

# **El.En. Group**

## **DIRECTORS' COMMENTS ON THE CONSOLIDATED DATA AS OF 31 DECEMBER 2004**

(Approved by the Board of Directors of the company on 14 February 2005)

### **Quarterly report as of 31/12/2004**

#### **Introduction**

This quarterly report as of 31/12/2004 on the consolidated data of El.En. SpA has been drafted and is divulged in obedience to art. 2.6.2. of the New Market Regulations, IA 2.4.1. of the Instructions for the Regulation of the New Market and art. 82 of the CONSOB regulations adopted by resolution no. 11971 and subsequent modifications. The quarterly figures and information have not been subjected to examination by an auditing firm, inasmuch as up to today no similar appointment has been granted (because not obligatory).

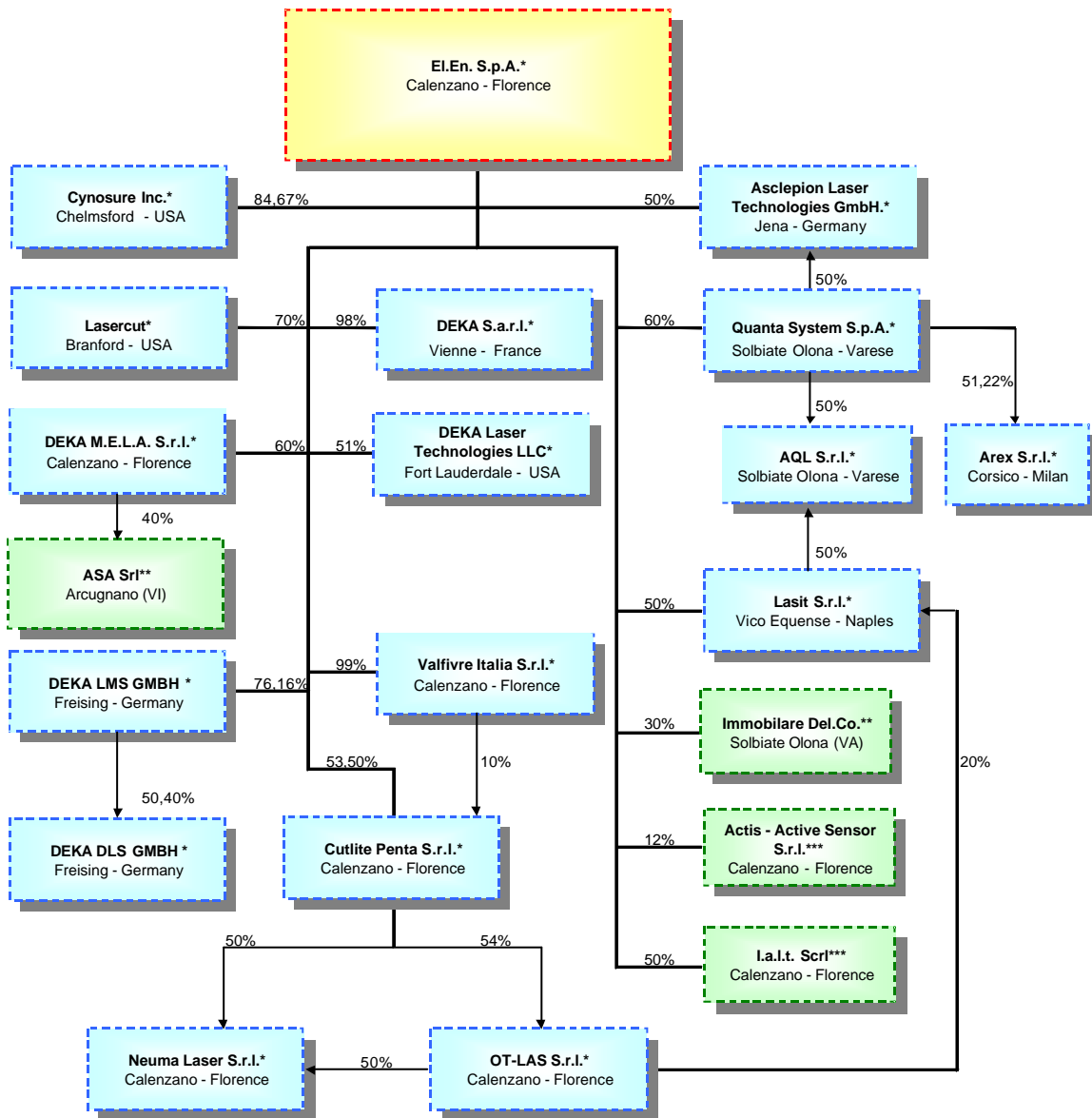
The informative statement given below has been predisposed following the same criteria applied by the Group in the past both for the annual and within-year closing of accounts.

