal to the greater of the following: a) the value of each share determined on the basis of the consolidated shareholders' equity of the group El.En. as of 31 December 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, organised and managed by the Borsa Italiana SpA in the 6 months prior to the assigning of the options; c) the arithmetical mean 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; d) the arithmetical mean 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 period of time prior to the assignment of the options decided by the Board of Directors in the regulations of the incentives plans.

On 6 September 2002 the Board of Directors voted to implement in part the decision of the Shareholders' assembly dated 16 July 2002 to increase the share capital to euro 31,817.76 for use in the 2003/2004 stock-options plan and approved the relative regulations. The option rights were assigned exclusively to the Group's Executives, Managers and Employees who at the time of the assignment were employed by the group. The above plan was divided into two phases, one for each year; the first phase, for a maximum of 30,600 shares, was exercisable by the assignees from 18 November to 31 December 2003, from 15 August to the 30 September 2004 and from 18 November to the 31 December 2004; the second phase, for a maximum of 30,588 shares was exercisable by the assignees from 15 August to the 30 September 2004 and from 18 November to the 31 December 2004.
With reference to this vote, as of 31 December 2004 (the deadline for the exercising of such rights) the total of 61,188 option rights had been opted, of which 21.139 opted in the previous financial year.

Moreover, on 13 November 2003, the Board of Directors voted to partially implement the decision of the shareholders' assembly dated 16 July 2002 to increase the share capital by euro 13,145.60 to be used for the 2004/2005 stock-options plan and approved the relative regulations. The option rights were assigned exclusively to the Group's executives, managers and employees who at the moment of assignment were employed by the group. The above plan was divided into two phases, one for each year; the first phase, for a maximum of 12,640 shares, exercisable by the assignees from 18 November to 31 December 2004, from 15 August to the 30 September 2005 and from 18 November to the 31 December 2005; the second phase, for a maximum of 12,640 shares will be exercisable by the assignees from 15 August to the 30 September 2005 and from 18 November to the 31 December 2005.
With reference to this vote, relative to the first phase of 12,640 shares, in the period from 18 November to 31 December 2004 1,056 option rights were exercised.

Following this vote, the capital stock of El.En. S.p.A. as of 31 December 2004 was:

Authorised	euro	2.436.963
Underwritten and deposited	euro	2.424.367

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

Categories	**31/12/2003**	**Increase.**	**(Decrease.)**	**31/12/2004**
No. of Ordinary Shares	4.621.139	41.105		4.662.244
Total	**4.621.139**	**41.105**		**4.662.244**

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 collectable 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.

Availability and divisibility of the reserves

NET CAPITAL AND RESERVES:	Balance 31/12/2004	Possibility of utilisation	Portion available	Utilised in the previous two periods for covering losses	Utilised in the previous two period for other purposes
Subscribed capital	2.424.367				
Share premium account	34.698.414	ABC	34.698.414		
Legal reserve	537.302	B			
Reserve for own shares	255.937				
Others reserves:					
Extraordinary reserves	6.069.661	ABC	6.069.661		
Reserve for contribution on capital account	426.657	ABC	426.657		
Reserve for translation adjustments	-1				
Profits (loss) brought forward					
Other reserves					
			41.194.732		
Portion not distributable					
Portion distributable			**41.194.732**		

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

Other reserves

The breakdown for the reserves for payment on capital account is as follows:

	31/12/2004	31/12/2003	Variation	Var. %
DIFF3 contribution on capital account	150.659	150.659		0,00%
CESVIT contribution on capital account	3.099	3.099		0,00%
CCIAA contribution on capital account	3.892	3.892		0,00%
EU contribution on capital account	269.007	269.007		0,00%
Total	426.657	426.657		0,00%

B) Provisions for risks and charges

The following table shows the changes which occurred in these funds during the financial year:

	Balance 31/12/2003	Provision	(Utilisation)	Other	Balance 31/12/2004
Pension costs and similar	196.471	19.713			216.184
For taxation	397.836	55.877	-38.050	165.482	581.145
Others:					
Reserve for guarantee on the products	116.200	18.801			135.001
Other minor reserves	331.575	632.342			963.917
Total other reserves	447.775	651.143			1.098.918
Total	1.042.082	726.733	-38.050	165.482	1.896.247

The provision for severance indemnity is related to the indemnity fund for end-of-term bonuses for administrators (TFM).

Provisions for taxes include the deferred taxes (described in the next paragraph) for an amount equal to 191 thousand euro and the residual amount of the funds set aside during the financial year 2000, and to which additions were made in 2001 for payment of charges which might arise from the issuance of inspection documents after the PVC notification given on 8 May 2001, for approx. 390 thousand euro. For this purpose during the financial period 2002, a part of the aforementioned fund was used to effect payments made after revision of the tax declarations for the years 1997, 1998, 1999. The product warranty reserve is calculated on the basis of costs for spare parts and assistance under warranty which were incurred in the previous financial year, adapted to the sales volume for this financial year.

