

EL.EN. GROUP

BOARD OF DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDING June 30, 2004

(Approved by the Board of Directors – August 05, 2004)

Report on the quarter ending June 30, 2004

Introduction

This report covers the El.En. Group consolidated financial statement up to June 30th, 2004, prepared and divulged in accordance with article 2.6.2. of the Nuovo Mercato of the Italian Stock Exchange regulations and IA 2.4.1. instructions, and complies with article 82 of Consob rulings ex resolution 11971 and following amendments. The data and the information provided in this report have not been examined by an auditor, because no auditor has been appointed since this is not compulsory.

The following information has been prepared on the same principles previously adopted by the El.En. Group for the interim and annual reports.

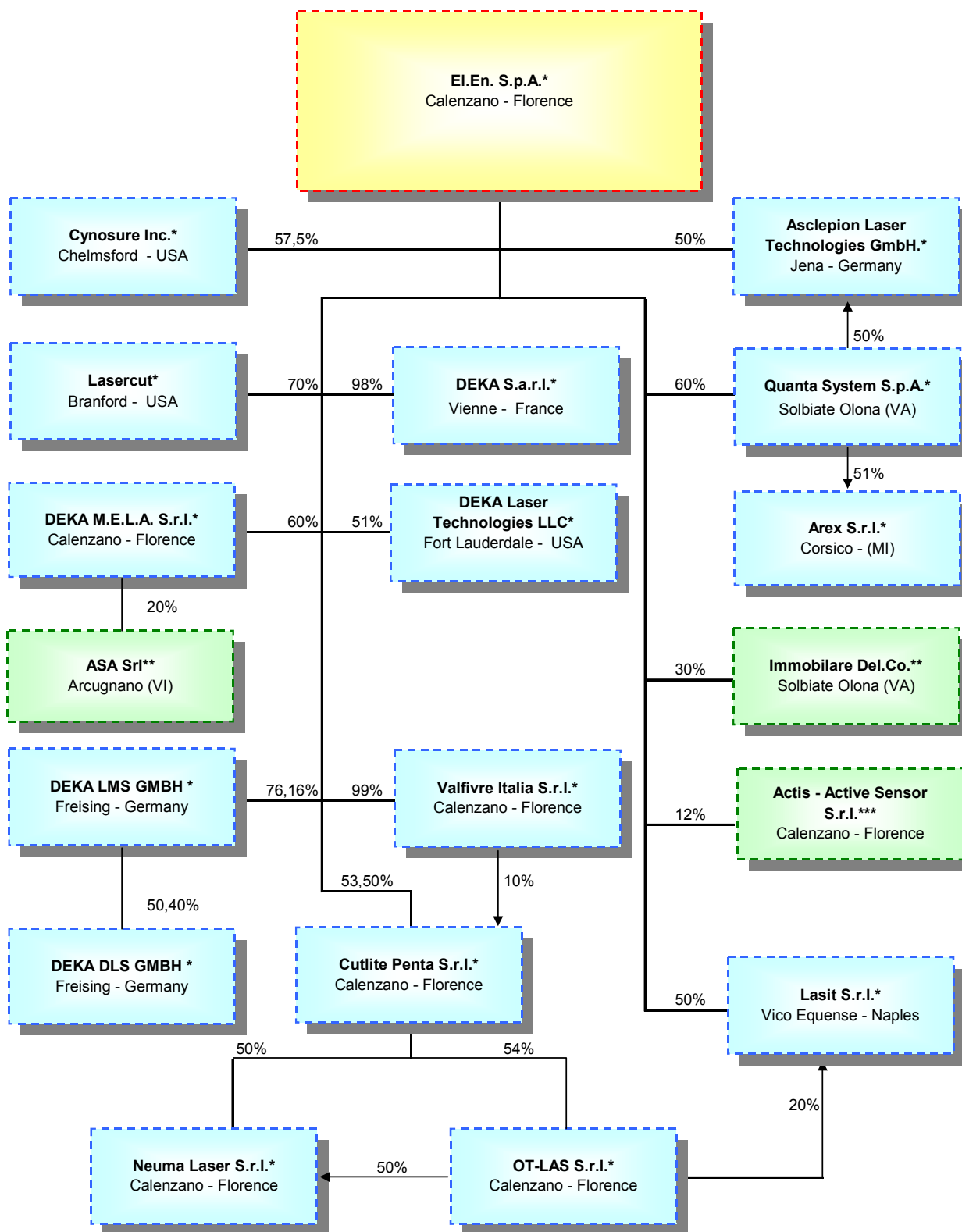
The results for the quarter ending on June 30th 2004 are shown in comparative form with those for the same financial period last year.