The quarterly results as of 31/12/2004 have been shown in a comparative form with those of the corresponding quarter of the previous financial year. All amounts are expressed in thousands of Euro, if not otherwise indicated. The conversion of the quarterly results expressed in foreign currency is done using the "current exchange rate" method. The end of period exchange rate has therefore been used for the items shown on the statement of assets and liabilities and the average exchange rate for those on the profit and loss statement. For the conversion of the quarterly results of Cynosure, Lasercut and Deka Laser Technologies the following exchange rates were adopted: the end of period exchange rate of 1.3621 and the average exchange rate of 1.2439 dollars per euro.

#### **Description of the Group**

El.En. SpA controls a group of companies operating in the design, production and distribution of laser sources and systems destined to a variety of applicative areas. El.En. SpA itself carries out important operative functions within the group, especially as regards R&D, design and production.

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

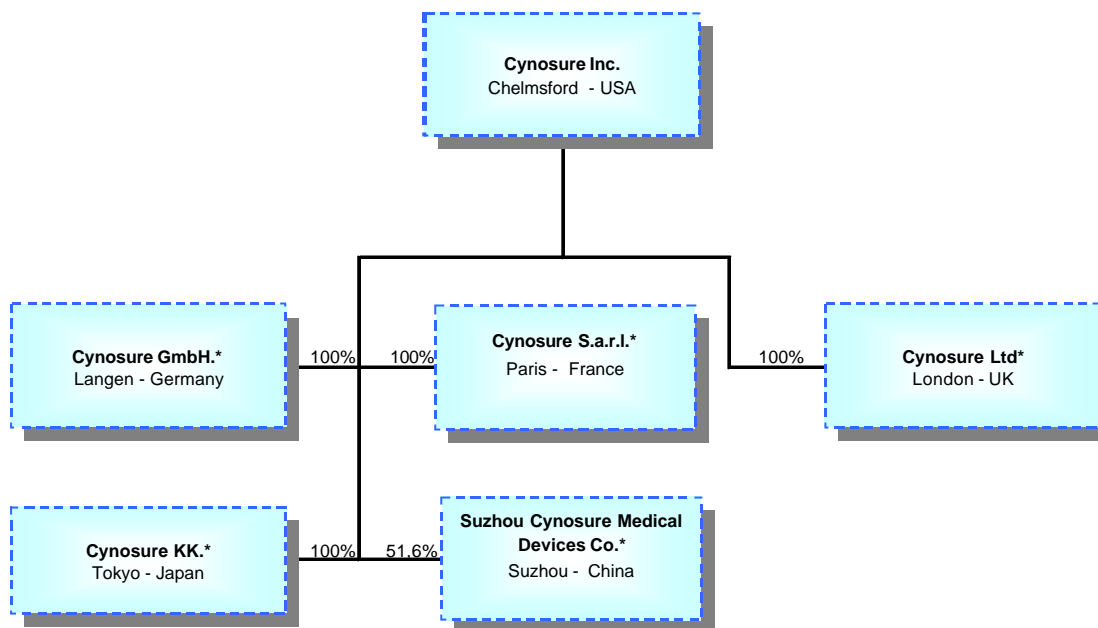


\* Entirely consolidated

\*\* Consolidated in relation to net worth

\*\*\* Kept at cost

Cynosure Inc. in turn controls a group of companies. As of 31/12/2004 the organisation of the Cynosure group was as follows:



\* Entirely consolidated

In the course of the month of October the Board of Directors of Cynosure deliberated a plan of incentives for personnel through Stock Options, approving the assignment of 1,200,000 options to the plan at the striking price of 3.00 dollars per share. These options were assigned to the management of Cynosure, and will become exercisable within the next 4 years.

On 12 November 2004 the controlled company at a Deka M.E.L.A. Srl bought up a further 20% of ASA Srl, a Venetian company which is one of the leading producers of appliances for physiotherapy and rehabilitation, raising its share to 40% in the company.

In the course of the same month of November, the head of the group, El.En. SpA, completed its sale of part of the Cynosure Inc. shares purchased on 30 September 2004 to a third party, at the same conditions as the purchase operation by El.En. SpA, that is at a price of 3.00 dollars per share. The operation was formalised by means of the sale taking place of 150,000 shares to the company Laserfin Srl, already shareholder of 2.5% of Cynosure, and of 80,000 shares to third parties and by means of a pledge to sell to third parties, who pledged their purchase, of 450,000 shares within the terms established by the relative "stock purchase agreement".