Analysis of deferred and anticipated taxes

Deferred and anticipated taxes are set aside on the basis of the temporary differences between assets and liabilities recognised for fiscal purposes and those registered in the financial statement.

The breakdown is as follows:

	Balance 31/12/2003	Provision	(Utilisation)	Other	Balance 31/12/2004
Deferred tax assets on stock devaluations	-151.408	-133.780			-285.188
Deferred tax assets for provisions on guarantee products	-43.285	-7.003			-50.288
Deferred tax assets on credit devaluation	-26.401	-72.600			-99.001
Other deferred tax assets	-897	-642			-1.539
Deferred tax liabilities on advanced amortisations		55.878	-30.653	165.483	190.708
Deferred tax liabilities for contributions on capital account	7.503		-7.098		405
Total	-214.488	-158.147	-37.751	165.483	-244.903

As of 31.12.2004 anticipated taxes had been entered among the assets for 436 thousand euro, while deferred taxes had been entered among the liabilities to the tune of 191 thousand euro, while the anticipated/deferred taxes entered into the profit and loss account amounted to approx. 196 thousand euro. The amount shown in the “Other” column of 165 thousand euro regards the provision for deferred tax calculated following the fiscal correction operation applied to the items and which has been entered among the extraordinary income entries.

Anticipated taxes have been entered on the reserves set aside during the financial year for the inventory obsolescence fund, product warranty fund and devaluation fund for discounting of credits not fiscally deductible.
Deferred taxes have also been entered on the early amortisation deducted fiscally and not shown in the civil financial statement. In fact in the financial periods after the one in which the portions of amortisation deducted from the company income have reached the fiscally recognised cost, the ordinary amortisation will be entered on the financial statement, at that point not fiscally deductible, until the sum is equal to the accounting value of the item; the deferred taxes fund will then be used to pay the tax debt relative to the current tax on ordinary amortisation not fiscally deductible.
In the course of the financial period the deferred tax fund was also used for contributions to the capital account.

C) Employee severance indemnity

The following table shows the changes occurring in the period.

Balance 31/12/2003	Provision	Utilization	Other	Balance 31/12/2004
697.028	242.108	-91.881		847.255

The reserve fund represents the effective debt of the company towards its employees at the date indicated, net of any advance payments.

D) Amounts owed

Analysis of amounts owed

	31/12/2004	31/12/2003	Variation	Var. %
Loans from shareholders	619.748	619.748		0,00%
Amounts owed to banks	416.379	624.637	-208.258	-33,34%
Amounts owed to other financiers	804.772	831.674	-26.902	-3,23%
Advances	481.104	361.815	119.289	32,97%
Amounts owed to suppliers	5.779.395	5.744.000	35.395	0,62%
Amounts owed to subsidiary companies	167.506	676.615	-509.109	-75.24%
Amounts owed to associated companies	135.710	17.799	117.911	662.46%
Amounts owed to tax administration	1.245.353	237.586	1.007.767	424,17%
Amounts owed to social security institutions	400.045	347.761	52.284	15,03%
Other creditors	2.803.764	777.749	2.026.015	260,50%
Total	12.853.776	10.239.384	2.614.392	25,53%

	31/12/2004
Loans from shareholders	
Italy	619.748
Total Loans from shareholders	619.748
Amounts owed to banks	
Italy	416.379
Total Amounts owed to banks	416.379
Amounts owed to other financiers	
Italy	804.772
Total Amounts owed to other financiers	804.772
Advances	
Italy	178.623
Outside of EC	302.481
Total Advances	481.104
Amounts owed to suppliers	
Italy	5.156.858
EC	467.656
Outside of EC	154.881
Total Amounts owed to suppliers	5.779.395
Amounts owed to subsidiary companies	
Italy	143.518
EC	17.200
Outside of EC	6.788
Total Amounts owed to subsidiary companies	167.506
Amounts owed to associated companies	
Italy	135.710
Total Amounts owed to associated companies	135.710
Amounts owed to tax administration	
Italy	1.245.353
Total Amounts owed to tax administration	1.245.353
Amounts owed to social security institutions	
Italy	400.045
Total Amounts owed to social security institutions	400.045

Other creditors	
Italy	808.260
Outside of EC	1.995.504
Total Other creditors	2.803.764
Total	12.853.776

Below is a breakdown of the amounts owed: in obeisance to the dispositions of the new legislation on the matter of financial statements, the entry "loans from shareholders" includes the reclassification of the debenture loan, previously entered under the heading "stocks".