All the amounts are expressed in thousands of euro, if not otherwise stated.

Description of the Group

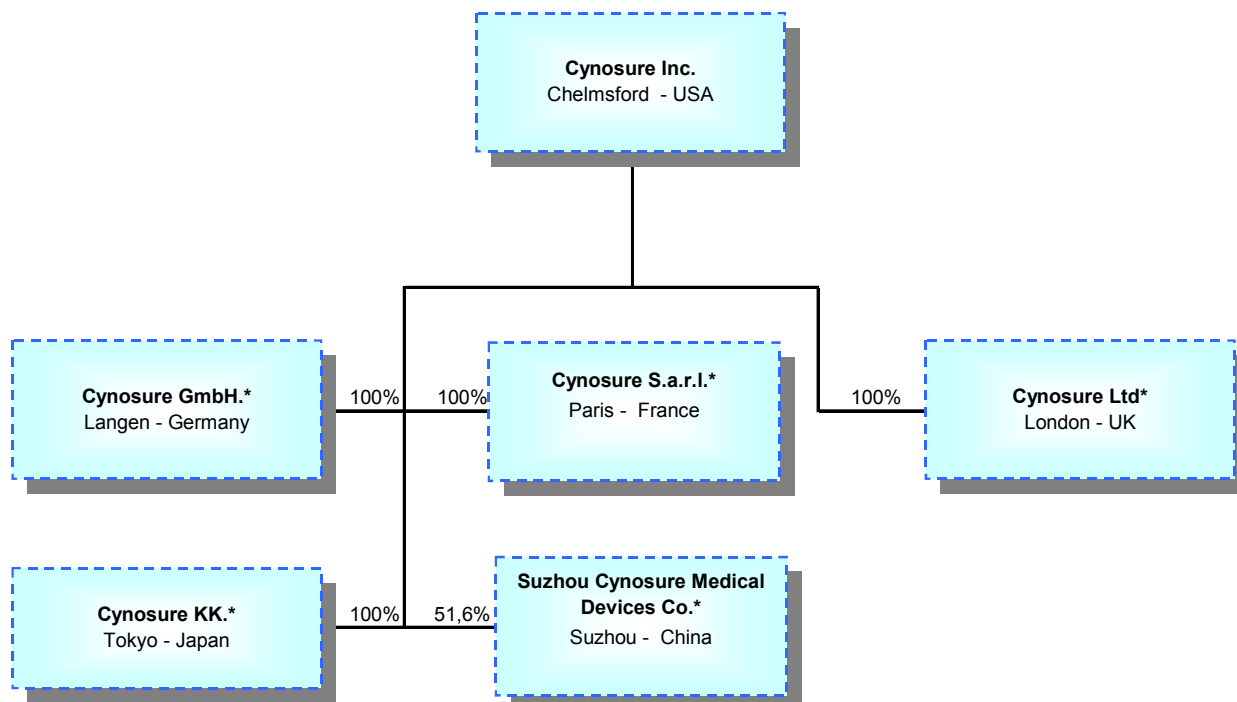
El.En. SpA is the holding company of an industrial group operating in the design, production and distribution of laser sources and systems for a variety of applications. The parent company conducts an intense activity within the Group, operating in the fields of research and development, engineering and manufacture.

The structure of the group as of June 30th 2004 is represented in the following chart



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

Cynosure Inc. itself controls a group of companies. As of June 30th 2004 the structure of the Cynosure group is the following:



* Entirely consolidated

** Consolidated in relation to net worth

On May 25th 2004 Cynosure Inc. sold to a third party its equity of 40% of the capital in Sona International Inc., a company which manages their chain of “laser medical spa clinics” and promotes the franchising. As is explained in detail further on, the business relations with Sona have not been interrupted by the sale of the equity, but the sale of Sona only signifies that the Group is no longer involved in the management of beauty centers; this operation has meant a significant capital gains and a new sales contract with a partner that is highly motivated in this sector and for whom the Group will continue to act, in a more traditional and appropriate role, as a supplier of technology.

On April 14th 2004 the Board of Directors of the subsidiary Quanta System SpA ratified the purchase (which took place on March 25th 2004) of an equity of 51,55% of the capital stock of Arex Srl, a company which manages medical centers in Milan.

In consideration of the integration of some of the activities of the Group, on June 25th 2004, in Milan, a new company, called AQL, was created for the design, manufacture and sale of laser systems for the “Industrial Business” sector, which will also be involved in the research and development of industrial processes and products, and the creation of new advanced technologies in the phototonic field. The company has a capital stock of 100.000 Euros, and is owned in equal parts by the subsidiaries Quanta System SpA and Lasit Srl.