During the month of December El.En. SpA then rounded up its number of shares in Cynosure Inc. by purchasing from a minority shareholder, at the same conditions as described above, 70,708 shares. In the same month of December, the Head of the group exercised purchase options on 34,460 shares, previously purchased from one of the managers of the company, paying Cynosure an amount of 2.00 dollars per share by way of increase in capital.

Following the operations described above the percentage of shares owned in Cynosure rose to 84.67%.

As of 31 December 2004 companies such as Immobiliare Del.Co. Srl and ASA Srl whose results are not entirely consolidated in the group's financial statement but are consolidated using the net worth method, are also part of the Group.

## Economic-financial results of the group

Below the data for the Profit and Loss statement relative to the fourth quarter of 2004 is shown in relation to the results for the same period of the previous financial year:

<b>Profit and loss account - 3 months</b>	<b>31/12/2004</b>	<b>Inc. %</b>	<b>31/12/2003</b>	<b>Inc. %</b>	<b>Variazione</b>
Net turnover from sales and services	28.476	102,49%	20.215	103,26%	40,87%
Change in stock of finished goods and WIP	(1.471)	-5,30%	(1.271)	-6,49%	15,76%
Other revenues and income	779	2,80%	633	3,23%	23,11%
<b>Value of production</b>	<b>27.784</b>	<b>100,00%</b>	<b>19.577</b>	<b>100,00%</b>	<b>41,92%</b>
Costs for raw materials	10.004	36,01%	7.036	35,94%	42,18%
Change in stock of raw material	(588)	-2,12%	(907)	-4,63%	-35,10%
Other direct services	2.804	10,09%	1.986	10,14%	41,18%
<b>Gross margin</b>	<b>15.564</b>	<b>56,02%</b>	<b>11.461</b>	<b>58,55%</b>	<b>35,80%</b>
Other operating services and charges	5.904	21,25%	4.316	22,05%	36,80%
<b>Added value</b>	<b>9.660</b>	<b>34,77%</b>	<b>7.146</b>	<b>36,50%</b>	<b>35,19%</b>
For staff costs	6.407	23,06%	5.311	27,13%	20,62%
<b>EBITDA</b>	<b>3.254</b>	<b>11,71%</b>	<b>1.834</b>	<b>9,37%</b>	<b>77,38%</b>
Depreciation, amortisation and other accruals	953	3,43%	1.415	7,23%	-32,67%
<b>EBIT</b>	<b>2.301</b>	<b>8,28%</b>	<b>419</b>	<b>2,14%</b>	<b>448,72%</b>
Net financial income (charges)	(178)	-0,64%	247	1,26%	
<b>Income from continuing operations</b>	<b>2.123</b>	<b>7,64%</b>	<b>666</b>	<b>3,40%</b>	<b>218,82%</b>
Value adjustments (Devaluations)	(36)	-0,13%	14	0,07%	
Extraordinary income (Charges)	387	1,39%	46	0,23%	747,18%
<b>Income before taxes</b>	<b>2.475</b>	<b>8,91%</b>	<b>725</b>	<b>3,71%</b>	<b>241,19%</b>

Below the data for the Profit and Loss statement relative to the financial year 2004 is shown in relation to the results for the previous financial year:

<b>Profit and loss account</b>	<b>31/12/2004</b>	<b>Inc.%</b>	<b>31/12/2003</b>	<b>Inc.%</b>	<b>Var.%</b>
Net turnover from sales and services	94.570	95,5%	68.195	93,5%	38,7%
Change in stock of finished goods and WIP	2.925	3,0%	3.673	5,0%	-20,4%
Other revenues and income	1.508	1,5%	1.058	1,5%	42,5%
<b>Value of production</b>	<b>99.003</b>	<b>100,0%</b>	<b>72.927</b>	<b>100,0%</b>	<b>35,8%</b>
Costs for raw materials	39.422	39,8%	30.705	42,1%	28,4%
Change in stock of raw material	(1.818)	-1,8%	(2.315)	-3,2%	-21,5%
Other direct services	8.870	9,0%	6.857	9,4%	29,4%
<b>Gross margin</b>	<b>52.529</b>	<b>53,1%</b>	<b>37.680</b>	<b>51,7%</b>	<b>39,4%</b>
Other operating services and charges	19.702	19,9%	14.189	19,5%	38,9%
<b>Added value</b>	<b>32.827</b>	<b>33,2%</b>	<b>23.491</b>	<b>32,2%</b>	<b>39,7%</b>
For staff costs	22.202	22,4%	17.965	24,6%	23,6%
<b>EBITDA</b>	<b>10.626</b>	<b>10,7%</b>	<b>5.526</b>	<b>7,6%</b>	<b>92,3%</b>
Depreciation, amortisation and other accruals	5.570	5,6%	4.128	5,7%	34,9%
<b>EBIT</b>	<b>5.055</b>	<b>5,1%</b>	<b>1.397</b>	<b>1,9%</b>	<b>261,8%</b>
Net financial income (charges)	38	0,0%	189	0,3%	-80,1%
<b>Income from continuing operations</b>	<b>5.093</b>	<b>5,1%</b>	<b>1.586</b>	<b>2,2%</b>	<b>221,1%</b>
Value adjustments (Devaluations)	78	0,1%	519	0,7%	-85,0%
Extraordinary income (Charges)	3.285	3,3%	108	0,1%	2936,9%
<b>Income before taxes</b>	<b>8.456</b>	<b>8,5%</b>	<b>2.213</b>	<b>3,0%</b>	<b>282,0%</b>

