

# Quarterly Financial Report at **March 31<sup>st</sup> 2011**

# **EL.EN. S.p.A.**

Headquarters in Calenzano (Florence), Via Baldanzese, 17

Capital stock:    Approved: €2.591.871,36  
                      Underwritten and paid : €2.508.671,36

Registry of Companies in Florence – C.F. 03137680488

This document has been translated into English for the convenience of readers outside Italy.  
The original Italian document should be considered the authoritative version.

# **CORPORATE BOARDS OF THE PARENT COMPANY**

## **Board of Directors**

PRESIDENT

Gabriele Clementi

MANAGING DIRECTORS

Barbara Bazzocchi

Andrea Cangioli

BOARD MEMBERS

Paolo Blasi

Angelo Ercole Ferrario

Michele Legnaioli

Stefano Modi

Alberto Pecci

## **Board of statutory auditors**

PRESIDENT

Vincenzo Pilla

STATUTORY AUDITORS

Paolo Caselli

Gino Manfriani

## **Executive officer in charge of preparing the Company's financial statements in compliance with Law 262/05**

Enrico Romagnoli

## **Independent auditors**

Reconta Ernst & Young S.p.A

**EL.EN. GROUP**  
**INTERIM**  
**MANAGEMENT REPORT**  
**AS OF MARCH 31<sup>st</sup> 2011**

# **Interim management report**

## **Introduction**

This interim management report for the quarter ending March 31<sup>st</sup> 2011 for the El.En. Group was drawn up in compliance with to Art. 154-ter of Legislative Decree 58/1998 and later modifications as well as the regulations for issuing companies issued by Consob. This document contains the information usually included by the company in the preceding quarterly reports.

The information sheet shown below has been drawn up in compliance with IAS/IFRS international accounting principles which have been obligatory since 2005 for the display of the consolidated statements of companies quoted on the regulated stock markets.

The task of examining the data and the information provided in this report has not been assigned to an auditing firm, because, as of this writing, it is not compulsory.

The quarterly results as of March 31<sup>st</sup> 2011 are shown in comparative form with those for the same quarter last year. All amounts are expressed in thousands of Euros unless otherwise indicated.

## **Performance indicators**

In this interim management report we have shown some performance indicators for the purpose of facilitating the evaluation of the performance of the economic and financial management. The Group uses the following performance indicators:

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

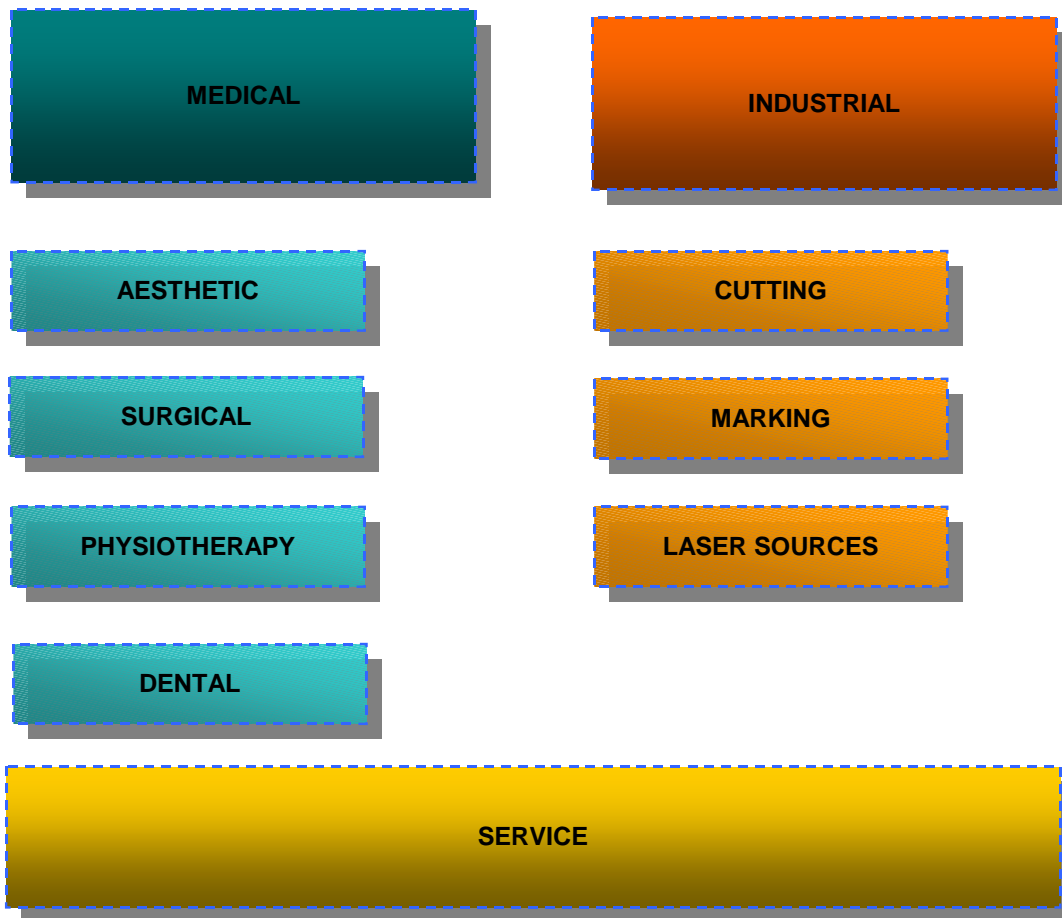
These indicators are illustrated in Profit and Loss Account charts shown and commented further on.

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

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

Apart from the sub-division of the roles of the various companies, the Group conducts its activities in two major sectors: that of laser systems for medicine and aesthetics, and that of laser systems for manufacturing uses. In each of these two sectors the activities can be subdivided into different segments which are heterogeneous in the application required from the system and consequently for the underlying technology and the kinds of users. Within the activity sector of the Group, which is generally defined as the manufacture of laser sources and systems, the range of clients varies considerably, especially if one considers the global presence of the Group and therefore, the necessity of dealing with the special requirements which every region in the world has in the application of our technologies.

This vast variety, together with the strategic necessity of further breaking down some of the markets into additional segments in order to maximize the quota held by the Group and the benefits derived from the involvement of management personnel as minority shareholders, is the essence of the complex structure of the Group; however, this complexity is based on the linear subdivision of the activities which can be singled out, not just to simplify reporting, but, above all, for strategic purposes, as follows:



Besides the main company activity of selling laser systems, there is also a post-sales customer assistance service which is not only indispensable for the installation and maintenance of our laser systems but also a source of income from the sales of spare parts, consumer items and technical assistance.