On June 30th 2004, for companies like Immobiliare Del.Co. Srl and ASA Srl the financial results are not totally consolidated in the statement of the Group, but are consolidated using the shareholders’ equity method.

Results of operations and financial position of the Group

The results which are presented here reveal an excellent sales trend, which is even better than that predicted, and a revenue result which, as expected, shows a marked improvement over last years figures. Moreover, the exceptional figures registered in relation to the above mentioned sale of the equity in Sona International contribute to the unusually high amount of the earnings before-taxes. The effects of this positive trend are also reflected in the financial position of the Group which has shown a marked improvement during this financial period.

The market situation in which your Group has operated during the first six months of 2004, has maintained most of the main characteristics of the preceding financial period, like the weakness of the dollar, which is now considered acquired data, and the crisis of the manufacturing sector, with the consequent difficulties in the industrial sector. On the other hand, the results of most of the activities which were initiated or acquired over the last two years have begun only in this quarter to make a positive contribution to the revenue of the Group, after a phase of start up or re-organization which had absorbed considerable amounts of resources. In this regard, the return of Cynosure Inc, the most important of the subsidiary companies, to a situation of profitable operations, has been a determining factor.

The chart below shows the Profit and Loss Account for the second quarter of 2004, in comparison with the results of the preceding financial period.

Profit and loss account - 3 months	30/06/2004	Inc.%	30/06/2003	Inc.%	Var.%
Net turnover from sales and services	26.078	95,11%	17.244	85,93%	51,23%
Variation in stock of finished goods and WIP	968	3,53%	2.594	12,92%	-62,67%
Other revenues and income	372	1,36%	229	1,14%	62,38%
Value of production	27.419	100,00%	20.067	100,00%	36,63%
Costs for raw materials	10.766	39,26%	9.597	47,82%	12,18%
Variation in stock of raw material	178	0,65%	(408)	-2,03%	
Other direct services	2.334	8,51%	1.821	9,07%	28,17%
Gross margin	14.141	51,57%	9.058	45,14%	56,12%
Other operating services and charges	5.095	18,58%	3.442	17,15%	48,03%
Added value	9.046	32,99%	5.616	27,99%	61,08%
For staff costs	5.563	20,29%	4.479	22,32%	24,20%
Gross operating profit	3.483	12,70%	1.137	5,66%	206,43%
Depreciation, amortisation and other accruals	2.114	7,71%	1.089	5,43%	94,20%
Net operating profit	1.369	4,99%	48	0,24%	2748,46%
Net financial income (charges)	(186)	-0,68%	(7)	-0,03%	2593,67%
Operating profit	1.183	4,32%	41	0,21%	2774,43%
Value adjustments (Devaluations)	20	0,07%	(87)	-0,44%	
Extraordinary income (Charges)	2.768	10,10%	0	0,00%	
Earning before taxes	3.972	14,49%	(46)	-0,23%	

The chart below shows the Profit and Loss Account for the first half of 2004, shown in comparison with the results of the preceding financial period.

Profit and loss account	30/06/2004	Inc. %	30/06/2003	Inc. %	Var. %
Net turnover from sales and services	45.018	93,8%	30.242	86,1%	48,9%
Variation in stock of finished goods and WIP	2.305	4,8%	4.490	12,8%	-48,7%
Other revenues and income	665	1,4%	376	1,1%	76,6%
Value of production	47.988	100,0%	35.109	100,0%	36,7%
Costs for raw materials	19.094	39,8%	16.493	47,0%	15,8%
Variation in stock of raw material	(165)	-0,3%	(1.114)	-3,2%	-85,2%
Other direct services	4.259	8,9%	3.426	9,8%	24,3%
Gross margin	24.800	51,7%	16.304	46,4%	52,1%
Other operating services and charges	9.365	19,5%	6.420	18,3%	45,9%
Added value	15.435	32,2%	9.884	28,2%	56,2%
For staff costs	10.603	22,1%	8.184	23,3%	29,6%
Gross operating profit	4.832	10,1%	1.701	4,8%	184,1%
Depreciation, amortisation and other accruals	3.305	6,9%	1.874	5,3%	76,4%
Net operating profit	1.527	3,2%	(173)	-0,5%	
Net financial income (charges)	93	0,2%	96	0,3%	-3,0%
Operating profit	1.620	3,4%	(77)	-0,2%	
Value adjustments (Devaluations)	124	0,3%	645	1,8%	-80,8%
Extraordinary income (Charges)	3.444	7,2%	(1)	-0,0%	
Earning before taxes	5.188	10,8%	567	1,6%	815,7%

The financial position of the Group is analysed in the chart below.