The entry "advances" shows approximately 86 thousand euro received as advance payments for the research projects NMED02 and EUV02, these sums will only be entered among the revenues of the profit and loss account after the approval of the relative expense budgets. Also entered under this heading is approx. 303 thousand euro, (equal to 412,500 USA dollars calculated at the exchange rate in force at the end of the financial year) received as an advance payment on the sales operation of the 450,000 shares of Cynosure Inc. to third parties, already described above.

The entry "other amounts owed" includes the amount owed relative to payment of the balance for the purchase operation of Cynosure shares, as previously described, of 1,996 thousand euro corresponding to 2,718 USA dollars calculated at the exchange rate in force at the end of the financial year.

The amounts owed in foreign currency amount to approx. 3,131 thousand USA dollars, approx. 55 thousand Swedish crowns and approx. 108 thousand pounds sterling and have been shown converting such amounts at the exchange rate in force at the date of reference of the financial statement, that is respectively at 1.3621 dollars per euro, 9.0206 Swedish crowns per euro and 0.7051 pounds sterling per euro.

Analysis of debts according to due date

	31/12/2004			31/12/2003		
	Within 1 year	**From 1 to 5 year**	**Beyond 5 year**	**Within 1 year**	**From 1 to 5 year**	**Beyond 5 year**
Debenture loans					619.748	
Loans from shareholders		619.748				
Amounts owed to banks	209.796	206.583		211.471	413.165	
Amounts owed to other financiers	168.575	425.262	210.935	136.732	497.173	197.770
Advances	481.104			361.815		
Amounts owed to suppliers	5.779.395			5.744.000		
Amounts owed to subsidiary companies	167.506			676.615		
Amounts owed to associated companies	135.710			17.799		
Amounts owed to tax administration	1.245.353			237.586		
Amounts owed to social security institutions	400.045			347.761		
Other creditor	2.803.764			777.749		
Total	11.391.248	1.251.593	210.935	8.511.528	1.530.086	197.770

The ordinary debenture loan of euro 619,748 (entered among the "loans from shareholders") is to be reimbursed in a single payment on the 31/12/2006 and pays a fixed interest rate of 9.75%, adjusted annually on 31/12.
Mid-term debts to banks are made up of a ten-year mortgage loan issued by the Cassa di Risparmio di Firenze, for 1,652,662 euro, to be reimbursed in fixed six-monthly instalments of 103,291 euro starting on 31/3/1999, at an interest rate equivalent to the quarterly EURIBOR plus a spread of 0.95%, with interest paid quarterly.

Mid-term debts to other financiers are made up of:
a) IMI facilitated financing for applied research, as follows:
Reference DIFF 3
Multi-year financing granted for 487,095 euro at the fixed annual rate of 3.70%, last instalment 1/7/2008
Reference TMR 4
Multi-year financing granted for 492,431 euro at the fixed annual rate of 3.70%, last instalment 1/7/2008
b) MPS facilitated financing for applied research, reference TRL01, granted for 681,103 euro of which 461,421 euro have already been paid at a rate of 2% per annum, to be reimbursed in 16 half-yearly instalments delayed until the start

of the second half-yearly due date after the actual conclusion of the research which is expected to be in the month of February 2005.

The table below shows the debts described above and the dates on which the debts for the capital stock are due.

	Expiration	Rate	Remain	Amount within 1 year	Amount within 5 years	Amount beyond 5 years
Ten-year debenture loans	31/12/2006	9,75%	619.748		619.748	
CRF ten-year loan	07/03/2006	Euribor+,95%	413.166	206.583	206.583	
Financing IMI DIFF3	01/07/2008	3,70%	219.084	59.754	159.330	
Financing IMI TMR 4	01/07/2008	3,70%	124.267	82.083	42.184	
Financing MPS TRL 01	01/07/2013	2,00%	461.421	26.737	223.748	210.936
Total			1.837.686	375.157	1.251.593	210.936

The amount written in the column "amount within 1 year" is made up of the total of the instalments due in the short term of the mid-term loans.

Changes in long term financing
During the financial year the following changes occurred in relation to medium/long term loans. The amounts shown include the quota of short-term capital and do not include the sums owed as interest.

	Balance 31/12/2003	Increase	Reimbursement	Other	Translation Adjustments	Balance 31/12/2004
Debenture loans	619.748					619.748
CRF loan	619.748		-206.582			413.166
Financing IMI DIFF3	276.687		-57.603			219.084
Financing IMI TMR 4	203.395		-79.128			124.267
Financing MPS TRL 01	351.592	109.829				461.421
Total	2.071.170	109.829	-343.313	-	-	1.837.686

During the financial year 79,128 euro were paid back on the IMI TMR 4 financing, 57,603 euro on the IMI DIF3 financing and 206,582 on the CRF mortgage loan while a further 109,829 euro was issued on the MPS facilitated financing for applied research, reference no. TRL01.

