

Gruppo El.En.

BOARD OF DIRECTORS' COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDING SEPTEMBER 30th 2004

(Board of Directors - November 12th, 2004)

Report for the Quarter ending on 30/09/04

Introduction

This report covers the El.En. Group consolidated financial statement up to September 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.

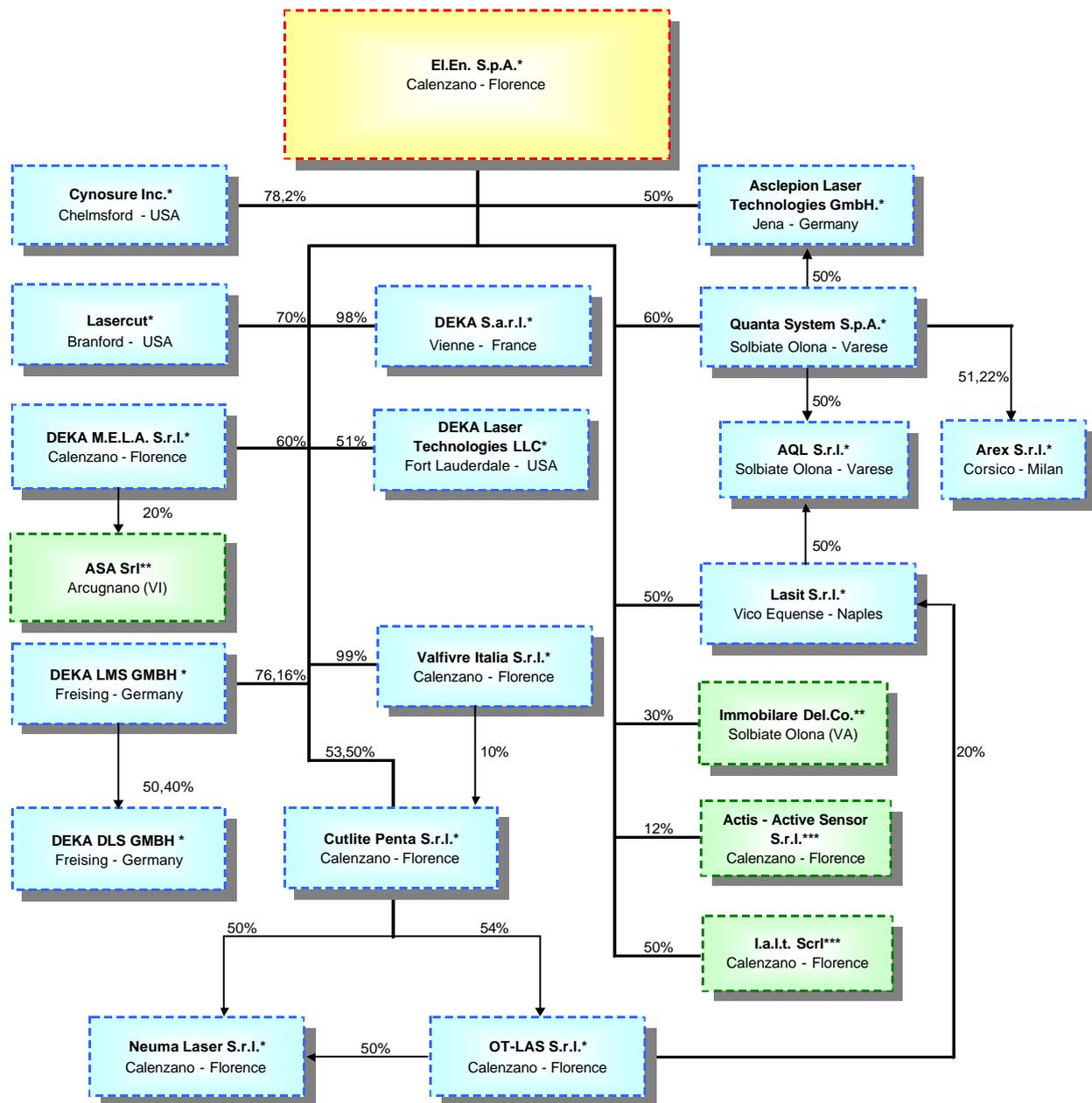
The following information has been prepared on the same principles previously adopted by the El.En. Group for the interim and annual reports.

The results for the quarter ending on September 30th 2004 are shown in comparative form with those for the same financial period last year. All the amounts are expressed in thousands of Euros, if not otherwise stated. For the conversion of the quarterly results expressed in foreign currency the "current rate" method has been used. Consequently, the exchange rate at the end of the financial period has been used for the amounts in the balance sheet, and the average exchange rate for the amounts in the profit and loss account. For the conversion of the quarterly results of Cynosure, Lasercut and Deka Laser Technologies the following rates have been applied: end of period exchange rate 1,2409 and average rate 1,2255 dollars per Euro.