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

## **Significant events which occurred during this quarter**

On February 2<sup>nd</sup> 2011, Cynosure Inc. purchased some of the activities of Elémé Medical for a total amount of 2,5 million US dollars. The purpose of the transaction was to add Elémé Medical's non-invasive system for the removal of cellulitis, *SmoothShapes*<sup>®</sup> XV, to its line of products and to acquire the relative intellectual property rights.

## Economic and financial results of the Group

During the first months of 2011 the Group continued in its phase of recovery and consolidation of its position; the sales volume showed a satisfactory growth and the EBIT was maintained at the same level as last year.

Although our specific markets have not yet recovered the brilliance and solidity they had before the crisis beginning in 2008, the Group confirms the tendency to recuperate the sales volume and profit level shown in 2010. The results that are presented in this report continue to be negatively influenced by the conditions of uncertainty and difficulty which, notwithstanding some improvement, still affects the global economy: the extreme instability of the exchange rates, in particular that between Euro and US Dollar has penalized the results of the financial management; the availability of credit is still very limited, and this limits the sales volume, increases the average time for payment and ultimately requires the accrual, for cautionary purposes, of reserves against credit risks.

The group is confident and is investing in the potential of its main selling markets. The market for laser applications for aesthetic purposes responds to the common and demographically sustained social need to maintain a pleasing appearance when growing older. By investing in applications for surgery the Group is diversifying its activities in the medical sector and, to the dental and physical therapy sectors, is adding a new direction for development which has growth factors that are completely different from those in the aesthetic sector.

In the industrial sector, in conclusion, by combining the great innovative capacity in laser sources with the manufacturing and distributing capacity of laser systems in high growth areas, the Group proposes to increase its presence in a traditional market like that of manufacturing, while continuing to search for innovative technologies to improve the qualitative standards and the efficiency of production.

The chart below shows the consolidated Profit and Loss Account for the first quarter of 2011 shown in comparative form with that for the same period last year.

<b>Profit and loss account</b>	<b>31/03/11</b>	<b>Inc.%</b>	<b>31/03/10</b>	<b>Inc.%</b>	<b>Var.%</b>
Revenues	45.338	100,0%	41.061	100,0%	10,4%
Change in inventory of finished goods and WIP	4.753	10,5%	299	0,7%	1490,2%
Other revenues and income	923	2,0%	333	0,8%	177,6%
<b>Value of production</b>	<b>51.014</b>	<b>112,5%</b>	<b>41.693</b>	<b>101,5%</b>	<b>22,4%</b>
Purchase of raw materials	24.291	53,6%	15.842	38,6%	53,3%
Change in inventory of raw material	(2.463)	-5,4%	(119)	-0,3%	1962,1%
Other direct services	4.547	10,0%	4.044	9,8%	12,4%
<b>Gross margin</b>	<b>24.640</b>	<b>54,3%</b>	<b>21.927</b>	<b>53,4%</b>	<b>12,4%</b>
Other operating services and charges	10.525	23,2%	9.609	23,4%	9,5%
<b>Added value</b>	<b>14.115</b>	<b>31,1%</b>	<b>12.317</b>	<b>30,0%</b>	<b>14,6%</b>
For staff costs	11.985	26,4%	10.940	26,6%	9,5%
<b>EBITDA</b>	<b>2.130</b>	<b>4,7%</b>	<b>1.377</b>	<b>3,4%</b>	<b>54,7%</b>
Depreciation, amortization and other accruals	2.600	5,7%	1.869	4,6%	39,1%
<b>EBIT</b>	<b>(470)</b>	<b>-1,0%</b>	<b>(492)</b>	<b>-1,2%</b>	<b>-4,5%</b>
Net financial income (charges)	(580)	-1,3%	244	0,6%	
Share of profit of associated companies	(256)	-0,6%	(184)	-0,4%	39,5%
Other net income (expense)	(2)	-0,0%	(2)	-0,0%	-0,00%
<b>Income before taxes</b>	<b>(1.308)</b>	<b>-2,9%</b>	<b>(433)</b>	<b>-1,1%</b>	<b>202,0%</b>



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

<b>Net financial position</b>	<b>31/03/2011</b>	<b>31/12/2010</b>
Cash and bank	31.447	41.515
Financial instruments	41.130	44.676
<b>Cash and cash equivalents</b>	<b>72.577</b>	<b>86.191</b>
<b>Short term financial receivables</b>	<b>163</b>	<b>50</b>
Bank short term loan	(5.914)	(5.290)
Part of financial long term liabilities due within 12 months	(1.097)	(1.169)
Other short term financial liabilities	0	0
<b>Financial short term liabilities</b>	<b>(7.011)</b>	<b>(6.460)</b>
<b>Net current financial position</b>	<b>65.729</b>	<b>79.782</b>
Bank long term loan	(2.030)	(2.164)
Bonds	(726)	(784)
Other long term financial liabilities	(1.814)	(1.934)
<b>Financial long term liabilities</b>	<b>(4.570)</b>	<b>(4.882)</b>
<b>Net financial position</b>	<b>61.159</b>	<b>74.900</b>

The chart below shows the profit and loss account for the first quarter of 2011 and the net financial position of the Group excluding the subsidiary Cynosure from the area of consolidation.

<b>Profit and loss account</b>	<b>31/03/11</b>	<b>Inc.%</b>	<b>31/03/10</b>	<b>Inc.%</b>	<b>Var.%</b>
Revenues	30.885	100,0%	28.397	100,0%	8,8%
Change in inventory of finished goods and WIP	3.988	12,9%	1.459	5,1%	173,3%
Other revenues and income	854	2,8%	244	0,9%	250,6%
<b>Value of production</b>	<b>35.727</b>	<b>115,7%</b>	<b>30.099</b>	<b>106,0%</b>	<b>18,7%</b>
Purchase of raw materials	18.319	59,3%	13.025	45,9%	40,7%
Change in inventory of raw material	(1.696)	-5,5%	91	0,3%	
Other direct services	2.876	9,3%	2.763	9,7%	4,1%
<b>Gross margin</b>	<b>16.228</b>	<b>52,5%</b>	<b>14.220</b>	<b>50,1%</b>	<b>14,1%</b>
Other operating services and charges	6.172	20,0%	5.712	20,1%	8,1%
<b>Added value</b>	<b>10.057</b>	<b>32,6%</b>	<b>8.509</b>	<b>30,0%</b>	<b>18,2%</b>
For staff costs	7.655	24,8%	6.814	24,0%	12,3%
<b>EBITDA</b>	<b>2.401</b>	<b>7,8%</b>	<b>1.695</b>	<b>6,0%</b>	<b>41,7%</b>
Depreciation, amortization and other accruals	1.392	4,5%	724	2,5%	92,4%
<b>EBIT</b>	<b>1.009</b>	<b>3,3%</b>	<b>971</b>	<b>3,4%</b>	<b>3,9%</b>
Net financial income (charges)	(759)	-2,5%	326	1,1%	
Share of profit of associated companies	(256)	-0,8%	(184)	-0,6%	39,5%
<b>Income before taxes</b>	<b>(6)</b>	<b>0,0%</b>	<b>1.114</b>	<b>3,9%</b>	