The following table analyses the net financial position of the group:

<b>Net financial position</b>	<b>31/12/2004</b>	<b>30/09/2004</b>	<b>31/12/2003</b>
Financial mid and long term debts	(2.583)	(2.014)	(1.844)
<i>Financial mid and long term debts</i>	<i>(2.583)</i>	<i>(2.014)</i>	<i>(1.844)</i>
Financial liabilities due within 12 months	(3.998)	(4.551)	(2.110)
Cash in banks and on hand	15.333	13.045	16.818
<i>Net financial short term position</i>	<i>11.335</i>	<i>8.494</i>	<i>14.708</i>
<b>Total financial net position</b>	<b>8.752</b>	<b>6.480</b>	<b>12.864</b>

## Management report

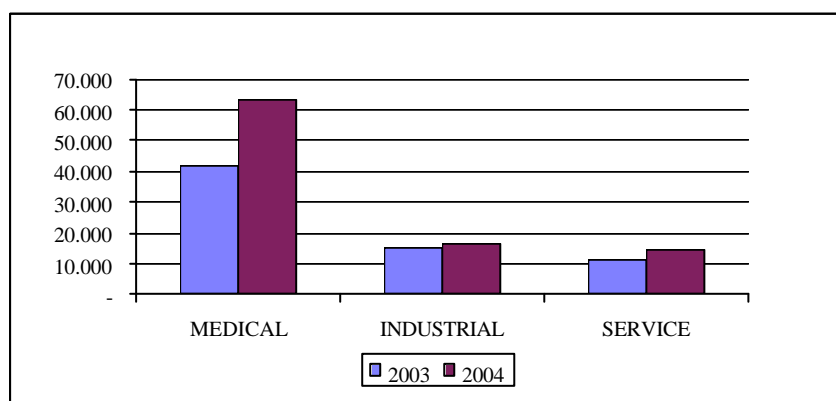
In the course of the financial year 2004 the group operated in the design, production and distribution of laser sources and systems, the main markets for these were, as in previous financial years, those of laser appliances for medicine and cosmetics and that of laser systems for industrial processes; within these sectors the group operates in various specialised areas of applications and market segments, on a global scale. The post-sales technical assistance service provided for its customers is particularly important, while returns and earnings have also been registered 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. In general terms one may say that the group has benefited from the favourable economic situation in the cosmetics field, showing an interesting increase in demand, especially in the United States; it has incurred the difficulties which manufacturing companies in the Euro area are encountering on account of the weak dollar, managing however to achieve good results in certain areas and market niches.

The proceeds registered in the financial year 2004 show 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. A consequence of the excellent trend in sales was also the marked increase in profitability, also well above the forecasts at an operative level and in the pre-tax figures.

The following table and relative graph illustrate 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	16.375	17,32%	15.031	22,04%	8,94%
Medical and cosmetic lasers	63.094	66,72%	41.606	61,01%	51,65%
Research and Development	586	0,62%	152	0,22%	285,81%
Service	14.514	15,35%	11.407	16,73%	27,24%
<b>Total</b>	<b>94.570</b>	<b>100,00%</b>	<b>68.195</b>	<b>100,00%</b>	<b>38,67%</b>