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 structure of the group as of September 30th, 2004 is represented in the following chart:

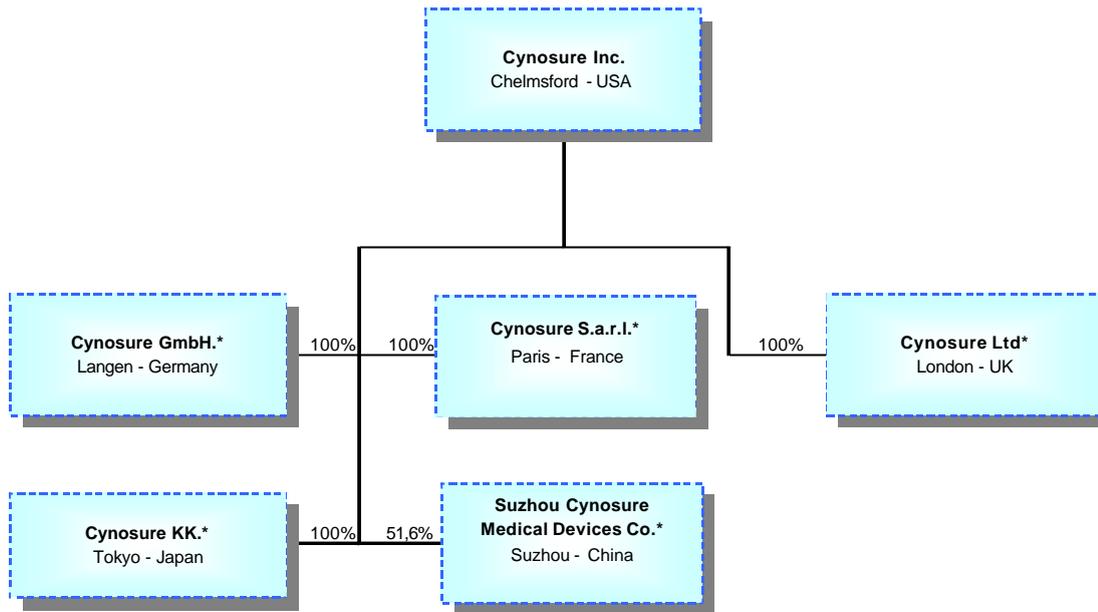


* Entirely consolidated

** Consolidated in relation to net worth

*** Kept at cost

Cynosure Inc. also controls a group of companies. As of September 30th, 2004 the structure of the Cynosure group is the following



* Entirely consolidated

On September 30th, 2004 the parent company, El.En. SpA increased the amount of their equity in Cynosure Inc. by 9% by underwriting an increase in capital for 575.000 newly issued shares at the price of 3 dollars each; this operation was effected by means of the conversion of a loan which had been granted previously to the subsidiary.

Moreover, on the same day, El. En. Spa increased its equity in Cynosure by purchasing a further 28% of the company from some of the minority shareholders; as part of the same operation, but officially on a subsequent date, 11% of this equity was sold, as will be explained in detail further on in this report. Consequently the shares which were included in this resale have been entered into accounts among the short-term financial activities. As a consequence of these operations, the percentage of the equity in El. En increases from 57,5% to 78% circa.

As of September 30th 2004, other companies like Immobiliare Del.Co. Srl and ASA Srl are part of the Group; the results for these companies have not been wholly consolidated into the financial statement of the Group, but have been consolidated using the shareholders' equity method.

Financial and economic results of the Group

The chart below shows the profit and loss account for the third quarter of 2004 displayed in comparative form with the results for the same period of 2003:

Profit and loss account - 3 months	30/09/2004	Inc.%	30/09/2003	Inc.%	Variazione
Net turnover from sales and services	21.075	90,65%	17.738	97,24%	18,81%
Variation in stock of finished goods and WIP	2.110	9,07%	454	2,49%	364,79%
Other revenues and income	64	0,28%	49	0,27%	30,87%
Value of production	23.249	100,00%	18.241	100,00%	27,45%
Costs for raw materials	10.330	44,43%	7.176	39,34%	43,95%
Variation in stock of raw material	(1.132)	-4,87%	(294)	-1,61%	284,40%
Other direct services	1.826	7,85%	1.445	7,92%	26,32%
Gross margin	12.225	52,58%	9.914	54,35%	23,31%
Other operating services and charges	4.488	19,30%	3.453	18,93%	29,96%
Added value	7.738	33,28%	6.461	35,42%	19,76%
For staff costs	5.172	22,24%	4.470	24,50%	15,70%
Gross operating profit	2.566	11,04%	1.991	10,92%	28,88%
Depreciation, amortisation and other accruals	1.305	5,61%	840	4,60%	55,38%
Net operating profit	1.261	5,42%	1.151	6,31%	9,54%
Net financial income (charges)	122	0,53%	(154)	-0,84%	
Operating profit	1.383	5,95%	998	5,47%	38,68%
Value adjustments (Devaluations)	(10)	-0,04%	(140)	-0,77%	-92,55%
Extraordinary income (Charges)	(547)	-2,35%	64	0,35%	
Earning before taxes	826	3,55%	921	5,05%	-10,33%

The chart below shows the data of the profit and loss account for the first nine months of 2004, displayed in comparative form with those of the preceding financial period.