<b>Net financial position</b>	<b>31/03/2011</b>	<b>31/12/2010</b>
Cash and bank	14.721	20.983
Financial instruments	251	220
<b>Cash and cash equivalents</b>	<b>14.971</b>	<b>21.204</b>
<b>Short term financial receivables</b>	<b>163</b>	<b>50</b>
Bank short term loan	(5.909)	(5.284)
Part of financial long term liabilities due within 12 months	(1.036)	(1.076)
<b>Financial short term liabilities</b>	<b>(6.945)</b>	<b>(6.360)</b>
<b>Net current financial position</b>	<b>8.188</b>	<b>14.893</b>
Bank long term loan	(2.019)	(2.151)
Bonds	(726)	(784)
Other long term financial liabilities	(1.804)	(1.916)
<b>Financial long term liabilities</b>	<b>(4.549)</b>	<b>(4.852)</b>
<b>Net financial position</b>	<b>3.639</b>	<b>10.042</b>

## Comments on the management results

The table below shows the subdivision of the sales volume according to sectors of activity of the Group for the first quarter of 2011 in comparison with the same subdivision for the same period last year.

	31/03/2011	Inc%	31/03/2010	Inc%	Var%
Industrial systems and lasers	7.058	15,57%	4.538	11,05%	55,53%
Medical and aesthetic lasers	28.453	62,76%	28.125	68,49%	1,17%
Service	9.827	21,67%	8.399	20,45%	17,01%
<b>Total</b>	<b>45.338</b>	<b>100,00%</b>	<b>41.061</b>	<b>100,00%</b>	<b>10,42%</b>

The sales volume registered an overall increase of over 10%. The industrial sector continues to show the rapid growth recorded last year (+ 9%) and further improved during this quarter showing a significant 55%. The strategic investments which constituted production and distributing structures in two high growth countries, China and Brazil, show their results in line with achieving the ambitious growth projects which the Group planned for this sector; in fact, the sales volume achieved has made it so that this sector which, for many years was overshadowed by the preponderant growth of the medical sector, is now in a condition to contribute concretely to the overall earnings of the Group.

Sales for medical systems showed a slight increase which reflects a phase of transition both in overall demand as well as in supply of the Group which, as will be explained in the following paragraphs, during this quarter launched some systems of fundamental importance for the development of business in the next few months.

North American, the most important of our markets in the medical sector, showed growth this quarter both related to the subsidiary Cynosure as well as the other companies of the Group operating in this area, with a positive trend which was confirmed by all of the major companies operating in this sector. Demand is still considerably reduced with respect to the years preceding the crisis and therefore also with respect to its mid-term potential.

Revenue from technical assistance and spare parts also showed a positive trend which reflects, in the first place, the gradual increase of the number of installations, and secondly, the volume of activity on behalf of the clientele which purchases spare parts, consumables and maintenance services.

The results for this period, divided by geographical area, are shown on the chart below.

	31/03/2011	Inc%	31/03/2010	Inc%	Var%
Italy	5.470	12,06%	7.784	18,96%	-29,73%
Europe	12.924	28,51%	11.750	28,62%	10,00%
Rest of the world	26.944	59,43%	21.527	52,43%	25,16%
<b>Total</b>	<b>45.338</b>	<b>100,00%</b>	<b>41.061</b>	<b>100,00%</b>	<b>10,42%</b>

The best results were registered by the rest of the world thanks to the positive trend of the American and Far Eastern markets. The European markets are aligned with the average growth of the Group. Sales volume in Italy decreased mainly due to the phase of transition of the professional aesthetic sector which will be explained below.

For the medical sector, which represents almost 63% of the sales of the Group, the chart below shows the results for the various segments.

	31/03/2011	Inc%	31/03/2010	Inc%	Var%
Surgical CO2	2.489	8,75%	2.514	8,94%	-1,02%
Physiotherapy	1.543	5,42%	1.100	3,91%	40,31%
Aesthetic	18.291	64,28%	18.592	66,11%	-1,62%
Dental	1.054	3,70%	1.017	3,62%	3,67%
Other medical lasers	3.589	12,61%	3.931	13,98%	-8,71%
Accessories	1.488	5,23%	970	3,45%	53,34%
<b>Total</b>	<b>28.453</b>	<b>100,00%</b>	<b>28.125</b>	<b>100,00%</b>	<b>1,17%</b>

The trend shows a slight increase and, on the whole, consolidates the positions recovered during last year. Although the volumes are low, the physical therapy sector distinguishes itself by continuing to register successes thanks to the hard work of ASA of Vicenza which is operating to place the Group's laser products in this sector niche. The sector of accessories also shows a significant increase which is mainly due to systems sold in combination with CO<sub>2</sub> lasers, the sales volume of which is essentially unchanged. The other sectors show variations of a minor entity; of these, the most significant is the drop of 8% in the residual sector "Others" which reflects the decrease, which we believe is temporary, of some products in the surgical sector.

As mentioned above, during this quarter two important systems were launched on the market.

Deka has just completed the launch of Smartxide<sup>2</sup> reserving the initial introduction of the system to a limited group of authoritative specialists. Smartxide<sup>2</sup> is a CO<sub>2</sub> system which represents an innovative concept involving a large number of functional applications which vary from those which are specifically aesthetic like "face rejuvenation", to surgical applications in ORL (otorhinolaryngoiatry) or in gynaecology; the performance of the new laser source developed in the El.En. laboratories provides the system with an exceptional applicative effectiveness. The introduction of the system continued, according to schedule, on the international markets during the second quarter. Cynosure initiated the marketing of Cellulaze, the system which is a further development of Smartlipo for minimally invasive laser-lipolysis specialized in the treatment of the blemishes typical of cellulitis thanks to the use of a particular wave length for emission, of specially engineered instruments for beam delivery and protocols which have been perfected through a lengthy experimentation. The system is now available for sale in Europe, but in the USA is still waiting for the authorization of the FDA. The popularity of this application and the proved effectiveness demonstrated during the experimentation phase make this system, manufactured by El.En. Spa, offer the promise of excellent results.