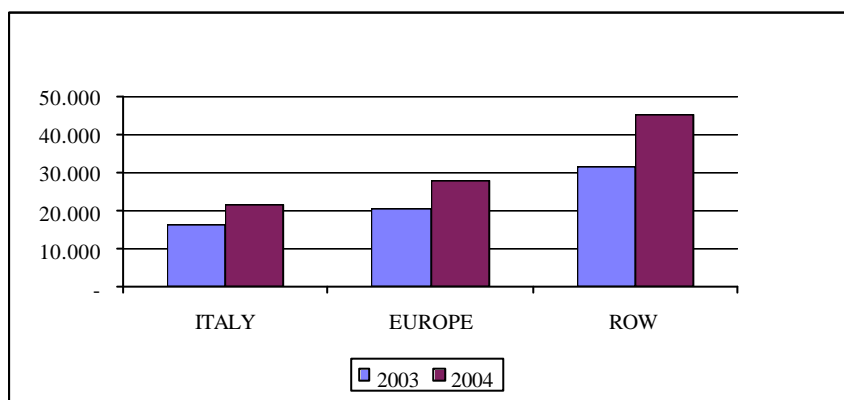
The financial year 2004 showed, as it did in the previous year, accelerated growth of the medical sector (+52%) against very contained growth of the industrial sector (+9%) where the recovery of the manufacturing sector was not however sufficient to determine an increase in turnover at the level hoped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

The turnover for technical assistance and associated services shows an increase of approximately 27%, 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, a connected company until 25 May 2004 should be remembered.

The turnover deriving from research projects and the relative repayment by virtue of the contracts entered into with managing institutions funded by MIUR, while markedly increasing during the financial year continue to be of little relevance; they continue to be shown however since such proceeds must be added to what is registered in the accounts as other proceeds: in the course of the period in question proceeds for approximately 860 thousand euro were registered (854 thousand euro as of 31 December 2003) proceeds relative, among other things, to the following projects CHOCLAB, EUV02, NETMED, TRL01, SIDART, DIONE and LASUS.

From the point of view of the geographic distribution of turnover, the trend over the financial year is shown in the following table:

	31/12/2004	Inc%	31/12/2003	Inc%	Var%
Italy	21.679	22,92%	16.153	23,69%	34,21%
Europe	27.681	29,27%	20.564	30,15%	34,61%
Rest of the world	45.210	47,81%	31.478	46,16%	43,62%
<b>Total</b>	<b>94.570</b>	<b>100,00%</b>	<b>68.195</b>	<b>100,00%</b>	<b>38,67%</b>



Growth appears consistent in all three areas of reference. In the Rest Of the World, the American market has assumed a greater weight thanks to the good work done by Cynosure on its distribution in North America: one might say that it is this specific result, particularly valid, which has made the difference in terms of growth of the extra-European markets compared to the European market. In Europe the contribution of Asclepion and its distribution network in Germany has been decisive. Progress in Italy too has been good, thanks also to the entrance of Quanta System SpA 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	2.541	4,03%	1.760	4,23%	44,38%
Physiotherapy	609	0,96%	591	1,42%	3,04%
Cosmetic	45.372	71,91%	27.007	64,91%	68,00%
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%
<b>Total</b>	<b>63.094</b>	<b>100,00%</b>	<b>41.606</b>	<b>100,00%</b>	<b>51,65%</b>

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 weapon 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, the only one of its kind in the world, offers such a variety of products to the market, offered 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 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, acquired greater weight in the sector, taking their place along cosmetic products and constituting an effective and less invasive alternative to cosmetic surgery.

The dental sector and that of CO<sub>2</sub> surgical lasers too registered 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 could be seen aside from the small increase in turnover, which is paying for 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).

The remaining "other" sector includes 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<sub>2</sub> lasers and for some cosmetic appliances achieved a significant increase, boosted by the success in these 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	47,71%	5.378	35,78%	45,25%
Marking	5.981	36,52%	7.690	51,16%	-22,23%
Laser sources	1.976	12,07%	1.670	11,11%	18,38%
Welding	606	3,70%	293	1,95%	106,78%
<b>Total</b>	<b>16.375</b>	<b>100,00%</b>	<b>15.031</b>	<b>100,00%</b>	<b>8,94%</b>

While approaching 10%, the rate of growth registered did not reach the targets set for the year 2004, and achieved a positive figure 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 registered an increase which re-established its leading position in the sphere of industrial market segments. The intense marketing and promotion activities, in years characterised by a difficult economic situation, despite this led to an appreciable result. 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.

Even the turnover of the industrial sources has shown a significant increase, thanks to the range of CO<sub>2</sub> powered sources, from 100W to 6 Kilowatt, and some special sources produced by Quanta System.

Through a transition phase the marking segment, which has witnessed a radical transformation of supply and a further vertical integration of production as well as a renewed sales organisation in the marking of reduced size surfaces. The appreciable results achieved did not make up for the reduction in sales of systems for marking extensive surfaces.



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.

After examining in detail the trend of the proceeds, up by 38.7% on the last financial year, we shall now comment on the income trend as of 31 December 2004.