Profit and loss account	30/09/2004	Inc.%	30/09/2003	Inc.%	Var.%
Net turnover from sales and services	66.093	92,8%	47.980	89,9%	37,8%
Variation in stock of finished goods and WIP	4.397	6,2%	4.944	9,3%	-11,1%
Other revenues and income	729	1,0%	425	0,8%	71,3%
Value of production	71.219	100,0%	53.350	100,0%	33,5%
Costs for raw materials	29.417	41,3%	23.669	44,4%	24,3%
Variation in stock of raw material	(1.230)	-1,7%	(1.409)	-2,6%	-12,7%
Other direct services	6.066	8,5%	4.871	9,1%	24,5%
Gross margin	36.965	51,9%	26.218	49,1%	41,0%
Other operating services and charges	13.797	19,4%	9.873	18,5%	39,7%
Added value	23.167	32,5%	16.345	30,6%	41,7%
For staff costs	15.795	22,2%	12.654	23,7%	24,8%
Gross operating profit	7.372	10,4%	3.692	6,9%	99,7%
Depreciation, amortisation and other accruals	4.618	6,5%	2.714	5,1%	70,2%
Net operating profit	2.754	3,9%	978	1,8%	181,6%
Net financial income (charges)	215	0,3%	(58)	-0,1%	
Operating profit	2.970	4,2%	920	1,7%	222,7%
Value adjustments (Devaluations)	113	0,2%	505	0,9%	-77,6%
Extraordinary income (Charges)	2.898	4,1%	62	0,1%	4540,8%
Earning before taxes	5.981	8,4%	1.488	2,8%	301,9%

The chart below illustrates the net financial position of the Group.

Net financial position	30/09/2004	30/06/2004	31/12/2003
Financial mid and long term debts	(2.014)	(2.036)	(1.844)
<i>Financial mid and long term debts</i>	<i>(2.014)</i>	<i>(2.036)</i>	<i>(1.844)</i>
Financial liabilities due within 12 months	(4.551)	(2.544)	(2.110)
Cash in banks and on hand	13.045	16.792	16.818
<i>Net financial short term position</i>	<i>8.494</i>	<i>14.248</i>	<i>14.708</i>
Total financial net position	6.480	12.212	12.864

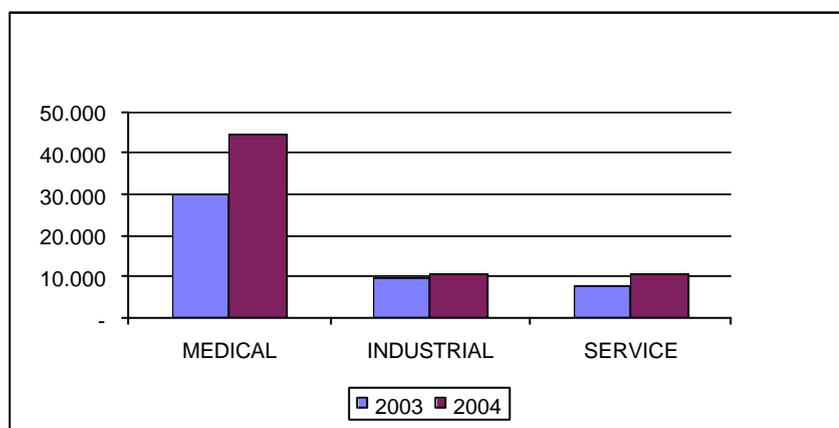
Report on operations

During the first nine months 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 revenue related to research and development activities.

Income for the first nine months of 2004 showed an increase of 38% with respect to the same period last year, thus confirming the strong growth rate of the Group. The increase in the volume of business is better than the amount predicted on an annual basis, thanks mostly to the contribution of the companies which became part of the Group during 2004 like Quanta System or during the second quarter 2003 like Asclepion and Lasercut; for this reason growth was registered at less than the 49% shown for the first 6 months and, as expected, should stabilise at about 30% at the end of the period.

The following table illustrates the sales volume divided according to sector of activity in the Group for the first nine months of the financial year 2004 compared with the same divisions for the same period last year.

	30/09/2004	Inc%	30/09/2003	Inc%	Var%
Industrial systems and lasers	10.566	15,99%	9.899	20,63%	6,74%
Medical and cosmetic lasers	44.622	67,51%	30.041	62,61%	48,54%
Research and Development	87	0,13%	142	0,30%	-38,67%
Service	10.818	16,37%	7.898	16,46%	36,97%
Total	66.093	100,00%	47.980	100,00%	37,75%



The trend, which was already evident last year and in the first semester of this year, of an accelerated growth rate in the medical sector and a modest growth rate in the industrial sector, can easily be observed also in the results shown for the quarter ending on September 30th 2004. The favorable situation in the medical market, and particularly in the cosmetic sector, however, is not matched by a similar situation in the industrial sector, where, even though faint signs of recovery are being registered, they have not been sufficient to enable the companies of the Group to reverse the negative trend or to increase the volume of business that had been predicted at the beginning of the year.