Some important, recently emanated articles of legislation have involved the aesthetic sector. Just two days ago in Italy and slightly earlier in France, the two countries issued laws related to technological equipment for aesthetic applications, including lasers. The French laws limit the applications for the removal of cellulitis, even for applications which have already been approved by the American Food and Drug Administration. The Italian legislation, however, is both welcome and opportune in that it removes some of the uncertainties and grey zones which often characterize this market. The Group has recently presented devices under the Esthelogue brand, following a highly qualified approach both for the technology being offered as well as the services supplied to the clientele. For this reason we believe that we will be able to benefit from the clarifications in the new legislation obtained through the diffusion of technical instruction booklets for the equipment which can be used by beauticians and the requalification of the market. In fact, the lowering of the average level of quality of the equipment being offered on the market in the last few months had determined an attitude of great caution on the part of the financial institutions in relation to the financing of investments to operators in this sector and this fact negatively affected our sales, as demonstrated by the drop in sales in Italy mentioned above.

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

	31/03/2011	Inc%	31/03/2010	Inc%	Var%
Cutting	5.200	73,68%	2.348	51,73%	121,51%
Marking	1.618	22,93%	1.593	35,09%	1,62%
Laser sources	167	2,36%	560	12,34%	-70,24%
Welding, other industrial systems	73	1,03%	38	0,84%	92,31%
<b>Total</b>	<b>7.058</b>	<b>100,00%</b>	<b>4.538</b>	<b>100,00%</b>	<b>55,53%</b>

The very positive trend is driven by the cutting sector in which the Italian company Cutlite Penta, the Brazilian company Cutlite do Brasil and the Chinese company Wuhan Penta Chutian operate; this latter was able to grow 167% in this quarter. It should also be noted that the decrease shown for the sales volume of laser sources does not consider the substantial increase in the production volume which was absorbed in this phase by the internal production of cutting and marking systems. The marking sector remained stable.

The tables below show the composition of the sales volume of the sub-consolidated which excludes Cynosure; the break-down chart for the industrial sector, in which Cynosure does not operate, is not shown.

	31/03/2011	Inc%	31/03/2010	Inc%	Var%
Industrial systems and lasers	7.058	22,85%	4.538	15,98%	55,53%
Medical and aesthetic lasers	17.760	57,50%	18.916	66,61%	-6,11%
Service	6.067	19,64%	4.943	17,41%	22,74%
<b>Total</b>	<b>30.885</b>	<b>100,00%</b>	<b>28.397</b>	<b>100,00%</b>	<b>8,76%</b>

	31/03/2011	Inc%	31/03/2010	Inc%	Var%
Italy	5.426	17,57%	7.611	26,80%	-28,70%
Europe	7.870	25,48%	8.367	29,46%	-5,93%
Rest of the world	17.588	56,95%	12.419	43,73%	41,62%
<b>Total</b>	<b>30.885</b>	<b>100,00%</b>	<b>28.397</b>	<b>100,00%</b>	<b>8,76%</b>

	31/03/2011	Inc%	31/03/2010	Inc%	Var%
Surgical CO2	1.955	11,01%	2.486	13,14%	-21,34%
Physiotherapy	1.543	8,69%	1.100	5,82%	40,31%
Aesthetic	9.439	53,15%	10.752	56,84%	-12,21%
Dental	1.054	5,94%	1.017	5,38%	3,67%
Other medical lasers	2.440	13,74%	2.528	13,37%	-3,49%
Accessories	1.328	7,48%	1.033	5,46%	28,61%
<b>Total</b>	<b>17.760</b>	<b>100,00%</b>	<b>18.916</b>	<b>100,00%</b>	<b>-6,11%</b>

In the medical sector Cynosure was able to show an increase in sales volume, while for the rest of the Group a decrease of 6% was registered as opposed to an increase of 1% for the overall consolidated. The segments in which Cynosure operates with greatest success are consequently those that show the greatest differences with respect to the data registered by the entire Group: the segment of CO<sub>2</sub> (-21% as opposed to -1%) and the aesthetic segment (-12% as opposed to -2%).

Cynosure in fact, was able to benefit from a good recovery in the aesthetic sector, sustained by the sales of the new system *SmoothShapes®XV* for “body shaping”, which was made available this quarter by the purchase by means of “asset deal” which acquired the activities of Elémé.

In relation to the other companies of the Group, it should be noted that the aesthetic sectors has one of its major markets in Japan, where the results for the first quarter were positive. The effects of the devastating earthquake of March 11<sup>th</sup> and the consequent nuclear emergency will certainly have a negative effect on the demand in the next few months. Although it is difficult to determine the entity of the effect on the sales volume, we have already taken note of the fact that the activity in Japan will probably slow down in the next few months.

It should be noted that also in the first quarter of 2011 some sales financed by the clientele with operative leasing in conformity with the IAS/IFRS standards have been considered as revenue from multi-year rentals even though the group has already cashed in the sales price. In any case, the effect on this period was minimum.

The gross margin was 24.640 thousand Euros, an increase of 12,4% with respect to the 21.927 thousand Euros for the same period last year, with an incidence on the sales volume which increased slightly from 53,4% on March 31<sup>st</sup> 2010 to 54,3% for this quarter. No significant change took place in the profitability of sales this quarter.

The costs for operating services and charges were 10.525 thousand Euros, showing an increase of 9,5% with respect to March 31<sup>st</sup> 2010 with an incidence on the sales volume which decreased to 23,2% from 23,4% for the same period last year and is substantially aligned with the results from last year.

Costs for personnel were 11.985 thousand Euros, an increase of 9,5% with respect to the 10.940 thousand Euros for the same period last year, showing a productivity which is substantially unchanged. The incidence on the sales volume in fact decreased from 26,6% on March 31<sup>st</sup> 2010 to 26,4% on March 31<sup>st</sup> 2011. The costs for personnel also include the figurative costs for the stock options assigned to employees, mainly referred to the stock options issued by the subsidiary Cynosure Inc. On March 31<sup>st</sup> 2010 these costs were 575 thousand Euros, while they decreased to 313 thousand Euros on March 31<sup>st</sup> 2011.

With 999 employees on March 31<sup>st</sup> 2011 we are now close to one-thousand with respect to the 969 registered on December 31<sup>st</sup> 2010 and 877 on March 31<sup>st</sup> 2010. The increase over that of the preceding years is due almost entirely to the rise in the number of employees working for the Chinese company Wuhan Penta Chutian, which continues in its rapid phase of expansion.