The gross margin is shown as 52,529 thousand euro, up by 39% compared to the previous financial year and with an incidence on the value of production which has moved 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 or margin; the good results achieved in the medical sector, especially those of the controlled companies Quanta System and Asclepion also contributed, as did those of some market niches in the industrial sector.

The costs of services and running costs were 19,702 thousand euro, up by about 39% and with an incidence of approximately 20% on the Value of production, compared to approximately 19% for the same period in 2003. Such increase may be attributed mainly to the new acquisitions made and in particular to Cynosure given that the increase in proceeds of the latter was achieved partly thanks to the strengthening of the commercial network and the costs of marketing and promotion, both in the United States and on international markets.

Personnel costs too have risen significantly (+24%), but their incidence on the Value of production has fallen 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 personnel increased mainly due to the entrance 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 SpA. The personnel of Quanta System is mainly occupied in R&D activities, design and production as well as administrative and commercial back up services.

A considerable part of the personnel costs merges with the R&D costs for which the group also receives contributions and expense refunds by virtue of specific contracts entered into with the relevant institutions. Such contributions make it possible to give a wider scope to the research activities, given that they limit the economic impact of such. As mentioned above in the period in question the contributions registered amounted to approximately 860 thousand euro.

As a consequence of the variation in the contribution margins and the personnel and running costs, EBITDA is shown at 10,626 thousand euro, almost double compared to the 5,526 thousand euro of 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 amortisation and reserves (+35% approx.) was consistent. Of the total 5,570 thousand euro, 991 thousand euro were relative to the amortisation of the goodwill paid for the acquisition of Cynosure, Deka LMS, Asclepion, and Quanta System SpA and approximately 361 thousand euro relative to the reserves of the product warranty fund, relative mainly to the business of Cynosure. This entry includes moreover the start-up reserve paid at the time of the acquisition of 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.

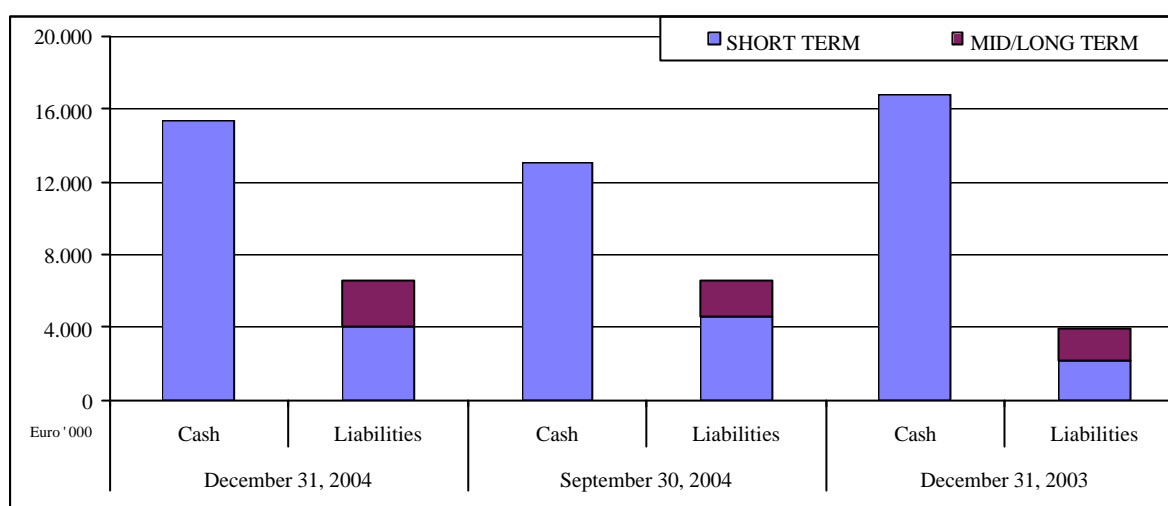
EBIT was 5,055 thousand euro, with an incidence of 5% of the value of production, a net difference from the 1,397 thousand euro for the same period of the previous financial year. It should be emphasised moreover that such result is conditioned by the paying of the reserve mentioned above on the controlled company Lasercut of 655 thousand euro, which, while registered in the accounts among the ordinary reserves, is actually an exceptional write-down of the investment made in the financial year.

The result of financial management was positive at 38 thousand euro, mainly thanks to the positive exchange rate differences registered following the variation in value of the American dollar in the period in question.