Net financial position	30/06/2004	31/03/2004	31/12/2003
Financial mid and long term debts	(2.036)	(1.970)	(1.844)
<i>Financial mid and long term debts</i>	<i>(2.036)</i>	<i>(1.970)</i>	<i>(1.844)</i>
Financial liabilities due within 12 months	(2.544)	(3.401)	(2.110)
Cash in banks and on hand	16.792	14.936	16.818
<i>Net financial short term position</i>	<i>14.248</i>	<i>11.535</i>	<i>14.708</i>
Total financial net position	12.212	9.566	12.864

Report on Operations

During the first semester of 2004, the Group operated in the field of design, manufacture and distribution of laser sources and systems; the principal markets for these products, as in preceding years, has been laser equipment for medical and cosmetic uses and laser systems for industrial use. As an adjunct to these two main sectors, the Group has also developed an after-sales technical assistance service which it offers to its clients, and has received income and revenue related to research and development activities.

The gross revenue for the semester shows an overall increase of 49% in comparison to the first semester of 2003, which confirms the constant growth rate of the Group. These results are better than those predicted on the basis of the annual growth rate, thanks to the earnings of the companies which have become part of the Group since June 30th 2003; the figures based on an annual rate in any case are slightly above predictions, although the growth rate in comparison to 2003 is expected to decrease in the next quarters.

The chart below shows the sales volume, divided according to the sectors in which the Group operates for the first half of 2004, compared with the same data for the same period last year.

	30/06/2004	Inc%	30/06/2003	Inc%	Var%
Industrial systems and lasers	7.641	16,97%	6.338	20,96%	20,56%
Medical and cosmetic lasers	29.082	64,60%	18.524	61,25%	57,00%
Research and Development	34	0,08%	76	0,25%	-55,22%
Service	8.261	18,35%	5.303	17,54%	55,76%
Total	45.018	100,00%	30.242	100,00%	48,86%

The growth rate in sales volume is almost 50% and shows characteristics similar to those registered for the last financial period, with brilliant results in the medical sector which becomes increasingly important as a category for the Group, while the industrial sector is still in difficulty and the growth shown is due mainly to the acquisition of other companies. Sales volume for technical assistance and accessory services shows an increase of approx. 56%, which is above average, thanks mainly to the recently acquired companies. In relation to this category, the positive trend of the “revenue sharing” being operated in the United States by Cynosure through Sona International, an associated company up until May 25th 2004, should be noted.

Revenues for R&D projects and the reimbursement allowed by specific contracts signed with the Italian office “MIUR” are not very significant. We must nevertheless call attention to the fact that most of the reimbursements of this kind have been entered into accounting with the “other revenues”, during the first half of 2004 approx. 420 thousand Euros were entered into accounting compared with the 288 thousand registered for the first semester of 2003 most of which were from grants related to the following projects: CHOCLAB, EUV02, NETMED, TRL01 and SIDART.

The sales volume split according to geographic distribution is shown on the following chart.

	30/06/2004	Inc%	30/06/2003	Inc%	Var%
Italy	10.824	24,04%	7.820	25,86%	38,42%
Europe	12.924	28,71%	9.314	30,80%	38,77%
Rest of the world	21.269	47,25%	13.108	43,35%	62,26%
Total	45.018	100,00%	30.242	100,00%	48,86%

Almost half of the sales volume is now derived from clientele outside of Europe. Like its main competitors in this sector, El. En operates on a world-wide basis. The American market continues to have an increasing importance, thanks mostly to the revenue earned by Cynosure. The increase shown for the European market reflects the activity conducted by Asclepion as well as the highly effective medical distribution in Germany and Europe. Sales volume in Italy has also shown a considerable increase, thanks in part to the entry of Quanta System SpA into the area of consolidation.

For the medical and cosmetic sector, which represents about 65% of the sales of the Group, the following chart shows the individual areas of activity and their relative sales volumes.

	30/06/2004	Inc%	30/06/2003	Inc%	Var%
Surgical CO2	1.394	4,79%	662	3,58%	110,38%
Physiotherapy	258	0,89%	283	1,53%	-8,93%
Cosmetic	19.631	67,50%	10.918	58,94%	79,81%
Dental	3.823	13,15%	1.879	10,15%	103,43%
Other medical lasers	3.786	13,02%	4.601	24,84%	-17,70%
Accessories	190	0,65%	180	0,97%	5,46%
Total	29.082	100,00%	18.524	100,00%	57,00%

The new CO2 models which have recently been developed, Smartxide for dermatology and ML030 for veterinary use, have helped renew this sector. The doubling of the sales volume in this category gratifies the efforts which were made to create a new, attractive, high-performance product for this market, which represents the most traditional type of medical laser device.