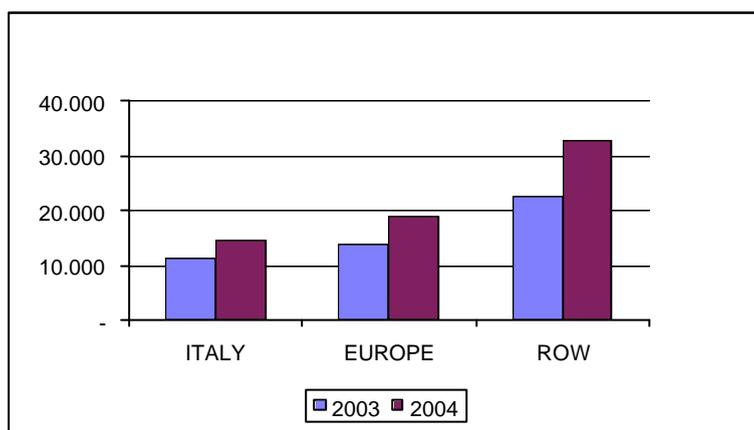
The volume of business for technical assistance and services showed an increase of 37% circa, thanks in large part to the contribution of the newly acquired companies. In this regard, attention should be called to the success of the "revenue sharing" operations run in the USA by Cynosure through Sona International, an associated company up until May 25th 2004.

Income from research projects and the relative reimbursements effected on the basis of contracts signed with the institutions financed by MIUR continue to be insignificant, however they are displayed on the charts because this amount must be integrated into the amounts entered into accounting among the other sources of income; during this

financial period 457 thousand Euros were entered into accounts, as opposed to the 288 thousand Euros for the same period last year. This income was derived, among other things, from financing related to the following projects: CHOCLAB, EUV02, NETMED, TRL01 e SIDART.

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

	30/09/2004	Inc%	30/09/2003	Inc%	Var%
Italy	14.635	22,14%	11.293	23,54%	29,60%
Europe	18.786	28,42%	13.901	28,97%	35,14%
Rest of the world	32.672	49,43%	22.786	47,49%	43,39%
Total	66.093	100,00%	47.980	100,00%	37,75%



Growth is very significant in all three geographical areas. In the Rest of the World, the American market has taken on an increasing importance because of the considerable volume of business developed by Cynosure for distribution in North America. It is this excellent result in fact which determines the difference in the growth rate between the European and the non-European markets. In Europe the contribution of Asclepion and its distribution network in Germany has been of prime importance. The trend in Italy was also good, thanks in part to the entry of Quanta System SpA into the area of consolidation.

For the medical and cosmetic sector, which represents about 48% of the sales of the Group, the following chart shows the individual areas of activity and their relative sales volumes

	30/09/2004	Inc%	30/09/2003	Inc%	Var%
Surgical CO2	1.816	4,07%	1.017	3,39%	78,51%
Physiotherapy	461	1,03%	380	1,27%	21,24%
Cosmetic	31.762	71,18%	20.512	68,28%	54,85%
Dental	4.631	10,38%	2.806	9,34%	65,05%
Other medical lasers	5.657	12,68%	5.062	16,85%	11,77%
Accessories	295	0,66%	264	0,88%	11,53%
Total	44.622	100,00%	30.041	100,00%	48,54%

The volume of business increased in all sectors of activity, and this result demonstrates how the Group is present on the medical market with a diversified, complete and innovative range of products. We have pursued excellence in every field in which we are active with investments in new products and marketing directed to the promotion of the prestigious brand names which represent us throughout the world.

DEKA, the traditional brand used for the distribution of El.En. products in the medical sector, is now established throughout the world and, as a leader in the field, is getting ready to participate in two crucial convention and fair events in November: the EADV (Congress of the European Association of Dermatology and Venereology) which will be held next week in Florence, and Medica in Duesseldorf, the traditional Autumn fair for operators in the medical sector.

Thanks to the total reorganisation of the company and in particular of the sales operations, Cynosure, is returning to the position of leadership which characterized its business at the end of the 1990s. Asclepion, which was reorganised and strategically focused after a period of disorientation, is renovating its range of products and obtaining excellent results both in Germany and on the international markets. Quanta System has found some interesting sectors of application in which it can put to best advantage its superior competence in the laser field.

The favorable moment of the cosmetic sector, which is demonstrated also by the success of our principal competitors in the field, which have also registered interesting growth rates this year, is very apparent and is responsible for the excellent results achieved in this area which are shown in the charts.

The dental sector has also obtained excellent results, thanks to the collaboration with a first rate partner which has been established, and also to our own efforts directed towards distribution in the United States and in Germany.

In the physical therapy sector also the positive results of the innovation of the products and of the ASA operation are beginning to be seen, with a substantial growth rate in a sector which still has to express its full potential for the Group.