Extraordinary income accounts for approximately 3,285 thousand euro of the financial year result. In this entry the plus-value realised following the sale by Cynosure Inc. of its quota of shares in Sona International was the most influential factor; 449 thousand euro were however attributable to the plus-values realised following the sale by the head of the group, El.En. SpA, of a quota of 10% of the stock capital of Deka M.E.L.A. Srl and of shares accounting for 2.5% of the stock capital of Cynosure Inc., sales which were made as part of the purchase operation for the control of Quanta System SpA. Moreover, in the course of the financial year, the controlled company Cynosure Inc. adapted to the accounting principle which does not foresee the registration among the assets of the costs incurred for obtaining patents, registering as an extraordinary cost a write-down of approximately 340 thousand USA dollars.

The pre-tax result was 8,456 thousand euro; despite being influenced by entries of an exceptional nature attained within the sphere of Sona and Quanta System operations, is a highly satisfactory result for the management in its having exceeded the targets set. Moreover, the expected fiscal impact will undoubtedly be limited in view of the losses accumulated by Cynosure in previous financial years.

## Comment on the progress of the net financial position



The net financial position, the entity of which is shown in the graph above, has remained positive at 8.7 million euro despite some disbursements of an exceptional nature incurred during the financial year.

The increase in the stock held of 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 pay 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 the registration of the medium term financial debt which Quanta System incurred in relation to research projects funded 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 paid to the head of the group, El.En. SpA, for an amount of 1,149 thousand euro and that of the shares due to third parties for an amount of 120 thousand euro from Deka MELA Srl and 174 thousand dollars from Cynosure Suzhou also absorbed liquidity.

In addition the sale during the month of May of the stock 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 has been reduced to 500 thousand dollars in accordance with the agreed repayment for the above-said surety deposit.

As already described 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 the different moment of the formal closing of the deeds of purchase and sale does not allow to consider as a single operation, which it in effect is. The sale will entail an overall incoming payment of approximately 2 million dollars with a consequent improvement to the net financial position.

## Gross investments made during the quarter

The gross investments made in the period referred to are illustrated below.

<i>Progressive</i>	31/12/2004	31/12/2003
Intangible assets	408	279
Tangible assets	3.962	3.440
Equity investments	68	759
<i>Total</i>	4.438	4.479

<i>3 Months</i>	31/12/2004	31/12/2003
Intangible assets	129	25
Tangible assets	813	849
Equity investments	0	759
<i>Total</i>	942	1.634

No single investments of an exceptional kind or amount were observed during the period: the increase in the investments in tangible fixed assets is due mainly to the laser systems which Cynosure devoted to revenue sharing activities conducted by Sona International. Moreover, in the sphere of the sale of shares, 50% of the equipment was sold to Sona.

The rest of the investments were of an ordinary kind within the sphere of the operative activities of the group.

It is worth pointing out also that during the financial year the acquisition of the property where Lasercut operates in Bradford, Connecticut was completed, and the works on the country house in the area of the Calenzano plant were completed; a reclassification of the relative costs incurred by “fixed assets under construction” to “property” was therefore made, starting off their period of amortisation.

## **Comment on R&D activities**

In the fourth quarter 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 putting 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.

The 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 perspectives suggested by the scientific work of pioneering laboratories and research centres worldwide.

The 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 work of choosing and drafting 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 who 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 is sustained by financial resources in part the company’s own and in part coming from contributions deriving from research contracts entered into with the institutions managing them on behalf of the Ministry of Education, University and Research and with the European Union both directly and through Research Institutions.

Below are some details of the research conducted by the group in the fourth quarter of 2004.

### Laser systems and applications in medicine

The development of laser appliances and apparatus for mini-invasive microsurgery, also robot-assisted, continued; this work is done as part of the project on New Medical Engineering as an FIRB (Basic Research Investment Fund) project, funded in part by the MIUR (Ministry of Education, University and Research) following the awarding of the contract

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 directionable micro-forceps and multi-path catheter for endoscopy are being developed for endoluminal photodynamic therapy and for diagnostics using opto-acoustic microprobes. 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 constituted by El.En. and Esaote.

Parallely 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 on innovative ophthalmology which regards the gluing of the cornea using laser light is under way.

The development of lasers for ophthalmology to carry out photocoagulation of the retina has been started.

Research continues to be conducted into the development of a diode laser for applications in neurosurgery using mini-invasive techniques.

Research is being conducted to produce a new laser surgical forceps for use in laparoscopic surgery.

A research programme is in progress into applications of mechatronics and micro-technology in the biomedical industry with a contribution from the European Union.

#### Laser systems and applications in industry

The activity regarding an excimer laser system for use in the nano-fabrication of appliances for electronics and optoelectronics continued.

Moreover, applied research for the development of large mirrors made in new forms and with new materials for the scanning of the laser beam, so as to mark, or treat the surface of materials of various types to enrich the aesthetics of clothing or crafts products continued; 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 scanning tests in HW continued.