A considerable portion of the personnel expenses is directed towards research and development costs, for which the Group also receives grants and reimbursements on the basis of specific contracts undersigned by the institutions created for this purpose. The grants issued and entered into accounts as of March 31<sup>st</sup> 2011 were 587 thousand Euros, whereas for the same period last year they amounted to 51 thousand Euros.

On account of the trends in the entries described above, the EBITDA registered a positive result of 2.130 thousand Euros with respect to the result of 1.377 thousand Euros for March 31<sup>st</sup> 2010. Up to this level the results show a positive trend, with a consolidation of sales and a proportional increase of the EBITDA.

The costs aggregates, which we will comment on below, showed instead a negative trend. The costs for depreciations, amortizations and accruals was 2.600 thousand Euros, showing an increase of 39,1% with respect to March 31<sup>st</sup> 2010 as well as an increase in the incidence on the sales volume. This change is essentially due to the increase in accruals made during this period for credit risks and the for the product guarantee fund. The accruals on credits, the effect of which is most evident on the consolidated results with the exclusion of Cynosure, reflect the continued lack of cash in many sectors of the market, with the consequent difficulty of many of the operators to respect the due dates for payments and in some cases even to maintain an economic balance in their activities.

The EBIT again showed a negative amount of 470 thousand Euros which, in any case, is an improvement over the negative result of 492 thousand Euros shown for March 31<sup>st</sup> 2010.

The financial management showed a loss of -580 thousand Euros with respect to the profit of 244 thousand Euros for the same period last year and was penalized mainly by the changes in the currency exchange rates. Again in this case the oscillations in the exchange rate between the Euro and the Dollar had a major impact during this quarter and clearly demonstrated the overall instability of the markets which affects one of the most important financial variables of the world economic system.

The negative results shown for the associated companies is mainly due to Elesta Srl, which is still in the phase of initial investment for the development of sophisticated surgical equipment, and to the Spanish company GLI whose activity remains very difficult due to the severity of the economic crisis which, as reported by the media, has hit Spain harder than the rest of Europe.

The items entered in the category of other net income and charges both on March 31<sup>st</sup> 2010 and March 31<sup>st</sup> 2011, represent operations and evaluations of limited importance.

The earnings before taxes therefore show a negative amount of 1.308 thousand Euros which, notwithstanding the satisfactory EBIT, in particular because of the differences in the exchange rates and the accruals is worse than the negative result of 433 thousand Euros on March 31<sup>st</sup> 2010.

For the sub-consolidated drawn up excluding Cynosure, the increase in sales volume is lower (+8,8%) but shows a reduced incidence of the overhead; consequently the EBIT was 3,3% of the sales volume with respect to the -1% registered for the consolidated.

The gross margin was 16.228 thousand Euros, showing an increase of 14,1% with respect to the 14.220 thousand Euros on March 31<sup>st</sup> 2010, with an incidence on the sales volume which increased from 50,1% to 52,5% during this quarter. This increase in the profits from sales is essentially derived from the "Other revenue", that is, the grants sustaining research which were received during this quarter, while the sales margins remained substantially unchanged.

The other cost entries show a substantial stability in their incidence on the sales volume; the EBITDA was 2,4 million Euros (equal to 7,8% of the sales volume) and the EBIT was about 1 million Euros.

The associated companies that registered negative results involve only the sub-consolidated without Cynosure; they registered a loss of 256 thousand Euros equal to 0,8% of the sales volume.

Also for this sub-consolidated the joint effects of the accruals for credit risks and the differences in the Exchange rate reduce the result before taxes so that it shows a loss, thus rendering futile the positive results of the operating activity.

## **Financial and economic situation**

### **Comments on the evolution of the net financial position of the Group**

The net financial position of the Group decreased with respect to the 75 million Euros shown on December 31<sup>st</sup> 2010, but remains in the black for an amount of 61 million Euros. Most of this amount is held by the Parent Company and by the subsidiary Cynosure Inc.

With respect to December 31<sup>st</sup> 2010 the main factors which determined the decrease in the financial position are: the net investment in mid-term securities made by Cynosure for an amount of about 3,8 million dollars, and the purchase by Cynosure of some of the activities of Elemé Medical for 2,5 million dollars; a negative exchange effect of 3,6 million Euros due to the fall of the US dollar with respect to the Euro and the consequent devaluation of the very substantial amount of cash held by Cynosure; the rest of the use of cash can mostly be attributed to the increase in net working capital.

As mentioned in other sections of this report, the lack of cash available for investments is one of the characteristic factors in this phase of the economy. The expansion strategy followed by the Group on many markets has therefore required a substantial use of cash on account of the necessity of financing growth in conditions in which average terms of payment are becoming longer.

Gross investments made during this quarter

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

<i>Progressive</i>	<b>31/03/11</b>	<b>31/03/10</b>
Intangible assets	713	33
Tangible assets	1.939	1.434
Equity investments	2.672	170
<i>Total</i>	<b>5.324</b>	<b>1.637</b>

The increase in intangible assets refers mainly to the acquisition by Cynosure of licenses and patents for the SmoothShapes® XV technology from Elémé Medical.

The investments sustaining the commercial distribution, in particular by Cynosure, through the assignment of demo laser systems to the agents working in their commercial network, continue to be very substantial.

The increase in equity investments during this quarter is entirely related to the subsidiary Cynosure which during this period made net investments in securities for about 3,8 million dollars.



## **Comments on Research and Development activities**

During the first quarter of 2010 the Group conducted an intense research and development activity for the purpose of discovering new laser applications both in the medical and the industrial sectors and to place innovative products on the market. El.En. increased the investments in R&D during this period in order to face the economic crisis which required even more attractive items for the market through the presentation of new equipment and applications.

In general, for highly technological products in particular, the global market requires that the competition be met by continually placing on the market completely new products and innovative versions of old products which use the most recent technologies and components. For this reason extensive and intense research and development programs must be conducted and organized according to brief and mid- to long-term schedules.

The innovative results consist essentially in the creation of new laser applications and the development of suitable equipment for the new applications. In other words, we conduct research in order to understand unresolved or new problems in the fields of medicine and industry and we look for solutions on the basis of our experience and culture in laser systems related, on the one hand, to its generation and level of power and, on the other, its management over time and in the shape of the ray.

The research which is aimed at obtaining mid- to long-term results is generally oriented towards subjects which represent major entrepreneurial risks, inspired by intuitions which have arisen within our companies or by prospects indicated by the scientific work conducted by advanced research centres throughout the world, some of which we collaborate with.