The residual sector "Others" has grown due to the wide range of applications covered by the various technologies offered by the Group, from Psoriasis therapies with monochromatic ultraviolet light systems, to the Nd:YAG and Er:YAG surgery systems, Dye and diode systems for dermatology.

The great versatility of the most traditional laser used in medicine, the CO₂ laser connected with a range of accessories for effective treatments in an extremely wide variety of applications (ORL, dermatology, and even veterinary uses) and with the success of new products just placed on the market, show an interesting growth rate both for CO₂ surgical lasers and for the related accessories.

It should also be pointed out that, after the changes in the relationship between Cynosure and Sona which were negotiated at the time of the sale of the equity, Cynosure will sell half of the equipment used by Sona for its cosmetic laser treatments in return for a decrease in the amount paid by Sona in proportion to the income from its treatment centers. Consequently, there will be an increase in the income from laser systems in the cosmetic sector and a decrease in the income from services, of which the "revenue sharing" is part.

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

	30/09/2004	Inc%	30/09/2003	Inc%	Var%
Cutting	4.798	45,41%	3.270	33,03%	46,74%
Marking	3.977	37,64%	5.472	55,28%	-27,33%
Laser sources	1.424	13,47%	935	9,45%	52,20%
Welding	367	3,48%	222	2,24%	65,71%
Total	10.566	100,00%	9.899	100,00%	6,74%

The growth registered for the industrial sector is due to the contribution of the newly acquired companies, without which the volume of business would have remained substantially unchanged.

Good results were achieved in the field of industrial laser sources, thanks to the range of CO₂ power sources from 100W to 6 Kilowatt, and to some special laser sources manufactured by Quanta System.

In the cutting sector the increase in the sales volume was also considerable, and it was this sector which, particularly in Italy, gave the most significant signs of recovery, which were characteristic of the situation of manufacturing production in 2004. The sale on some of the markets is severely hindered by the exchange rate with the American dollar, which is now close to 1,3 dollars per Euro, and makes exportation, to the United States, for example, extremely difficult.

Marking systems, on the other hand, were declining; this sector is undergoing a phase of reorganisation for the activities of the Group and refocusing in terms of development and sales network, with the objective being a return to the level of business which was registered for the preceding financial periods, through a process of restructuring in order to identify and increase the number of manufacturing niches in which our systems have demonstrated that they excel, and in this way establish themselves on the relative markets.

Even though in absolute terms they represent amounts of a minor entity, the increase in the volume of business for restoration and welding systems and for other laser systems sold for special applications, is still interesting.

The revenue, as we have seen above, in this quarter increased by 37,8%; as far as the income trend is concerned, as of September 30th 2004, the figures are as follows: the margin of contribution is registered at around 36.965 thousand Euros, an increase of 41% with respect to the preceding financial period, and with an incidence on the Value of Production which rises from 49% to 52%. The increase in terms of percentage is determined, first of all, by the Cynosure sales, which have traditionally had margins higher than the average for the Group, and which have seen a growth in terms of both volume and margins; from this point of view, the good results registered for the medical sector and in particular by the subsidiaries Quanta System and Asclepion, and some special sectors in the industrial field, are of particular interest.

The costs for services and operating charges is 13.797 thousand Euros, an increase of approx. 40% with an incidence of approx. 19% on the Value of Production, with respect to the approx. 18% for the same financial period in 2003. This increase is, for the most part, due to the newly acquired companies, and, in particular, to Cynosure, since the increase in the revenue for this company was achieved also thanks to the enlargement of the sales network and the marketing and promotional expenses both in the United States and on the international markets. During the third quarter, in fact, legal expenses, of an exceptional nature, for an amount of 250 thousand dollars, were sustained on behalf of Cynosure.

Costs for personnel also rose considerably (+25%), but the incidence on the Value of Production dropped to 22% as opposed to the approx. 23% for the same period last year. The increase in costs in absolute terms is mostly derived from the newly acquired companies: in the past nine months the staff has been increased above all by the acquisition of Quanta System, which was totally consolidated in January of 2004, and rose from 399 people as of December 31st 2003 to 460 people on September 30th 2004, 41 of which work for Quanta System SpA. The personnel of Quanta System is, for the most part, involved in activities related to research, development, planning, and manufacture, as well, of course, as the normal administrative and commercial support activities.

A considerable part of the operating and personnel expenses are related to research and development, for which the Group receives grants and reimbursements for specific contracts underwritten by the institutions created for this purpose. These grants make it possible to pursue a wider range of research activities by limiting their impact on the profit and loss account. As mentioned earlier, for this quarter the grants received amounted to approx. 457 thousand Euros.

On account of the variations described above in the margins of contribution and the costs for office personnel and blue collar workers, the Gross Operating Margin is registered at about 7.372 thousand Euros, as opposed to the 3.692 thousand Euros for the same period last year, with an incidence of 10% on the Value of Production as opposed to 7% for the same period last year.