Debts guaranteed by real estate property

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

Analysis of tax debts

	31/12/2004	31/12/2003	Variation	Var. %
Taxes on profit	932.725		932.725	0,00%
Debts owed to tax administration for VAT	2.180	1.206	974	80,76%
Debts owed to tax administration for deductions	310.448	236.380	74.068	31,33%
Total	1.245.353	237.586	1.007.767	424,17%

The amounts owed towards the inland revenue authority for VAT relate to deferred VAT on supplies to public insititutions.

Analysis of amounts owed to social security institutions and other debts

	31/12/2004	31/12/2003	Variation	Var. %
Debts owed to INPS	371.840	319.829	52.011	16,26%
Debts owed to INAIL	15.103	14.353	750	5,23%
Debts owed to other Social Security Institutions	13.102	13.579	-477	-3,51%
Total	400.045	347.761	52.284	15,03%

The breakdown of the other debts is as follows:

	31/12/2004	31/12/2003	Variation	Var. %
Owed to staff for holidays	280.909	293.913	-13.004	-4,42%
Owed to staff for wages and salaries	320.550	273.685	46.865	17,12%
Other debts	2.202.305	210.151	1.992.154	947,96%
Total	2.803.764	777.749	2.026.015	260,50%

The entry "other debts" includes 1,996 thousand euro (equal to 2,718 thousand USA dollars calculated at the exchange rate in force at the end of the financial year) regarding the balance of the purchase operation of Cynosure Inc. shares which must be paid by the end of March 2005.

E) Accruals and deferred income

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

	31/12/2004	31/12/2003	Variation	Var. %
Deferred income liabilities				
Other	2.327	345	1.982	574,49%
Total deferred income liabilities	2.327	345	1.982	574,49%
Total	2.327	345	1.982	574,49%

The amounts entered among the accruals and deferred income are not representative of significant phenomena in terms of size or importance as regards the company business.

Memorandum accounts

Put options granted to some of the Cynosure managers for the purchase of Cynosure shares

The cost of the agreement formulated at the time by El. En SpA and Cynosure with the managers composing the executive staff of the subsidiary, which has been described in full in the notes to the accounts of the financial statement closed on 31 December 2003, was renegotiated and sustained by Cynosure; for this reason the amount entered under the heading "Our obligations" at the end of the last financial year has not been re-entered.

Profit and loss account

A) Value of the production

Analysis of sales and services

	31/12/2004	31/12/2003	Variation	Var. %
Sales of industrial laser systems	4.495.068	5.915.224	-1.420.156	-24,01%
Sales of medical laser systems	20.617.750	16.436.932	4.180.818	25,44%
Consulting and research	116.711	171.899	-55.188	-32,10%
Service and sales of spare parts	2.882.556	2.407.940	474.616	19,71%
Total	28.112.085	24.931.995	3.180.090	12,76%

The trends of the last financial year, with increased growth of the medical sector contrasting the stagnant industrial sector are confirmed by the results as of 31 December 2004. The positive economic trend in the medical sector, the cosmetic sector especially, was not seen in the industrial sector where the slight recovery of the manufacturing sector was not in any case sufficient to determine the inversion of trends hoped for at the beginning of the year.
As regards after-sales services, turnover increased as a result of the growing number of installations supplied with spare parts and servicing.

Breakdown of income by geographical area

	31/12/2004	31/12/2003	Variation	Var. %
Sales in Italy	19.159.534	17.930.140	1.229.394	6,86%
Sales other EC countries	5.727.714	4.719.157	1.008.557	21,37%
Sales outside EC	3.224.837	2.282.698	942.139	41,27%
Total	28.112.085	24.931.995	3.180.090	12,76%

The Italian market, represented mainly by the Italian companies in the group, remains prevalent; it is worth pointing out however that almost half of the production invoiced to the companies in the group is subsequently distributed abroad. The increase in turnover in European countries is proof of the vitality of the company in these markets, in part thanks to the sales made to subsidiary companies involved in the distribution of medical products such as Deka Sarl, Deka Lms GmbH and Deka Dls GmbH, as well as to the excellent performance of some distributors.
The increase in the figures for outside the EEC derives mainly from sales to the subsidiaries Deka Laser Technologies, Lasercut Inc. and, especially, to Cynosure Inc.

Increase in investments for company improvements

During this financial year, under the heading of technical investments, laser systems have been entered for an amount of 226,663 euro in consideration of their long term use for sales demonstrations and for clinical and technical experiments. The amount capitalised is equal to the industrial cost sustained.

Other income and revenues

The analysis of other income and revenues is as follows:

	31/12/2004	31/12/2003	Variation	Var. %
Recovery for accidents and insurance reimbursements		5.607	-5.607	-100,00%
Expense recovery	29.330	21.678	7.652	35,30%
Capital gains on ordinary property conveyances	143.644	78.472	65.172	83,05%
Other income	969.905	1.003.378	-33.473	-3,34%
Contribution on fiscal year account and on capital account	900	18.253	-17.353	-95,07%
Total	1.143.779	1.127.388	16.391	1,45%

The heading “other income and revenues» shows approx. 655 thousand euro received relative to the projects Choclab, TRL01, NETMED, Dione, LASUS, EUV02 and SIDART. A further 86 thousand euro were also entered as advances on the projects MNED02 and EUV02, advances which will only be entered as income at the moment of approval of the relative cost budgets.