Studies continued for the set-up of algorithms, calculation programmes and HW structures for artificial vision systems to use in automatised 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.

The research foreseen by a project for a high power solid state laser source with active material in an amorphous ceramic support is being conducted.

The development of new laser appliances for the diagnosis and documentation of cultural assets continued, as part of the PON (National Operative Programmes) for the development of strategic sectors in the South of Italy.

As part of this, a new system of sensors and memorisation of the environmental strain on works of art while 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 the Research and Development phase.

<i>thousands of euros</i>	<b>31/12/2004</b>	<b>31/12/2003</b>
Costs for personnel and general expenses	6.158	5.576
Costs for instruments and equipment	155	307
Costs for building of prototypes	778	511
Costs for technological consultants	252	370
Services provided	401	103
Intangible assets	23	16
<b>Total</b>	<b>7.767</b>	<b>6.883</b>

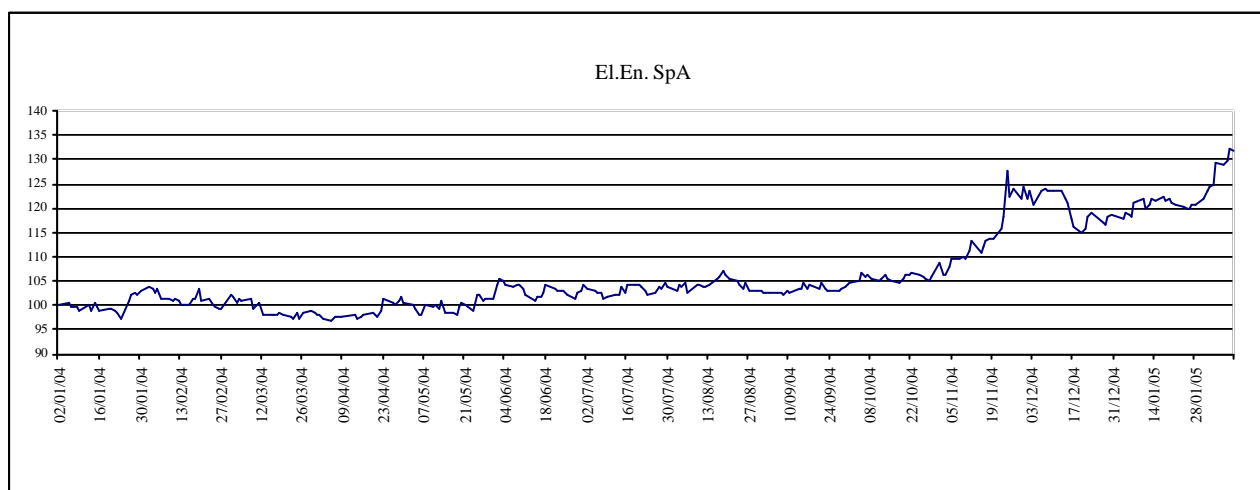
As for the turnover and profitability entries the contribution of Cynosure is relevant for the costs of R&D too, given the intense activity conducted in the specific sector. The total amount of costs sustained for R&D by Cynosure in the period was approximately 3,222 thousand dollars, against 2,525 thousand dollars for the corresponding period in the last financial year.

As is well-established company practice the costs listed in the table have been entirely registered in the running costs.

The amount of the costs incurred, while higher in absolute terms than the same period in the previous financial year, has a lower incidence 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. SpA and accounts for 15% of its turnover (17% as of 31 December 2003). El.En. SpA has included in the accounts for the period proceeds, in the form of contributions, for approximately 655 thousand euro. It appears evident that the efforts made in these areas are significant and the resources devoted to them considerable.

## Progress of the El.En. share

The progress of the share is shown in the graph below, with reference to the quotation at the beginning of the year of €5.71.



## **Other significant events which occurred during the quarter**

No other events worthy of particular note as regards the Group's business occurred during the quarter which this report refers to.

## **Other events occurring after the closure of the quarter**

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

## **Probable evolution of business for the current financial year**

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 exceptional nature which increase the area of consolidation, in 2005 the proceeds should be around 110 million Euro. Even the operating result is estimated to rise, in absolute terms and in its incidence on the turnover, reaching 9 million Euro. As of today no exceptional operations are foreseen such as those which permitted, during the course of 2004, the achievement of very positive results in the exceptional management. The budgets were drafted taking the Euro/dollar exchange rate at 1.30 as reference.

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 drafted 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 statement, 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 exceptional 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 a 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 Managing Director  
Dr. Andrea Cangioli