Research which is dedicated to achieving results according to a short-term schedule, above all for products developed for new laser applications, is concentrated on subjects for which all the preliminary feasibility studies have been completed. For these subjects a choice has already been made regarding the main functional characteristics and specifications. The elements for this activity are determined on the basis of information obtained from the work of specialists employed by the company and also as a result of activities of the public and private structures which acted as consultants in the phase of preliminary study and some of them also during field trials.

The research which is conducted is mainly applied and is basic for some specific subjects. Both the applied research and the development of the pre-prototypes and prototypes are sustained by our own financial resources and, in part, by grants which derive from research contracts stipulated with the managing institutions set up for this purpose by the Ministry of University and Research (MUR) and the European Union, as well as directly with Tuscan Regional structures or Research Institutions in Italy and abroad.

The Group is the only one in the world that produces such a vast range of laser sources, in terms of the different types of active means ( liquid, solid with semiconductor, gas) each one with various power versions in some cases, and using various manufacturing technologies. Consequently, research and development activity has been directed to many different instruments and accessories. Without going into excessive detail, a description of the numerous sectors in which the research activities of the Parent Company and some of the subsidiaries have been involved is given below.

### **Systems and applications for lasers in medicine**

Through a major effort involving massive use of both personnel and resources, the parent company, El.En. has developed a new family of equipment and sub-systems for of the SMARTXIDE<sup>2</sup> family of CO<sub>2</sub> laser products for surgical uses and aesthetic medicine. The systems are equipped with a laser source fed by radio frequency with an average power of up to 80w and interface management from personal computer installed on the device. These are multi-disciplinary systems which can be used in general surgery, otorhinolaryngology, dermatology, gynecology, odontostomatolgy, laparoscopic surgery, aesthetic surgery, with scansion heads that are able to emit on to the patient's skin radio frequency electromagnetic energy for DOT and RF (radiofrequency) treatments for skin rejuvenation and the attenuation of scars, particularly on the face. For some versions of the instruments belonging to this group it is possible to install a second semiconductor laser source with the wave length selected by the client when ordering.

Research continued clinical trials on a new micro-manipulator for uses in otorhinolaryngology of the CO<sub>2</sub> laser and clinical trials for validating its application in otorhinolaryngology were begun; initial results on patients were considered excellent by the doctors who conducted the clinical trials. At numerous centers in Italy and abroad there is an intense activity involved in the gathering of clinical results related to the innovative application possibilities which will be provided by the equipment belonging to this particular family of instruments.

We have received approval from the Region of Tuscany for the co-financing with funds from the European Union of the MILORDS Project related to the development of new robot laser systems for surgical operations in the fields of ophthalmology, urology cutaneous ulcers, and the treatment of benign hypertrophy of the prostate.

The project is headed by El-En and has as partners excellent specific research centers in Tuscany and companies associated with multi-national corporations that are active in the field of robotics. Projects of this type pertain to the line of research being conducted for the development of minimally invasive surgery systems which have a substantial impact both on the quality of life of the patient and the reduction in the costs of health care.

Development work is now in progress for a new (Alex+ Nd:YAG+IPL) platform: this is a matrix device capable of sustaining various terminals emitting luminous radiations, integrated for: management and interface with the doctor, supply of electrical current and conditioning fluids, ergonomic mechanical support, management of the various integrated systems. Activity aimed at gathering data from trials conducted in clinics in Italy and abroad has just begun.

We have continued the development of instruments and clinical experiments for innovative laser equipment belonging to the HILT family of equipment (High Intensity Laser Therapy) for uses in physical therapy, dermatology (cutaneous ulcers), orthopedics, with experiments also conducted in the USA in collaboration with Washington State University using animal (horse) models, and we are about to conclude our collaboration for the programming of new experimental research on treatments for maladies of the articulation of the knee in patients with the Istituti Rizzoli of Bologna which have been our partners now for several years.

We have continued trials on the effects of photo-mechanical stimulation of chondrocytes.

Research and experimentation have continued *in vitro* and *in vivo* on animal subjects for new devices and methods for the percutaneous laser ablation of the liver, thyroid, breast, prostate and lungs as part of the activity conducted by the associated company Elesta created by El.En. and Esaote.

Collaborative projects have been initiated with the university clinics of Florence and Pisa; we are now conducting research for the creation of interaction laser tissue models for programming ablation operations; moreover, research is proceeding for the identification of methods aimed at the characterization of tissue treated with radio-frequency ultrasound signals in order to improve the verification phase of the effects of the treatment once it has been applied; we have completed the research for the identification of procedures for the creation of applicators with cold points and those with inflatable balloons with spreading liquid. These activities were conducted as part of the TRAP project with funds received from the European Union issued by the Department of Economic Development of the Region of Tuscany.

We have continued activities for the development of laser equipment and devices for the treatment of cutaneous ulcers (TROPHOS project). This project like the above mentioned TRAP, are conducted with grants from the European Union issued through the Department of Economic Development of the Region of Tuscany.

At the same time, active clinical experimentations have continued in Italy and in qualified European and American centers in order to confirm and document the effectiveness of innovative therapeutic laser treatments in various fields of medicine: odonto-stomatology and aesthetics.

We continued operations to extend the intellectual property of the Group by formulating international patents and assistance in granting them on an international basis.

At El.En. he have conducted research for new medical applications in the recently created PHOTOBIO LAB for the study of the interaction between light and biological tissue. As part of this project, a laboratory for *in vitro* trials of pre-prototype equipment and for the education of the operators has been set up.

The collaboration of El.En.'s Research and Development department for medical laser devices continued with Cynosure for the development of new laser equipment for the treatment of adipose layers.

At Cynosure they completed the laser-lipolysis experimental activity involving new instruments which have innovative characteristics in terms of power level and control of the emission with retro-activated systems using information from temperature sensors and employing different wave lengths.

Quanta System continued the development of two types of lasers, one with OLMIO and the other with Tullium infrared, for the therapy for the treatment of benign prostate hypertrophy and of a fiber laser with augmented performance with respect to the state of the art, with contributions derived from financing for a European Union project.

We are also actively conducting research on new laser equipment with multiple wave lengths with Q-switch technology.

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

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

## Laser systems and applications for industry

We have completed experimental trials and started activities for the integration into our products of groups of innovative electronic subsystems based on a system in Digital Electronics (VOYAGER) which was developed inside the company, for the control and management of equipment for marking recently created at OT-LAS.

For cutting applications on metallic materials we have developed a capacitive sensor for controlling the position of the focal zone of the laser ray with respect to the material; experimental activities were concluded.

As part of the strategy for the development of restoration methods in Tuscany, a project (TEMART) was approved and El.En. is responsible for the development of the laser equipment used for certain special types of conservation work.