Inter-Group business relations

El.En. SpA controls a group of companies operating in the same sector of the laser industry, each of which has its own niche of applications and a specific market function: Cynosure and Asclepion Laser Technologies design, manufacture and distribute laser systems for the medical sector, Deka M.E.L.A. Srl, Deka Sarl, Deka Lms GmbH, Deka Dls GmbH and Deka Laser Technologies LLC distribute medical laser equipment, Cutlite Penta Srl and Lasercut Inc. are involved in the manufacture of flat cutting systems, Ot-Las Srl of large surface marking systems, Lasit Srl of small surface marking systems, Neuma Laser Srl for customer services outside Italy and Valfivre Italia Srl in the production of special laser systems while Quanta System SpA develops, produces and distributes laser systems for medicine, industry and scientific research.

The combination of different products and services offered by the group often generates transactions between the various companies belonging to it. One of the main sources of inter-group transactions is the production of laser power sources by El.En. SpA which constitute an essential part of the manufacturing processes of Cutlite Penta Srl, Valfivre Italia Srl, and Ot-Las Srl. Other inter-group relations are based on the production of laser equipment for medical and cosmetic use by El.En. SpA, some of which is sold to the subsidiaries which operate in the same sector which then distribute them. The prices for the transfer of these goods are those which are normally offered on the market. These inter-group transactions therefore reflect the price trends on the market which they may differ from according to the marketing policy of the Group.

B) Production costs

Purchase of raw and subsidiary materials, consumables and goods

The analysis of purchases is as follows:

	31/12/2004	31/12/2003	Variation	Var. %
Purchase of raw materials and finished products	13.998.811	12.961.038	1.037.773	8,01%
Purchase of packaging	116.555	92.185	24.370	26,44%
Purchase of stationery	55.621	44.542	11.079	24,87%
Purchase of fuels	45.949	42.930	3.019	7,03%
Purchase of advertising materials	23.698	38.904	-15.206	-39,09%
Shipment of purchases	144.314	132.408	11.906	8,99%
Other purchase expenses	89.278	62.986	26.292	41,74%
Other purchases	81.028	86.318	-5.290	-6,13%
Total	14.555.254	13.461.311	1.093.943	8,13%

The increase in purchases of raw materials is a result of the increase in the value of production and is reflected, among other things, in the increase in final inventory which was registered at the end of the financial year.

Breakdown of expenses for services

The following table gives the breakdown for the various services:

	31/12/2004	31/12/2003	Variation	Var. %
Expenses for work in progress at third parties'	2.157.175	1.852.646	304.529	16,44%
User services	201.770	192.052	9.718	5,06%
Consulting and technical services	790.301	633.587	156.714	24,73%
Maintenance	81.148	88.905	-7.757	-8,73%
Services and commercial consulting	168.587	314.222	-145.635	-46,35%
Shipment	269.676	207.655	62.021	29,87%
Insurance	89.306	75.844	13.462	17,75%
Travel and overnight expenses	309.925	298.372	11.553	3,87%
Commissions	76.467	109.336	-32.869	-30,06%
Promotional and advertising expenses	187.023	193.759	-6.736	-3,48%
Royalties	63.716	43.849	19.867	45,31%
Other services	1.760.146	1.633.512	126.634	7,75%
Total	6.155.240	5.643.739	511.501	9,06%

Under the heading of "Other services" the amounts due to administrators and auditors are included as well as the cost of legal services and charges related to listing of the company on the New Market of the Italian Stock Exchange.

Breakdown of operating expenses

The following table shows the breakdown of the various operating expenses:

	31/12/2004	31/12/2003	Variation	Var. %
Other taxes	24.634	23.850	784	3,29%
Associating contributions	20.586	20.550	36	0,18%
Newspaper and magazine subscriptions	8.474	9.525	-1.051	-11,03%
Expenses for vehicles	66.175	57.817	8.358	14,46%
Capital losses on ordinary possession conveyances		254	-254	-100,00%
Purchase of consumables art. 67 T.U.	59.352	65.079	-5.727	-8,80%
Fines	2.979	3.047	-68	-2,23%
Other minor charges	89.067	57.730	31.337	54,28%
Total	271.267	237.852	33.415	14,05%

Of the production costs, the expenses sustained for R&D are of particular significance for our business. During the financial year 2004 the costs incurred by the company for personnel working full or part time on R&D, for the purchase of instruments, materials, equipment and consulting fees and services for research may be estimated, including the relative portion of general costs attributed, at approx. 4,314 thousand euro.