The increase in the costs for amortisations and accruals is also considerable (+70% circa). Out of a total of 4.618 thousand Euros, 800 thousand Euros are related to the amortisation of the goodwill paid for the purchases of Cynosure, Deka LMS, Asclepion, Quanta System SpA and 621 thousand Euros for the accrual of a warranty fund for products mostly related to the activities of Cynosure. This entry also includes the accrual for the goodwill paid out at the time of purchase for the subsidiary Lasercut, effected in consideration of the fact that the continuing crisis of the company does not seem to be something that can be resolved in the near future; this accrual amounts to 655 thousand Euros.

The operating result registered amounts to 2.754 thousand Euros, as opposed to the 978 thousand Euros for the same period last year, and with an incidence of approx. 4% on the Value of Production. It should be pointed out that this result is net from the accrual on the subsidiary Lasercut described above for 655 thousand Euros, which, although it is entered into accounting among the ordinary accruals, represents a devaluation of an exceptional nature on the investment made during the last financial period.

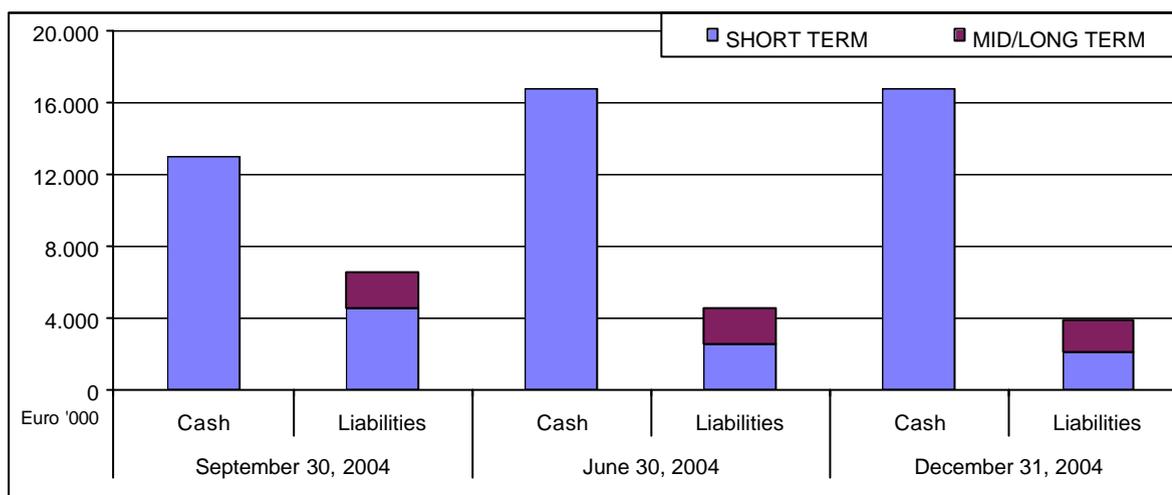
The result of the financial management is positive for an amount of 215 thousand Euros, particularly as a result of the positive difference in the exchange rate which was incurred as a result of the variations in the value of the US dollar during the financial period being discussed.

The extraordinary management contributes 2.898 thousand Euros to the result for this quarter. In this entry, the capital gains earned for the sale by Cynosure Inc. of its portion of the equity in Sona International is of particular significance; 449 thousand Euros are due to the capital gains earned from the sale by the Parent Company, El. En. of 10% of the capital stock in Deka M.E.L.A. Srl and of shares for the amount of 2,5% of the capital stock of Cynosure Inc. These sales occurred as part of the operations for the acquisition of control of Quanta System SpA. During the quarter being described in this report, Cynosure Inc. converted to the accounting principle which does not require the entering into

asset accounts of the costs sustained for the purchase of patents, and consequently a devaluation of about 340 thousand US dollars was entered as extraordinary expenditure.

The result before taxes is about 5.981 thousand Euros, although this is influenced by sums of an extraordinary nature which were earned as a result of the Sona and Quanta System operations; this result is cause for considerable satisfaction for the management which has succeeded in reaching the goals that had been set. In any case, the fiscal impact should be limited on account of the losses which Cynosure had accumulated during the previous financial periods.

Comments on the evolution of the net financial position



The net financial position, which is shown on the chart above, is in the black for an amount of over 6,5 million Euros.

During the third quarter, the increase in the equity in Cynosure Inc. obtained through the purchase of shares from some of the minority shareholders, required an investment of approx. 5 million dollars, half of which were paid upon closure of the deal, with the remainder to be paid by March 2005. Consequently, the sum which still must be paid is entered into accounts with the short term financial debts.

During the month of January, the purchase of 30% of Quanta System required the investment of 1,5 million Euros besides the entering into accounts of the mid-term financial debts which Quanta System had contracted in relation to research projects financed by MIUR.

In May, the sale of the equity in Sona International, together with part of the equipment which had previously been leased to them, earned Cynosure a total of 4,6 million dollars; of this amount, one million was held back for a period of one year as a guarantee of the completion of some of the obligations which were part of the sales contract between Cynosure and Sona.