Sales volume in the physical therapy sector showed a slight decrease, notwithstanding the number of devices, which was decidedly higher than in 2003, because the Group now derives its sales volume from the distribution instead of from the end-user, which is managed directly by ASA. During 2003 in fact, the Group changed their strategy for this sector, and had Deka acquire an equity in ASA, a company specialised in this sector, and turned over distribution operations to them.

The cosmetic laser field, which represents 70% of the sector, still showed a strong increase, to which all of the companies in the Group operating in this sector contributed: Deka, Cynosure, Asclepion and Quanta System. These companies, which the Group is careful to manage in such a way as to protect the integrity, unique characteristics and autonomy of each individual brand name; represent a very significant presence on the global market with products like Triactive for treating cellulitis, Photosilk and Photolight for hair removal and Photo Rejuvenation (Deka), Medistar (Asclepion), Light C and Eterna Giovinezza (Quanta System) and Apogee Elite (Cynosure) for hair removal and vascular treatment.

The dental sector registered exceptional growth, because of the additional sales volume derived from Asclepion through the distributor KaVo, and Quanta System, which is very active in this sector with their low-power diode systems, and by the success of the little American subsidiary, Deka Laser Technologies, which bases its activities on the distribution of CO2 US 20D lasers; clearly, the dental sector has also benefited from the innovations made in the range of CO2 lasers. Distribution of these lasers in Italy by Anthos Impianti continues on an excellent level. FDA approval has also been recently obtained for tooth whitening treatments with our innovative device, Smartlite. Besides being the formal authorisation required for sale of the device in the United States, the FDA approval is also a recognition, on a world-wide level, of the effective usefulness of the device.

In the category of "other lasers" growth was sustained by a variety of different products and by the good results, in particular those obtained by Cynosure with their Dye, lasers and by Asclepion with the new MCL 30 version of their Erbium laser for skin ablation. Along with the dental application, the Smartlite system also received FDA approval for its elective applications for dermatological and vascular therapies, which when used with the Hi-Scan scanner, represents one of the most advanced pieces of equipment available in the field. Another new device that was introduced on the market, is the Excilite Micro for the treatment of psoriasis, an attractive portable system which offers the same performance level as the original Excilite device. The Group is also continuing to work in the disciplines that are strictly related to hospital practice, for which interesting developments are expected in the near future, thanks to the application experiments based on some of the new technologies available within the Group.

It should also be remembered that, after the changes which have occurred in the relationship between Cynosure and Sona which were negotiated when the equity was sold, Cynosure will sell half of the equipment used by Sona for its cosmetic laser treatments, in return for a reduction of the quota paid by Sona in proportion to the sales volume obtained in its salons. This will comport an increase in sales volume for laser systems in the cosmetic sector, and a decrease in the sales volume for services, of which the "revenue sharing" was part.

For the sector of industrial applications, the following chart shows details of sales volume according to the type of product.

	30/06/2004	Inc%	30/06/2003	Inc%	Var%
Cutting	3.460	45,28%	2.218	35,00%	55,99%
Marking	2.974	38,92%	3.337	52,65%	-10,89%
Laser sources	979	12,81%	626	9,87%	56,44%
Welding	229	2,99%	157	2,48%	45,39%
Total	7.641	100,00%	6.338	100,00%	20,56%

The growth rate of (20%) which was registered is derived mainly from revenue earned by Lasercut and by Quanta System. The cutting sector, which achieved good results especially in Italy, and the contribution of Lasercut, even though still below expectations, made it possible to show an increase of 56% over the preceding financial period.

In the marking sector, not even the contribution of Quanta System, traditionally active on this market, could reverse the negative situation which caused a drop in sales for all the companies of the Group operating in this area. In any case, important development projects kept the research teams occupied during the preceding financial period and all of the companies will soon be able to benefit from these innovative projects with new technologies which will form the basis for the lines of systemistic and commercial integration that are inherent to each company.

The category of laser sources is still growing, again thanks to the presence of Quanta System which integrates its own range of CO2 sources manufactured by El.En. with solid state sources for scientific and industrial applications.. Analogously, in the restoration and welding fields, Quanta has made it possible for the Group to complete their line of products by adding EOS and Smartclean II for use on particularly delicate artefacts, to a range that already includes the powerful PALLADIO and MICHELANGELO, employed for cleaning large surfaces.