We continued experimentation work on new diagnostic systems for paper in antique books using lasers; this system has recently been patented.

We are developing laser systems to be used for cutting and sealing plastic materials in equipment for packaging foods and chemicals for various uses.

We have developed new testing methods for mirrors for marking devices of different dimensions on the basis of the high speed scansion in machines performing laser decoration on large surfaces.

We have developed and are now experimenting new catalyst systems for Compact power lasers.

Cutlite Penta is a company that operates in a market of high technological intensity and maintains its competitive position by amplifying its range both by offering newly designed systems as well as renovating technical solutions in systems that are already being manufactured.

They completed verification trials on structural and functional innovations developed on sealed CO<sub>2</sub> sources manufactured by El.En. They continued work on the development of an electronic system for remote diagnosis and remote assistance of industrial machines. They have developed new compact cutting systems with higher performance and limited costs, and have continued the applicative study for the identification of new cutting solutions, in particular those for cutting sheet metal.

They are developing systems to eliminate most of the optical routes of the CO<sub>2</sub> laser ray with solutions that include the direct assembly of the new sources with Radiofrequency pumping on the mobile portal of the machine. They are now about to complete the development of the software for the execution using raster scansion for marking metal and other kinds of surfaces on the cutting machine.

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

At Ot-las they are completing the development of a new generation machine for continual decorating of rolls of fabric over large areas and they have developed the specific software for using VOYAGER boards on this machine (MX). For this same machine, they have completed the preliminary study for the 2800 mm version. In accordance with the mid- and long-term plans they have developed the software for the remote monitoring of the new RF333 radio-frequency sources now in progress at El.En.

We have continued work on perfecting the algorithms, calculus programs and hardware structures for artificial vision systems to be used in the automation of surface decoration using laser markers, on leather and other materials and for the cutting and marking of other objects which are laid out flat on the work surface; moreover, we have completed the development of the software to apply offset algorithms to closed edges and to reorganize execution files.

The following chart shows the expenses for Research and Development for this quarter.

<i>thousands of euros</i>	<b>31/03/2011</b>	<b>31/03/2010</b>
Costs for staff and general expenses	2.961	2.317
Equipment	42	37
Costs for testing and prototypes	336	292
Consultancy fees	175	122
Other services	113	130
Intangible assets	0	0
<b>Total</b>	<b>3.627</b>	<b>2.898</b>

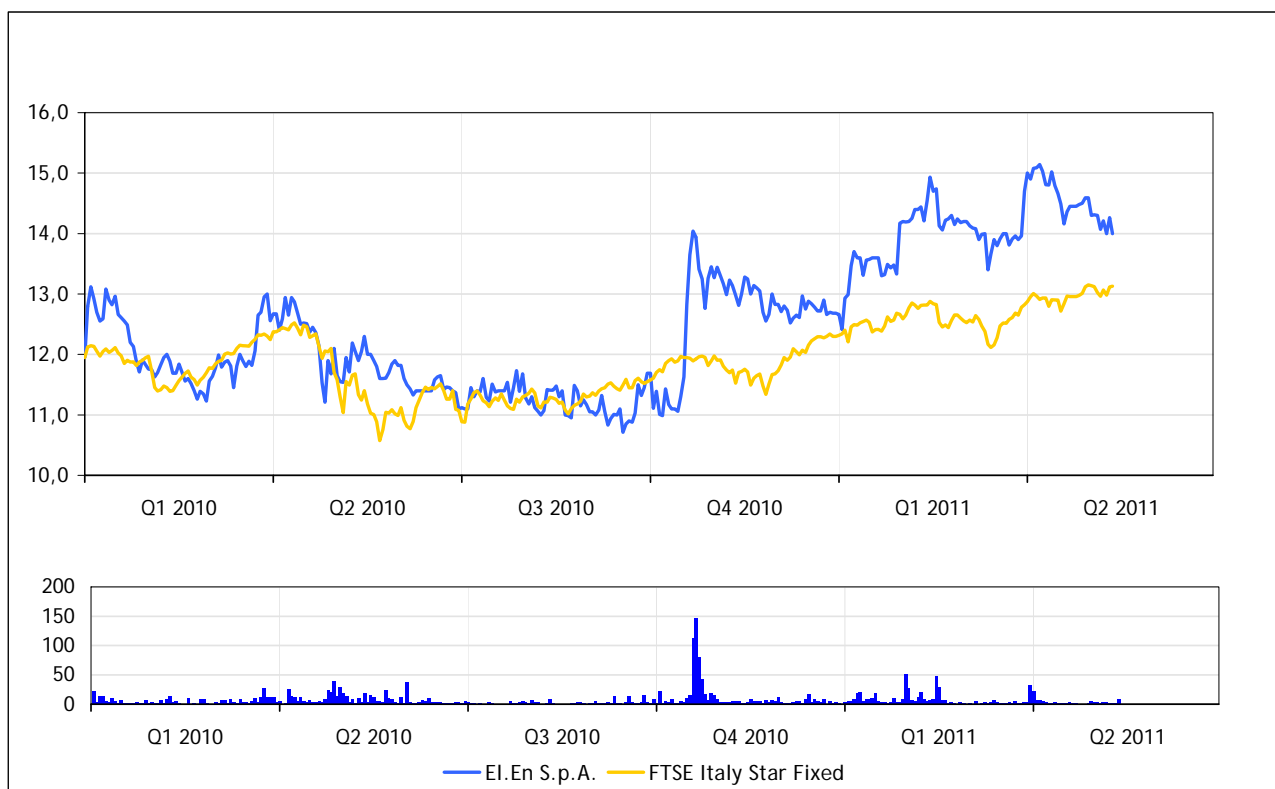
As was the case for both the sales volume and profits, the contribution of Cynosure is highly significant also for the research and development expenses considering the intense activity the company conducts in this sector. The amount of expenses sustained by Cynosure during this period for research and development was approx. 2,2 million dollars.

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

The amount of expenses sustained was equal to 8% of the consolidated sales volume of the group. The portion related to Cynosure was, as mentioned above, 2,2 million dollars and represents 10% of its sales volume; the remaining part of the expenses is sustained for mainly by El.En. SpA. And is equal to 8% of its sales volume.

## Trend of El.En. stock

The trend of the stock is shown on the chart below..



## Other significant events which took place during this quarter

No other significant events took place during this quarter.