Against the above-mentioned expenses, the company has entered revenue for approx. 655 thousand euro during the financial year. The remaining amount has been self-financed.

C) Financial income and charges

INCOME FROM EQUITY INVESTMENTS

Income from equity investments	Dividends	Income from negotiation	Other	Total
In subsidiary companies	180.000			180.000
Total	180.000			180.000

During the financial year, dividends were received to the amount of 180 thousand from Deka M.E.L.A. Srl.

Analysis of other financial income
Financial income form other sources is broken down as follows:

	31/12/2004	31/12/2003	Variation	Var.%
from investments which are not equity investments				
Interests		708	-708	-100,00%
Total		708	-708	-100,00%
from non-permanent investments which are not equity investments				
Interests	310	1.379	-1.069	-77,52%
Income from negotiations	44.824	66.951	-22.127	-33,05%
Total	45.134	68.330	-23.196	-33,95%
financial income different from the previous ones:				
To associated company	2.000	630	1.370	217,46%
Total	2.000	630	1.370	217,46%
financial income different from the previous ones: to third party				
Interests - assets - to bank	67.926	213.273	-145.347	-68,15%
Other financial incomes		323	-323	-100,00%
Total	67.926	213.596	-145.670	-68,20%
Total	115.060	283.264	-168.204	-59,38%

Interest assets to banks shows a decrease due to the use of a large part of the cash for the extraordinary operations already described. Income from negotiations is relative to the temporary investment operations of the remaining cash.

Interest and other financial charges

Financial charges towards third parties	31/12/2004	31/12/2003	Variation	Var. %
Debenture loans	60.425	60.425		0,00%
Bank debts for account overdraft	1		1	0,00%
Bank debts for medium and long - term loans	40.346	50.223	-9.877	-19,67%
Other financial charges	1.629	82	1.547	1886,59%
Total	102.401	110.730	-8.329	-7,52%
Financial charges towards associated companies				
Debts to associated companies		4.768	-4.768	-100,00%
Total		4.768	-4.768	-100,00%
Total	102.401	115.498	-13.097	-11,34%

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

Foreign exchange losses and gains

Foreign exchange loss or gain	31/12/2004	31/12/2003	Variation	Var. %
Foreign exchange loss	-550.600	-690.231	139.631	-20,23%
Foreign exchange gain	321.471	145.689	175.782	120,66%
Total	-229.129	-544.542	315.413	-57,92%

The exchange differences entered in the financial statement derive from the adjustment of the entries in foreign currency operated at the time of effective realisation, if occurring during financial year or, for the entries still open at the end of the financial year on the basis of the exchange rates in force at the end of the financial year.
The difference in exchange liabilities, entered in the financial statement to the amount of 551 thousand euro, include 362 thousand euro for adjustment of the amounts receivable in foreign currency, owed mainly by the American subsidiaries, to the exchange rate in force at the end of the financial year; also the equity investment in the subsidiary Cynosure Inc., for the portion entered among the "investments which are not permanent" inasmuch as the object of imminent resale, has been adjusted on the basis of the exchange rate in force at the end of the financial period.
The difference in exchange assets, entered in the financial statement to the amount of 321 thousand euro, include 194 thousand euro for adjustment to the end of year exchange rate of the amounts payable open as of 31/12; among these is the residual amount owed to the ex-shareholders of Cynosure Inc. for the purchase of shares of the said subsidiary on 30

September 2004, the advance payment received in foreign currency following the subsequent resale operation of part of the aforementioned shares, as described above.

D) Value adjustments for financial activities

The Company effected a direct devaluation for an amount of 544 thousand euro related to the value of the equity held in the subsidiaries Deka Sarl and Lasercut Inc. given the negative results achieved. It also made an indirect devaluation with the accrual in the “Fund for losses by companies in which equities are held” for an amount of 632 thousand euro, equal to the relevant portion of negative shareholders’ equity shown by the said subsidiaries as of 31 December 2004.

E) Exceptional income and charges

Break down of exceptional income

The table below shows a breakdown of the sources of exceptional income:

	31/12/2004	31/12/2003	Variation	Var. %
Extraordinary incomes:				
Miscellaneous income	453.539	49.029	404.510	825,04%
Other extraordinary incomes	685.043		685.043	0,00%
Total	1.138.582	49.029	1.089.553	2222,26%

The entry “miscellaneous income” includes approx. 444 thousand euro for the past effects of “cleansing” of fiscal interference applied to the early amortisation exceeding the technical economic amortisation calculated in the previous financial years. In the same way, the relative deferred taxes, amounting to approx. 165 thousand euro, have been entered as extraordinary charges, specifically under the heading “taxes relative to previous financial years” as shown in the table relative to extraordinary charges.
The “other extraordinary income” entry shows the capital gain made following the sale of 10% of Deka MELA Srl and 2.5% of Cynosure Inc., which took place as part of the acquisition of the controlling interest of Quanta System SpA.