After this detailed examination of the profits, we can now proceed with an analysis of the trends in revenue. The margin of contribution registered is around 24.800 thousand Euros, an increase of 52% with respect to the preceding financial period. With an incidence on the Value of Production which rose from 46% to 52%. The increase in percentage terms is determined, among other things, by the growing importance of the sales by Cynosure, which were traditionally at higher margins than the average for the Group and by the good results achieved by Quanta System and Asclepion and by the medical sector in general.

The costs for services and operating charges were about 9.365 thousand Euros, an increase of approx. 46%, most of which was due to the newly acquired companies and with an incidence of 20% approx. on the Value of Production with respect to the 18% for the same period last year. The impact of Cynosure on this cost entry is significant since the outstanding increase in profits was obtained partially thanks to the re-enforcement of the sales network and the marketing and promotional expenses sustained both in the United States and on the international markets.

The costs for personnel has also increased significantly (+30%), but the incidence on the Value of Production decreases to 22% with respect to the 23% approx. for the first semester of 2003. This increase is due mainly to the newly acquired companies: During this semester in fact, the staff has been increased above all by the entry of Quanta System, which has been totally consolidated since January of 2004, and rose from 399 employees on December 31st 2003 to 467 employees on June 30th 2004, 43 of which work at Quanta System SpA. The staff at Quanta System SpA is chiefly involved in research and development, planning, and design, as well as the functions of administration and sales.

A very considerable part of the expenses for personnel is directed towards expenses for research and development, for which the Group also receives grants and reimbursements for specific contracts which have been underwritten by the institutions created for this purpose. These grants help limit the impact of research activities on the profit and loss account. As mentioned earlier, during this semester approx. 420 thousand Euros were received as grants.

The Gross Operating Margin, thanks to the above mentioned variations in the margins of contribution and in the operating and personnel costs, is registered at 4.832 thousand Euros with respect to the 1.701 thousand Euros for the same period last year, showing an improvement as far as the incidence on the Value of Production is concerned.

The increase in the costs for amortisations and accruals is very significant (+76% circa). Out of a total of 3.305 thousand Euros, 476 thousand Euros approx. are related to the amortisation of the goodwill paid for the acquisition of Cynosure, Dekalms, Asclepion, Quanta System SpA and 355 thousand Euros approx. for the accrual of funds for product guarantees, related mostly to the activity of Cynosure. This entry also includes the accrual for the goodwill

previously paid for the acquisition of the subsidiary Lasercut, which was effected in consideration of the continuing crisis of the company which, at least in the near future, does not seem able to achieve the goals which have been set for it; this accrual amounts to 655 thousand Euros.

The operating result is in the black for an amount of 1.527 thousand Euros in comparison to the loss of 173 thousand Euros shown for the same period last year, and with an incidence of approx. 3% on the Value of Production. It should be noted that this result is registered net of the accrual described above for the subsidiary Lasercut, for 655 thousand Euros, which, although entered among the ordinary accruals, represents a devaluation of an extraordinary nature of the investment made during the preceding financial period.

The result of the financial management is in the black for an amount of 93 thousand Euros and is practically unchanged with respect to that for the same period last year.

The extraordinary management contributes to the result for this period for an amount of 3.444 thousand Euros of which 2.460 thousand Euros approx. are derived from capital gains earned with the sale by Cynosure Inc. of its equity in Sona International, and 449 thousand Euros approx. from the capital gains earned when the parent company, El.En. SpA sold a quota equal to 10% of the capital stock of del Deka M.E.L.A. Srl and shares amounting to 2,5% of the capital stock of Cynosure Inc., transactions which took place during the operations for the acquisition of the control of Quanta System SpA.

The result before taxes is approx. 5.188 thousand Euros. Even though this result is based chiefly on amounts of an extraordinary nature, most of which are derived from the operations involving Sona and Quanta System, which have re-enforced the operations of the Group, this exceptional result demonstrates the positive trend of the Group, which continues to pursue its policy of geographical expansion, and increase the strength of its competitive position on the market in the sector of medical and industrial lasers.

Comments on the trend of the net financial position

The net financial position is in the black for an amount of 12 million Euros.

The acquisition of 30% of Quanta System comported the use of 1,5 million Euros, 1 million of which was paid in July, and therefore entered on June 30th among the financial debts. The consolidation of Quanta System also comported the entering into accounts of the mid-term debts that Quanta System had contracted in relation to research projects financed by MIUR. Short-term debts are made up for the most part of the instalments of mod-term debts becoming due before the end of the year and of the remaining debt for the purchase of the shares of Quanta System.