Gross investments made during this quarter, some of which required amounts greater than those accrued for these purposes (which will be described in the next paragraph) also absorbed the cash on hand; and the dividends which were paid out by the Parent Company, El. En., for the amount of 1.149 thousand Euros and, for the amounts due to third parties, 120 thousand Euros by Deka MELA Srl and 174 thousand dollars by Cynosure Suzhou.

As described in detail in the following paragraph, part of the shares of Cynosure which were just purchased, were immediately sold again as part of an operation which the different times for the formal closing of the acts of purchase and of sale, although they are actually part of a single operation, prevent from being considered as such. Approx. 2 million dollars will be cashed in from this sale, and consequently an improvement in the net financial position will be registered.

Gross investments made during this quarter

The chart below shows the gross investments made during this quarter.

<i>Progressive</i>	30/09/2004	30/09/2003
Intangible assets	279	254
Tangible assets	3.149	2.591
Equity investments	68	0
<i>Total</i>	3.496	2.845

<i>3 Months</i>	30/09/2004	30/09/2003
Intangible assets	94	92
Tangible assets	677	582
Equity investments	0	0
<i>Total</i>	771	675

During this quarter no single investments of an extraordinary nature or amount were made. The increase in the investments in tangible assets was due for the most part to the laser systems that Cynosure will be using for the revenue sharing activity conducted by Sona International. Moreover, as part of the operations for the sale of the equity, 50% of the equipment was sold to the same company, Sona International.

All of the other investments were of an ordinary nature and were part of the usual operating activities of the Group.

It should also be pointed out that during this period, the operations for the purchase of the premises in Bradford, Connecticut where Lasercut operates were concluded, and that restoration work on the farmhouse on the premises of the offices in Calenzano was completed. Consequently, the relative costs sustained were reclassified from “investments in progress” to “assets”.

Comments on Research and Development activities

During the third quarter of 2004 the company continued its intense research and development activity for the purpose of introducing innovative new products on the market and finding new applications for lasers in the medical field as well as in the industrial sector.

The world market, especially for high-tech products, requires that competition be met by an almost uninterrupted stream of new products and of new versions of old products with improved performance, and by the use of state-of-the-art technology and components. For this reason it is necessary to organise and maintain a vast research and development program working on short and mid-term projects. Research for obtaining mid-term results generally involve higher risk subjects and are classified on a scale which is determined by management intuition and by the potential which has been shown in scientific studies conducted in laboratories and experiments in advanced research centers located around the world. The research which is dedicated to short term projects involves subjects for which feasibility studies have already been conducted and for which selection on the basis of information on the market potential has already been obtained through company studies and as a result of the activity of the structures involved as consultants in the preliminary study phase.

Research is, for the most part, applied and, for some specific topics, basic. Both the applied research and the development of prototypes are sustained in part by company financing and in part by grants issued on the basis of research contracts stipulated with the institutions appointed for this purpose by the Ministry of University Instruction and Research and with the European Union, both directly and through the Research Institutions.

A description of some of the research projects conducted during this quarter is contained in the following paragraphs:

Laser systems and applications for medicine

In the medical laser field we are conducting experiments for the development of laser equipment and systems for robot-assisted invasive microsurgery, after assignment of the project to the Group, based upon evaluation by international experts, as part of the “New Medical Engineering” FIRB (Fund for Investments in Basic Research) project, partially financed by MIUR (Ministry of University Instruction and Research).

Theoretical and experimental studies are being conducted for the purpose of determining the doses for cutting and ablation procedures on soft tissues and the cauterisation of small blood vessels.

We are also continuing work on the development of a directable micro-tweezer and of a multiple catheter for endoscopy, for endoluminal photodynamic therapy, and for diagnosis using opto-acoustic micro-probes. Research activities are also being conducted for the development of a technique and the relative devices for laser assisted anastomosis of blood vessels.

In the medical laser field we are conducting clinical experiments on lasers for physiotherapy and orthopaedics, and offering internships for young researchers who will eventually be hired in order to further consolidate the segment of research and development of laser devices for the medical field.

As part of the IALT (Image Aided Laser Therapy) consortium recently created by El. En. and Esaote, research is now in progress on new devices and methods for cutaneous ablation.

At the same time, clinical trials are being performed in Italy and in other qualified European and American centres, aimed at confirming and providing data on the efficacy of certain therapeutic laser procedures in various medical fields including gastrology, ophthalmology, hyperthermia interstitial laser, dermatology and aesthetics.

We are working on the development of a new type of low flow radiator with isotropic emissions for interstitial hyperthermia laser to be used for operations involving mini-invasive micro-surgery on the thyroid guided by ultrasound images.

A program is now in progress related to the innovative technologies in ophthalmology for the attachment of the cornea by means of a laser.

Another research program that is being conducted involves the development of a diode laser for applications in neurosurgery. With grants from the European Union, a program for research on mechatronic applications in the bio-medical industry has been initiated.