Composition of extraordinary charges

	31/12/2004	31/12/2003	Variation	Var. %
Extraordinary charges:				
Miscellaneous losses	5.710	33.352	-27.642	-82,88%
Other extraordinary charges		4	-4	-100,00%
Total	5.710	33.356	-27.646	-82,88%
Taxation related to the previous fiscal years				
Other taxes related to the previous years	168.526	97	168.429	173638,14%
Total	168.526	97	168.429	173638,14%
Total	**174.236**	**33.453**	**140.783**	**420,84%**

Effects of the fiscal correction operations
For a clear explanation of the fiscal correction operation the table below shows the amounts which fiscal interference regards and the correlated deferred taxes and relative effects on the results for the financial years 2004 and 2003 and on the capital for 2003.

	2004		2003	
	Net Income		Net Income	Stockholders' Equity
Amounts before the fiscal correction	1.622.410		1.732.650	43.315.623
Fiscal correction:				
Correction on depreciations amounts	444.247		123.726	320.521
Total correction on depreciations amounts	444.247		123.726	320.521
Deferred income taxes	(165.482)		(46.088)	(119.394)
Net correction	278.765		77.638	201.127
Amounts after the fiscal correction	1.901.175		1.810.288	43.516.750

Taxes on the revenues for the financial year

Description:	31/12/2004	31/12/2003	Variation	Var. %
IRES	1.274.288	689.696	584.592	84,76%
IRAP	407.574	320.812	86.762	27,04%
IRES Deferred (Advanced)	-181.831	32.798	-214.629	-654,40%
IRAP Deferred (Advanced)	-14.067	-7.018	-7.049	100,44%
Total income taxes	1.485.964	1.036.288	449.676	43,39%

The fiscal expenses related to the financial period are certainly influenced by the absence of the benefits foreseen by the Dual Income Tax (DIT) conceded to newly-listed companies in the year of quotation (2000) and for the following three financial years. This determined a higher overall tax-rate for the financial year compared to last year, rising from 37.43% to 43.88% (IRES 32.25, IRAP 11.62%).

The table below shows the relationship between the theoretic fiscal aliquot and effective aliquot on Company Income Tax (IRES).

		31/12/2004	31/12/2003
Theoretical fiscal impact		33,00%	34,00%
Changes in the theoretical fiscal impact due to:			
Incomes tax free		-13,35%	-3,28%
Dividends		-1,67%	0,00%
Non deductible charges		14,27%	5,71%
Other amounts		0,00%	-10,34%
Real fiscal impact		32,25%	26,09%

In 2004 the exempt income includes approx. 444 thousand euro of rectification to amortisation as a result of application of legislation. In the same manner costs which may not be deducted include the approx. 165 thousand euro correlated to the fiscal correction as above.

Details of the composition of deferred and anticipated taxes are given in the breakdown of the provisions for risks and charges. The balance due in the financial year is entered among the taxes on financial year income.

Other information

In accordance with the law, the following table gives a breakdown of the employees according to category and indicates the salaries paid to Administrators and Auditors.

Average number of employees divided by category

	Average 2004	31/12/2004	Average 2003	31/12/2003	Variation	Var. %
Executives	6,0	6	6,0	6	0	0,00%
Management	3,5	6	1,0	1	5	500,00%
White collar	73,0	74	68,5	72	2	2,78%
Blue collar	36,0	35	34,0	37	-2	-5,41%
Total	118,5	121	109,5	116	5	4,31%

Salaries paid to Administrators and Auditors

The table below shows the salaries paid to the administrators and auditors.

	31/12/2004	31/12/2003	Variation	Var.%
Salaries to Administrators	354.000	354.000		0,00%
Salaries to Auditors	40.636	37.769	2.867	7,59%
Total	394.636	391.769	2.867	0,73%

The table below shows the salaries paid to the administrators and auditors of the parent company El.En. SpA in conformity with art. 78 of the Consob regulations which became effective after vote of approval n. 11971 on 14 May 1999.