The sale of Sona brought in a total of approx. 4,6 million dollars to Cynosure, 1 million of which was deposited for a one year period as a guarantee towards the successful conclusion of some of the requirements laid out in the sales contract stipulated between Cynosure and Sona.

Cash was also absorbed during this period by gross investments, details of which are described in the following paragraph, which were in excess of the accruals which had been accumulated and which therefore contributed to the amount of cash used, for example, the payment of dividends for the amount of 1.149 thousand Euros (El.En. SpA) and for 174 thousand dollars (Cynosure Suzhou), which took place in the months of May and June.

Gross investments made during this quarter

The chart below shows the gross investments made during this financial period.

<i>Progressive</i>	30/06/2004	30/06/2003
Intangible assets	185	161
Tangible assets	2.472	2.009
Equity investments	64	0
<i>Total</i>	2.721	2.170

<i>3 Months</i>	30/06/2004	30/06/2003
Intangible assets	116	139
Tangible assets	1.348	1.625
Equity investments	0	0
<i>Total</i>	1.464	1.763

No single investments of an extraordinary amount or type were made during this financial period.; the increase in investments in tangible assets is mostly due to the laser systems which Cynosure had set aside for use in the revenue sharing activity conducted by Sona International. Moreover, as part of the sale of the equity, 50% of the equipment owned were sold to Sona itself.

The rest of the investments are of the ordinary type usually made as part of the activities of the Group.

During this semester, the purchase of the real estate property where Lasercut operates in Branford, Connecticut, was completed and the remodelling of the farmhouse next to the office buildings in Calenzano was finished. For this reason, the relative costs sustained were re-classified from “investments in progress” to “real estate assets”, so that the relative periods of amortisation can start.

Comments on Research and Development activities

During the second quarter of 2004, the Group has continued its intense activity of research and development, aimed at the creation of innovative products and of new application methodologies in the fields of medical and industrial application.

The Group has dealt with the competition on global markets which is typical of high tech products, by releasing a continuous series of new products on the market, new versions of old products with technological and performance upgrades and by demonstrating the success of our systems in new applications. For this reason, an intense research and development activity organised according to short and mid-term results must be set into motion.

Research for mid-term results typically involves higher risk subjects and is differentiated on the basis of intuitions established by the company management and the possibilities indicated by the scientific work of the laboratories of the most advanced study centres in the world. Financing for applied R&D and prototype development is allowed by cash detained by the group and grants issued according to contracts underwritten with financial institutions on behalf of the Education, University and Research Office, and the European community, or directly with research centres.

Some of the research programs conducted by the Group during the first quarter of 2004 are described below.

For medical systems and applications

The activity aimed at developing laser devices and equipment for mini-invasive robot-assisted micro-surgery also continued; this activity has been initiated as part of the Nuova Ingegneria Medica project as a FIRB (Fondo per Investimento per Ricerca di Base) study, financed in part by MIUR (Ministero Istruzione Università e Ricerca) on the basis of grants which are issued upon the favorable opinion of an international board of experts. The first experimental studies were carried out on the selection of the wave length and on the doses required for cutting soft tissues and the cauterisation of blood vessels. Work was begun on the development of a directable micro-tweezer and a multiple-way catheter for endoscopes, photo-dynamic endoluminal therapy, and for diagnostics with opto-acoustical micro-probes.

The development of instruments and clinical experimentation for innovative laser devices for use in physical therapy and orthopaedics was continued as was the formative activity for young researchers who are to be hired by the

company in order to further strengthen the research and development sector. At the same time, clinical experimentation is continuing in Italy and qualified European and American centers in order to confirm and document the efficacy of new therapeutic treatments performed by lasers in various fields of medicine: gastroenterology, otorhinolaryngology, oculistics, interstitial laser hyperthermia, dermatology.

A patent has been developed for a new type of low flow radiator with isotropic emissions interstitial laser hyperthermia for use in mini-invasive micro-surgery on the thyroid guided by ultrasound images..

A program is now in progress concerning the innovative technologies in ophthalmology related to the attachment of the cornea using a laser beam.

A research project for the development of a diode laser for applications in mini-invasive micro-surgery techniques has continued.

For the bio-medical industry, a research program is now in progress with grants from the European Union for mechatronic applications.

For industrial systems and applications

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

Moreover, applied research continued for the development of large mirrors for scanning the laser beam for the purpose of marking or treating surfaces of different kinds of materials for the aesthetic enhancement of garments and craft products; scanning systems, with laser power of over 1kW were continued. A project was begun for the development of the electronics based on a Digital Signal Processor to translate into HW the results of the theoretical research on the numerical of the galvanometers for scansion heads

Algorithms, calculus programs and HW structures were developed for artificial vision systems to be used for the decoration of leather using laser marking.