Laser systems and applications for industry

Research activity was conducted involved an excimer laser system to be used for the nano-manufacture of devices for electronics and opto-electronics.

Moreover, applied research continued on the development of large mirrors built with new shapes and new materials for scanning the laser beam, for the purpose of marking various kinds of surfaces for the aesthetic enhancement of garments or craft objects, with laser power of over 1 kW. Also under study, are the electronics based on a Digital Signal Processor used to convert in HW the results of the theoretical research conducted on numerical control of galvanometers for scanning heads.

Algorithms, calculus programs and HW structures were developed for artificial vision systems to be used for the decoration of leather and other materials using laser marking and for the marking of other objects spread out on a work surface.

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

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

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

<i>thousands of euros</i>	30/09/2004	30/06/2003
Costs for personnel and general expenses	4.462	3.895
Costs for instruments and equipment	142	254
Costs for building of prototypes	486	361
Costs for technological consultants	234	302
Services provided	238	123
Intangible assets	15	7
<i>Total</i>	5.577	4.942

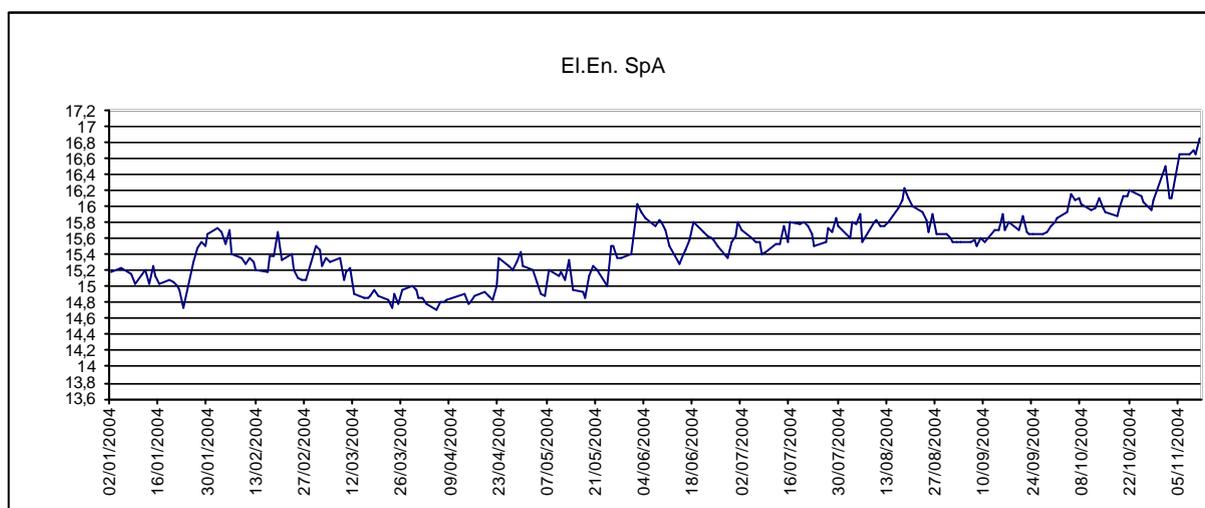
As is the case for the sales volume and revenue entries, for research and development expenses the presence of Cynosure is very significant because of the intense activity the company has always conducted in this specific area. The amount of expenses sustained by Cynosure during this semester was approx. 2.237 thousand dollars as opposed to the 1.821 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 the expenses sustained, although it has increased in absolute value with respect to the same period last year, has a lower incidence on the amount of business volume of the Group (8% approx as opposed to 10% on September 30th 2003), as a consequence of the considerable increase in the volume of business. The amount related to Cynosure, which, as stated, is 2.237 thousand dollars, represents approx. 8% of its volume (9% on September 30th 2003); the remainder of the expenses was sustained almost entirely by El.En. S.p.A. and is 16% of its volume (18% on September 30th 2003). El.En. S.p.A. has entered into accounts for this quarter, income 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 trend of El. En. stock is shown on the graph below.



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 closing of the quarter

During the first days of November the contract, details of which had already been established, was signed, for the sale by El. En. to a third party, of the Cynosure shares which had been purchased on September 30th. This operation will make it possible to involve the Cynosure management directly and has also involved other people close to the management and the Laserfin Srl Company which already held a 2,5% equity in Cynosure. The conditions for the sale are the same as those applied for the purchase by El. En., with a price of 3,00 dollars per share.

During the month of October the Board of Directors of Cynosure voted on an incentive plan for their personnel by means of stock options, and approved the assignment of 1.200.000 options at the operating price of 3,00 dollars. These options are assigned to the management of Cynosure and will become available for option over the next four years.

Predictable evolution of activities for the financial year in progress

The first nine months of 2004 closed with a sales volume which was slightly better than expected with income well over predictions. The last quarter of the year should confirm this positive trend and despite the substantial accruals which

have been made, achieve the budget objectives as far as operating income is concerned, and easily exceed them in terms of net profits.

For the Board of Directors,

The President
Ing. Gabriele Clementi