Person	***Appointment description***		***Salary***			
Name	*Position*	*Term duration*	*Perquisites*	*Non monetary benefits*	*Bonus and other incentives*	*Other rewards*
Gabriele Clementi	President of the Board of Directors	Until the date of the assembly for the approval of the financials for 31.12.05	90.000			6.500
Barbara Bazzocchi	Deputy member	Until the date of the assembly for the approval of the financials for 31.12.05	90.000			6.500
Andrea Cangioli	Deputy member	Until the date of the assembly for the approval of the financials for 31.12.05	90.000			6.500
Francesco Muzzi	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Michele Legnaioli	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Marco Canale	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Paolo Blasi	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Angelo Ercole Ferrario	Member	From 13.02.04 until the date of the assembly for the approval of the financials for 31.12.05	10.525			
Paolo Ernesto Agrifoglio	Member	Outgoing on 21 March 2005	12.000			
Alberto Pecci	Member	Until the date of the assembly for the approval of the financials for 31.12.05	12.000			
Ennio Carnevale	Member	Until February 2nd 2004	1.475			
Vincenzo Pilla	President of the Board of Statutory Auditors	for three years from Nov. 6th, 2003	15.952			
Giovanni Pacini	Statutory Auditor	for three years from Nov. 6th, 2003	11.279			
Paolo Caselli	Statutory Auditor	for three years from Nov. 6th, 2003	13.405			

The other salaries refer to end-of-term premiums (TFM) for the administrators which have been set aside in reserves during the financial period.

The salaries received by the administrators of the controlling company for carrying out their functions in other companies included in the consolidation are as follows: Francesco Muzzi, as President of Deka M.E.L.A. Srl received a salary from the said company of 90,000 euro and for the same period is shown as the beneficiary of a TFM (end-of-term bonus) of 6,500 euro; Barbara Bazzocchi as sole Administrator of Cutlite Penta Srl received a salary of 12,000 euro from the said company; Gabriele Clementi as sole Administrator of Valfivre Italia Srl, received a salary of 12,000 euro from the said company; Angelo E. Ferrario, as President of the Board of Directors of Quanta System SpA received a salary of 90,000 euro from the said company.

The company does not have a general director.

Amounts paid to correlated parties
In accordance with I.A.S. 24, payments made to people who were defined as correlated parties in the Business report, not included among the administrators and auditors are indicated below:

- Prof. Leonardo Masotti, president of the scientific commission received a salary of 9,200 euro during the year;
- Mr Carlo Raffini, as head of the Quality Control System, received a salary of 59,393 euro;
- Prof. Pio Burlamacchi, the holder of an industrial monopoly consisting of a patent pending for the invention of a “Support for optical cavity for lasers with regulation of the alignment of the beam”, received royalties for euro 36,152.

For a better understanding of the overall financial statement, the table below shows the general financial report for the purposes of illustrating, in a structured and synthetic form, the most significant variations which have occurred under the various headings for the financial period. This statement has been drawn up using the system of "cash flow" recommended by the accounting principles of the National Council of Certified and Chartered Accountants

Financial report (cash-flow)

Financial statement (cash flow)		**31/12/2004**		**31/12/2003**
Cash flow generated by manufacturing activity:				
Profit (loss) for the financial period		**1.901.175**		**1.732.650**
Amortizations and devaluation of fixed assets	1.079.922		1.203.214	
Variation of employee severance indemnity	150.227		124.400	
Variation of provisions for risks and charges	854.165		104.862	
Elimination of fiscal effects on depreciation	-444.247			
		3.541.242		**3.165.126**
Variation in the current assets and liabilities:				
Debtors	-294.611		-1.349.294	
Stocks	-1.478.272		-1.713.840	
Prepayments and accruals assets	-20.305		-30.339	
Creditors	1.354.048		327.060	
Prepayments and accruals liabilities	1.982		-3.747	
		-437.158		**-2.770.160**
Cash flow generated by manufacturing activity		**3.104.084**		**394.966**
Cash flow generated by investment activity:				
(Increase) decrease in tangible assets	-778.210		-1.776.698	
(Increase) decrease in intangible assets	-15.251		-178.459	
(Increase) decrease in equity investments	-5.776.406		-1.566.495	
		-6.569.867		**-3.521.652**
Cash flow from financial activity:				
Increase (decrease) in mid-long term loans	-265.328		8.278	
Variation in short term loans	1.525.672		-1.114.603	
Variation in financial credits	1.428.045		-3.115.590	
(Increase) decrease investments which are not permanent	-878.526		-115.000	
Variation in Capital and Reserves	513.671		262.330	
Dividends distributed	-1.149.607		-1.144.322	
		1.173.927		**-5.218.907**
Increase (decrease) in cash at bank and on hand		**-2.291.856**		**-8.345.593**
Cash at bank and on hand at the start of the financial period		**8.597.363**		**16.942.956**
Cash at bank and on hand at the end of the financial period		**6.305.507**		**8.597.363**

In the financial year 2004 the company succeeded in considerably increasing the cash flow generated by the operating activities; it was thus able to reduce the impact which the intensive investment activities, especially financial, had on the available liquidity, reduced in any case to approx. 6 million euro. During the financial year dividends of 1,149,607 were paid on the profits of 2003.

The present statement, consisting of the Statement of Assets and Liabilities, Profit and Loss Account and Notes to the Accounts is a truthful and correct representation of the economic and financial situation as well as of the economic results of the financial period and corresponds to the entries in the accounts.

For the Board of Directors
The President – Dr. Gabriele Clementi