## Other events which took place after the closure of the quarter

On May 11<sup>th</sup> 2011 the ordinary assembly of Elesta Srl, a company in which the Parent Company El.En. SpA holds a 50% equity, voted to cover the losses shown in the statement of December 31<sup>st</sup> 2010 and in the financial report drawn up on March 31<sup>st</sup> 2011 in conformity with art. 2482- bis c.c., for an amount of 517.572 Euros by reducing to zero the capital stock and a further payment made by the partners for the residual amount. They also voted to reconstitute the capital stock to the original amount of 110 thousand Euros, and this increase was entirely underwritten by the partners.

The shareholders' assembly of the Parent Company El.En. SpA, which convened today and approved the financials for the year 2010, voted to apply the profits of 1.061.672,00 Euros as follows:

- 117.428,00 Euros for the extraordinary reserve;

- in compliance with art. 2357-ter second subsection, Civil Code, to distribute to the shares in circulation on the due date for payment of coupon 10 on May 23<sup>rd</sup> 2011, a dividend of 0,20 Euros gross per share in circulation for an overall amount, as of today's date, of 944.244,00 Euros and to set aside in the special reserve of retained earnings the residual dividend destined for further treasury stock held by the company on the due date for payment of the dividend.

### **Current outlook**

The results of the sales volume and revenue at the level of the EBITDA were in line with the forecasts which considered only the results registered without Cynosure. The accruals for devaluation of receivables and equities and the differences in the exchange rates however determined a negative income before taxes, reminding us that we have not completely come out of the crisis phase. We have confidence in the trend shown for this period and at this time confirm the outlook for 2011 which, for the sub-consolidated without Cynosure predicts a growth of 10% with an increase in the EBIT with respect to last year.

For the Board of Directors

Managing Director  
Andrea Cangioli

## Appendix “A”: List of consolidated companies as of March 31<sup>st</sup> 2011

### Subsidiary companies

Company name:	Headquarters	Currency	Percentage held:			Consolidated Percentage
			Direct	Indirect	Total	
<b>Parent company:</b>						
El.En. SpA	Calenzano (ITA)	EURO				
<b>Subsidiary companies:</b>						
Deka M.E.L.A. Srl	Calenzano (ITA)	EURO	70,00%		70,00%	70,00%
Cutlite Penta Srl	Calenzano (ITA)	EURO	90,67%		90,67%	90,67%
Esthologue Srl	Calenzano (ITA)	EURO	100,00%		100,00%	100,00%
Deka Technologies Laser Sarl	Lyons (FRA)	EURO	100,00%		100,00%	100,00%
Deka Lasertechnologie GmbH	Berlin (GER)	EURO	100,00%		100,00%	100,00%
Deka Laser Technologies Inc.	Carlsbad (USA)	USD	11,78%	80,71%	92,49%	92,49%
Ot-las Srl	Calenzano (ITA)	EURO	90,00%		90,00%	90,00%
Lasit SpA	Vico Equense (ITA)	EURO	52,67%	17,33%	70,00%	68,27%
BRCT Inc.	Branford (USA)	USD	100,00%		100,00%	100,00%
Quanta System SpA	Solbiate Olona (ITA)	EURO	60,00%		60,00%	60,00%
Asclepion Laser Technologies GmbH	Jena (GER)	EURO	50,00%	50,00%	100,00%	80,00%
Arex Srl	Solbiate Olona (ITA)	EURO		51,22%	51,22%	30,73%
AQL Srl	Vimercate (ITA)	EURO		100,00%	100,00%	67,58%
ASA Srl	Arcugnano (ITA)	EURO		60,00%	60,00%	42,00%
Cynosure Inc.	Westford (USA)	USD	23,02%		23,02%	23,02%
Cynosure GmbH	Langen (GER)	EURO		100,00%	100,00%	23,02%
Cynosure Sarl	Courbevoie (FRA)	EURO		100,00%	100,00%	23,02%
Cynosure KK	Tokyo (JAP)	YEN		100,00%	100,00%	23,02%
Cynosure UK	Cookham (UK)	GBP		100,00%	100,00%	23,02%
Suzhou Cynosure Medical Devices Co.	Suzhou (CHINA)	YUAN		100,00%	100,00%	23,02%
Cynosure Spain	Madrid (SPAIN)	EURO		100,00%	100,00%	23,02%
Cynosure Mexico	S. Jeronimo Aculco (MEXICO)	MEX		100,00%	100,00%	23,02%
Cynosure Korea	Seul (S. KOREA)	KRW		100,00%	100,00%	23,02%
With Us Co Ltd	Tokyo (JAP)	YEN		51,25%	51,25%	51,25%
Deka Japan Co. Ltd	Tokyo (JAP)	YEN	55,00%		55,00%	55,00%
Wuhan Penta Chutian Laser Equipment Co Ltd	Wuhan (CHINA)	YUAN		55,00%	55,00%	49,87%
Lasit Usa Inc.	Branford (USA)	USD		100,00%	100,00%	68,27%
Cutlite do Brasil Ltda	Blumenau (BRASIL)	REAL	78,00%		78,00%	78,00%
Lasercut Technologies Inc.	Branford (USA)	USD		100,00%	100,00%	100,00%
Ratok Srl	Solbiate Olona (ITA)	EURO		70,00%	70,00%	42,00%
Raylife Srl	Calenzano (ITA)	EURO		100,00%	100,00%	80,00%
Deka Medical Inc	San Francisco (USA)	USD		100,00%	100,00%	100,00%

### Associated companies

Company name:	Headquarters	Percentage held:			Consolidated percentage
		Direct	Indirect	Total	
Immobiliare Del.Co. Srl	Solbiate Olona (ITA)	30,00%		30,00%	30,00%
Actis Srl	Calenzano (ITA)	12,00%		12,00%	12,00%
SBI S.A.	Herzele (BE)	50,00%		50,00%	50,00%
Laser International Ltd	Tianjin (CHINA)		40,00%	40,00%	24,00%
Elesta Srl	Calenzano (ITA)	50,00%		50,00%	50,00%
Grupo Laser Idoseme SL	Donostia (SPAIN)		30,00%	30,00%	18,00%
Electro Optical Innovation Srl	Turin (ITA)		33,33%	33,33%	20,00%

**Annex “B”: DECLARATION IN CONFORMITY WITH ART. 154BIS, SUB-SECTION 2, D.LGS. N.58 / 1998**

The manager in charge of preparing the corporate accounting records, Enrico Romagnoli, declares, pursuant to paragraph 2, article 154-bis of Legislative Decree 58 of February 24<sup>th</sup> 1998, that the accounting disclosures provided in this document correspond to the accounting records, books and entries.

Calenzano, May 13<sup>th</sup> 2011

Executive in charge of the financial reports  
Enrico Romagnoli