A project for the creation of a high power solid state laser source with active material in an amorphous ceramic support is now in the initial phases.

The development of new laser equipment for use in diagnosing the condition of art objects has been continued as part of the PON (Piani Operativi Nazionali) for the development of strategic sectors in Southern Italy.

The following table shows the expenses sustained during this period for Research and Development activities.

<i>thousands of euro</i>	30/06/2004	30/06/2003
Costs for personnel and general expenses	3.192	2.852
Costs for instruments and equipment	119	191
Costs for building of prototypes	386	287
Costs for technological consultants	155	164
Services provided	127	159
Intangible assets	1	2
Total	3.979	3.655

As is the case for the sales volume and revenue entries, for research and development expenses the presence of Cynosure is very significant because of the intense activity the company has always conducted in this specific area. The amount of expenses sustained by Cynosure during this semester was approx. 1.441 thousand dollars as opposed to the 1.182 thousand dollars for the same period last year.

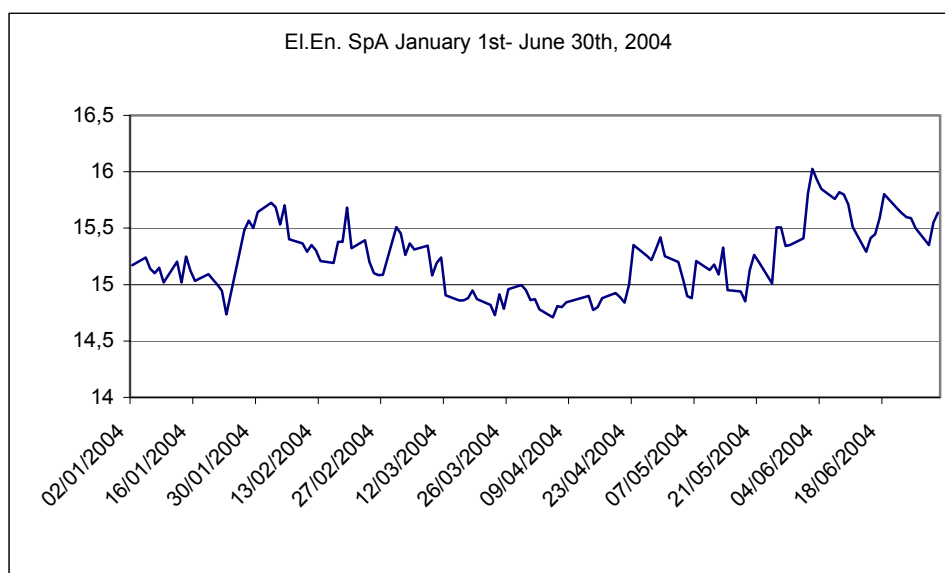
Following the usual company policy, the expenditures listed in the chart below have been entirely entered under the heading of operating charges.

The amount of expenses sustained, although greater in terms of absolute value in comparison to that for the same period last year, has a lower incidence on the consolidated sales volume of the Group (9% approx as opposed to 12% on June 30th 2003), thanks to the increase in the amount of the sales volume, as shown above. The quota which comes from Cynosure, which, as we have said, is 1.441 thousand dollars, represents 7,5% approx. of its sales volume (10% on June 30th 2003); the remaining portion of the expenses was sustained almost entirely by El.En. S.p.A. and is equal to 17%

approx. of its sales volume (20% during the first semester of 2003). During this financial period El.En. S.p.A. has entered into accounts revenue received in the form of grants for an amount of 349 thousand Euros approx. From these figures it is evident that the efforts expended in this direction are enormous and the resources involved considerable.

Trend of El.En. stock

The price trend of the company stock, as shown in the graph below, has not undergone any significant changes during the first six months of this financial year.



Other significant events which occurred during this quarter

No particularly significant events took place during the quarter described in this report.

Other events which occurred after the closure of the quarter

No particularly significant events for the activities of the Group took place after the closure of the quarter on June 30th 2004.

Predictions for short term evolution of the financial year now in progress

The first semester ended with both sales volume and profits well above expectations. These results represent a solid base for the rest of the year's activities, for which, notwithstanding the continuing situation of uncertainty which characterised 2003, we still can expect a sales volume slightly higher than predicted and an operating revenue which, net from the accruals effected, should be pretty much in line with predictions.

The net income however will benefit from the capital gains entered into accounts during the first six months, which should be subject to modest taxation in consideration of the fiscal losses accumulated during the preceding period.

For the Board of Directors
The President
Ing. Gabriele Clementi